ADVANCES IN ACCOUNTING BEHAVIORAL RESEARCH

Edited by Dr. Khondkar E. Karim

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VOLUME 25

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TOWARDS AN UNDERSTANDING OF THE DARK TRIAD, ETHICAL FADING, AND ETHICALITY OF BEHAVIOR

Andrew T. Dill, Anis Triki and Stu "Wes" Westin

ABSTRACT

We investigate the relationship among the Dark Triad personality traits, ethical fading, and unethical behavior. Our findings suggest that Machiavellianism and psychopathy have a significant relationship with ethical fading such that individuals with high Machiavellianism are more likely to exhibit ethical fading, and individuals with high psychopathy are less likely to exhibit ethical fading. We do not find a significant association between narcissism and ethical fading. In the supplemental analyses, we investigate whether ethical fading leads to more unethical behavior (i.e., fraudulent reporting) and if it mediates the effect of Machiavellianism and psychopathy on unethical behavior. Our findings suggest that, while all the dark traits have a direct effect on unethical behavior, only Machiavellianism has an indirect effect that flows through ethical fading.

Keywords: Dark Triad; psychopathy; Machiavellianism; narcissism; ethical fading; behavioral ethics; ethical decision-making; simulated markets

INTRODUCTION

The purpose of this study is to examine the influence of the Dark Triad (i.e., Machiavellianism, narcissism, and psychopathy) on ethical fading and ethical behavior. Unethical behavior within organizations remains ubiquitous and seemingly undeterred despite the significant amount of effort and resources expended to address the outbreak of corporate misconduct that occurred during

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the late 1990s and early 2000s (Bazerman & Tenbrunsel, 2011). Accounting fraud, for example, continues to be a pervasive, global issue (Ernst & Young, 2018; PricewaterhouseCoopers, 2018) that nearly quadrupled (from 10% to 38%) in the previous decade (PricewaterhouseCoopers, 2009) notwithstanding the enactment of far-reaching measures and laws (e.g., the Sarbanes-Oxley Act of 2002) that contain rigorous rules, fines, and penalties intended to discourage fraudulent reporting.

One factor that might explain the general ineffectiveness of ethical interventions, at both the organizational and regulatory levels, is their reliance upon a commonly held, yet inaccurate, assumption that all unethical behavior is intentional. Specifically, that unethical acts are the result of one consciously forsaking his or her moral principles for some other desired goal, such as acquiring financial resources. Research in behavioral ethics, however, suggests that people are bounded ethically (Bazerman & Tenbrunsel, 2011), meaning that there are inherent, subconscious constraints (e.g., biases) on one's ability to recognize the moral implications of his or her decision. With respect to the recent accounting ethics literature, Suh, Sweeney, Linke, and Wall's (2020) interviews with financial executives who were involved in fraud indicate that initial acts of fraud may indeed be unintentional, thus supporting the idea of "ethical blindness" in decision-making. As such, the psychological elements that influence ethical decision-making, especially those at the subliminal level, may require a more nuanced understanding if more effective measures aimed at deterring and preventing unethical behavior within organizations are to be implemented.

As discussed in Harrison, Summers, and Mennecke (2016), a stream of research has begun to examine the important psychological factors that can influence an individual's propensity to engage in unethical behavior (e.g., Caruso & Gino, 2011; Gino, Schweitzer, Mead, & Ariely, 2011; Kern & Chugh, 2009). Ethical fading, a subconscious process that dissolves moral considerations from one's decision-making (Tenbrunsel & Messick, 2004), is one of those factors that may offer considerable explanatory power with respect to the phenomenon of "unintentional," unethical behavior (Dill, 2016). Supporting this notion, initial research by Dill (2016) found that those who were more affected by the process of ethical fading were more likely to engage in unethical behavior (i.e., commit fraud). Supplemental findings from that study suggest that individual characteristics, such as personality traits, may have a significant impact on ethical fading. Furthermore, a recent study that analyzed 39 corporate fraud cases reported that personality traits constitute a major risk factor for fraudulent behavior (Cohen, Ding, Lesage, & Stolowy, 2010).

Among the various personality traits, the recent accounting literature (scholarly as well as practice-based) has started to pay closer attention to the Dark Triad. Findings from these accounting studies suggest that at least one of the Dark Triad traits has an impact on managers' behavior (Majors, 2016), academic accountants' behavior (Bailey, 2015), and employees' behavior (Young, Du, Dworkis, & Olsen, 2016). Adding to the disquietude is the recognition that these dark traits are far more common among the ranks of corporate management than among the general public (Epstein & Ramamoorti, 2016).

Research examining the Dark Triad has provided strong evidence regarding a direct effect of personality characteristics on ethical behavior within organizations (O'Boyle, Forsyth, Banks, & McDaniel, 2012). However, how these traits impact the process of ethical decision-making, both in isolation and as a collective, is still not well understood (Harrison et al., 2016; Nikitkov, Stone, & Miller, 2014; Spain, Harms, & LeBreton, 2014). To complicate our understanding of the Dark Triad's influence even further, recent research by Harrison et al. (2016) suggests that the three characteristics affect different aspects of the decision-making process. As such, examining the influence of the Dark Triad on ethical fading may offer a partial explanation as to how these personality characteristics impact elements of the decision-making process that can lead one to unwittingly engage in unethical behavior.

Three hypotheses linking the individual components of the Dark Triad to ethical fading were developed and tested via a simulated online marketplace. Across 12 rounds, each participant was required to sell an asset of a given value, ranging from poor to excellent, to an online buyer whereupon he or she could earn money on each successful transaction.[1] Before each attempted sale, however, the participant had the opportunity to misrepresent the quality (and associated selling price) of the asset from that which was originally disclosed to the subject. Intrinsically, there existed an incentive for the participant to misrepresent lower quality assets as higher (i.e., fraudulent reporting) since doing so would earn him or her more money on the transaction. Following the asset-selling task, each participant was administered a questionnaire that captured the degree to which he or she faded ethically, as well as his or her alignment with Machiavellian, narcissistic, and psychopathic attitudes.

The results indicate that Machiavellianism is positively associated with ethical fading. That is, those participants who held more Machiavellian attitudes were more likely to exhibit ethical fading. Narcissism did not have a significant relationship with ethical fading. With respect to psychopathy, the link between it and ethical fading was significant but negative, suggesting that individuals who exhibit higher levels of psychopathic attitudes are less likely to fade ethically.

We ran three supplemental analyses to explore the associations among the dark traits, ethical fading, and unethical behavior (i.e., fraudulent reporting). More precisely, we used PROCESS (Hayes, 2013) to test three mediation models. We tested whether ethical fading leads to more unethical behavior and whether ethical fading mediates the effect of the dark traits on unethical behavior. Our findings provide additional support to the previous literature suggesting an association between unethical behavior and the dark traits. More precisely, we find that each of Machiavellianism and psychopathy have a positive effect on unethical behavior. In other words, the more Machiavellian and psychopathic our participants were, the more they engaged in fraudulent reporting. Interestingly, we find that ethical fading mediates only the effect of Machiavellianism on fraudulent reporting.

This study contributes to the research on ethical decision-making in several respects. First, our results uphold the findings of Harrison et al. (2016) and provide strong support for the importance of testing the effect of personality traits

on different aspects of the ethical decision-making process. We uncover evidence that the dark traits impact different stages of ethical decision-making in different ways. More precisely, while Machiavellianism and psychopathy had a positive effect on fraudulent reporting, they did not impact ethical fading similarly: Machiavellianism [psychopathy] had a negative [positive] effect on ethical fading. We also provide evidence that the mechanism through which Machiavellianism and psychopathy impacts fraudulent reporting differs. While psychopathy impacts unethical behavior directly, Machiavellianism impacts unethical behavior directly as well as indirectly (through ethical fading). These findings provide support for the argument made by Lehnert, Park, and Sing (2015) in the most recent literature review of studies on ethical decision-making. They state that "…factors do not operate in a vacuum, and it is important for researchers to investigate not only the direct effect of these variables, but also the interactive and mediating influences, or even conditional analysis of such influences, that impact ethical decision-making" (p. 213). Our findings provide support to their contentions and uphold the logic that we gain a richer understanding by running mediation analyses.

Additionally, our research contributes to the behavioral-ethics literature in psychology and management by observing actual behavior (i.e., fraudulent reporting) in an ethical situation, rather than using self-reported intentions to behave. Furthermore, this study extends Dill (2016) by providing evidence that personality characteristics, specifically, Machiavellianism and psychopathy, do have some association with ethical fading. As such, this study supplements the early research aimed at observing and measuring ethical fading, which is still a relatively unexplored construct.

We also respond to a call made by Craft (2013) in her recent literature review of studies on ethical decision-making. More precisely, she highlights the paucity of research on factors that precede the ethical awareness step of Rest's (1986) ethical decision-making model. She notes that this void remains, despite the call for more research on the matter made in preceding literature reviews (i.e., O'Fallon & Butterfield, 2005). We attempt to fill this void by exploring a new psychological mediator (i.e., ethical fading) that operates outside of the classical four steps of Rest's (1986) ethical decision-making model.

Findings from our study provide some interesting insights for practice, as well. Evidence suggests that "narcissism" is on the rise in the United States (Twenge, Konrath, Foster, Campbell, & Bushman, 2008) and many narcissists advance to leadership positions such as CEO (Amernic & Craig, 2010). The prevalence of narcissism, particularly among business-leaders, has also become a recurrent topic in the popular press (Cole, 2014; Shellenbarger, 2014; Wood, 2018). For example, a recent article in Forbes ranked CEOs of tech companies based on their narcissism (Jackson, 2013). Whether narcissism has a positive, a negative, or a mixed impact on business and society remains ambiguous. Some studies highlight positive effects of narcissistic behavior (Chatterjee & Hambrick, 2007, 2011), while others state some negative effects (Majors, 2016; Olsen & Stekelberg, 2016). Our findings suggest that narcissism does not impact ethical fading, but does have an effect, albeit weak, on unethical behavior. These results are aligned

with those of Rauthmann and Kolar (2012). They report that narcissism, while it remains a dark trait, is "lighter" than psychopathy and Machiavellianism. We share the same distinction between narcissism and the other dark traits since narcissism is the only trait of the triad that did not have an effect on ethical fading.

The remainder of this chapter is organized as follows. The second section provides an overview of both ethical fading and the Dark Triad, and then formulates the research hypotheses based on prior literature. The third section describes the experimental method employed to address those hypotheses. The fourth section presents the results, which includes a detailed discussion of the measurement variables and the analyses performed. The fifth and final section concludes the article and offers an examination of its limitations as well as opportunities for future research.

BACKGROUND AND HYPOTHESES

Ethical Fading

Deviating from the traditional frameworks (e.g., Kohlberg, 1973; Rest, 1986) that view ethical decision-making as a rational and linear operation, Chugh, Bazerman, and Banaji (2005) proposed the idea of bounded ethicality. Bounded ethicality is defined as the "…systematic and predictable psychological processes that lead people to engage in ethically questionable behaviors that are inconsistent with their own preferred ethics" (Tenbrunsel, Diekmann, Wade-Benzoni, & Bazerman, 2010, p. 7). Since these psychological processes function at a subconscious level (Gino et al., 2011), the most insidious aspect of bounded ethicality is that it permits the individual to unknowingly violate his or her moral standards. This lack of awareness that one is behaving unethically is facilitated through the mechanism of ethical fading.

Ethical fading has been described as a process wherein the "…moral colors of an ethical decision fade into bleached hues that are void of moral implications" (Tenbrunsel & Messick, 2004, p. 224). Essentially, this process increases the likelihood of the individual adopting a nonethical framework for decision-making (e.g., a legal or business framework) that, in turn, increases the likelihood that he or she will engage in unethical behavior. While ethical fading has been regarded as a distinct concept (e.g., Schwartz, 2016), the process of differentiating it from other, related concepts is ongoing in the behavioral ethics literature. Dill (2016) does provide a discussion on distinguishing ethical fading from ethical sensitivity and moral disengagement, however.

Hunt and Vitell (1993) characterize ethical sensitivity as a trait that makes one attuned to the ethical dimensions of a situation. By contrast, ethical fading is a subconscious process that diminishes moral considerations which, in turn, may lead one to engage in behavior that he or she may otherwise find objectionable (Bazerman & Tenbrunsel, 2011). Thus, ethical fading may be related to ethical sensitivity in that one who has a more developed ability to recognize a situation's moral implications may be more resistant toward ethically fading (Dill, 2016).

Like ethical sensitivity, moral disengagement may also be characterized as a trait that varies across individuals. Moore, Detert, Treviño, Baker, and Mayer (2012) argue that Bandura (2002) conceptualizes moral disengagement as one's ability and/or propensity to minimize or eliminate ethical considerations from a situation. While moral disengagement has typically been theorized as an antecedent to unethical behavior (e.g., Detert, Treviño, & Sweitzer, 2008), Haidt (2001) argues that an individual's ethical judgments are driven by his or her emotional responses to a situation and only afterward does the person use reasoning to justify his or her actions. Thus, moral disengagement may instead be a consequence of unethical behavior, which has been observed in some studies (e.g., Shu, Gino, & Bazerman, 2011). This conceptualization suggests that using one's ability to disengage is a part of a conscious strategy to "cope" with prior unethical behavior whereas ethical fading may explain the process that led to such conduct. Whether moral disengagement is an antecedent or consequence of unethical behavior remains an empirical question, however.

In sum, ethical fading differs from both ethical sensitivity and moral disengagement in that it is a (1) process, rather than a trait, and (2) operates at a subconscious level through the activation of inherent biases. A hypothetical scenario regarding the motivation to engage in unethical behavior (i.e., embezzlement) because of pay inequities may help further illustrate how ethical fading operates.[2] If an individual is paid less than someone in his or her peer group, then that person's own feelings of competency will be threatened. As a result, the biases that function to protect one's self-worth will direct the person to egocentrically interpret stimuli in a way that protects his or her self-image. That is, the individual will manufacture the perception that the lower pay is the result of an unfair situation rather than his or her own inferiority.

In addition to egocentrically interpreting this situation as unfair, the threat to one's sense of self-worth is also expected to elicit negative affect, that is, envy, whereupon the individual will be motivated to eliminate that emotion without using considerable cognitive effort.[3] The person will then depend on an affect heuristic wherein the negative emotion serves as the foundation to guide his or her decision (i.e., whether to embezzle funds from the organization). Thus, he or she automatically substitutes a difficult question (what is the ethical or proper action?) with an easier one (how does choosing this particular option make me feel?). At this point, considerations regarding the moral implications of a decision are diminished (i.e., ethical fading has occurred) as the individual's affect-laden intuition suggests that an action which alleviates the envy experienced in this scenario is the most appropriate, including behavior considered unethical (i.e., embezzling funds).

Again, ethical sensitivity may be related to ethical fading in that an individual who is more sensitive to the moral implications of a decision will be less likely to engage in ethical fading in a scenario where he or she is paid less than a referent. If that person does engage in unethical behavior, however, then his or her propensity to morally disengage can be used to justify past actions (e.g., I had to steal money to "make things fair"), which will set a new benchmark for what is ethical conduct. Given the nascence of ethical fading, its relationships with ethical

sensitivity, moral disengagement, and other ethics-related concepts will need to be addressed empirically.

Tenbrunsel and Messick (2004) identify several catalysts to the ethical fading process, such as the use of euphemistic language, self-deception, the "slippery-slope" of decision-making, and errors in perceptual causation. Adding to the list of potential causes of ethical fading, Chugh et al. (2005) state that cognitive limitations, such as the use of simple heuristics, might allow for unethical decisions that are beyond the decision-maker's awareness. Building on Chugh et al.'s (2005) discussion, Dill (2016) theorizes that ethical fading can be induced by the combination of negative emotions and a threatened sense of self-worth brought about by semi-static environmental factors (e.g., the pressure for a CEO to meet analysts' earnings expectations) or situational factors (e.g., time pressure). There is a dearth of research that empirically establishes any of the hypothesized antecedents of ethical fading, however. Dill (2016), the only study known to the authors that measures ethical fading, found that one who was paid at a lower rate was more likely to egocentrically interpret this disparity as unfair, which leads to a feeling of envy. Envy, however, did not have a significant, direct effect on ethical fading as hypothesized. Per contra, a supplemental analysis indicated that an individual's risk preference may moderate this relationship. As such, this study suggests that personal factors, such as personality traits, may stimulate or inhibit ethical fading.

The Dark Triad

Paulhus and Williams (2002) identify Machiavellianism, narcissism, and psychopathy as the "Dark Triad" of personality types since individuals with these traits display selfishness, insensitivity, and malevolence in interpersonal exchanges. These traits have been extensively studied across an array of disciplines as they seem to influence all domains of behavior (Harrison et al., 2016; Lee et al., 2013). Of particular interest is their relationship to maladaptive behaviors within organizations, ranging from counterproductive work behaviors (CWB, hereafter), such as abusive supervisory behavior (Kiazad, Restubog, Zagenczyk, Kiewitz, & Tang, 2010), to outright criminal activity, such as fraud (Lee et al., 2013; Nathanson, Paulhus, & Williams, 2006). Although the three components of the Dark Triad are positively correlated and, to an extent, overlap, they are still conceptually distinct constructs (Paulhus & Williams, 2002). Furnham, Richards, and Paulhus (2013) warn against the tendency to "lump" the traits together because of their similarity as doing so "…implies a simplistic distinction between good and bad personalities" (p. 209). Consequently, each attribute that comprises the Dark Triad will be addressed separately.

Machiavellianism

As discussed in Dill (2016), the psychology literature indicates that people place value on ethical behavior (Gino et al., 2011) and, as a result, are compelled to

view and present themselves as moral and honest (Messick & Bazerman, 1996; Tenbrunsel, 1998) because of the internal rewards (i.e., maintains the individual's psychological well-being and a sense of self-worth) and the benefits gained from having a reputation of high moral character (Batson, Kobrynowicz, Dinnerstein, Kampf, & Wilson, 1997). When one must make an ethical decision that will have real consequences, however, the ethical fading process may be initiated whereupon that person moves toward the adoption of a nonethical framework for the decision (e.g., a business or legal framework), thus making it psychologically easier to make the choice that benefits him or her the most. This implies that most individuals utilize an ethical framework when either predicting how they would behave in an ethical situation or judging the moral conduct of others. That is, in general, people have the same "ethical starting point" with respect to how they frame a decision and the degree to which they fade ethically depends on the context and the characteristics of that person.[4]

Machiavellianism is defined as an individual's predisposition to engage in behaviors consistent with those advocated in the writings of Niccolo Machiavelli, a 15th-century Italian philosopher known for promoting deceitful and manipulative tactics for political gain. Machiavellianism is considered to be a multidimensional construct that comprises amoral behavior, desires for status and control, and a cynical, distrusting perception of others (e.g., the belief that others are foolish, gullible, and would act unethically in a similar situation) (Dahling, Whitaker, & Levy, 2009; Harrison et al., 2016). High Machs, or those who are more likely to view manipulation and deceit as acceptable tools to accomplish their goals, desire authority and leadership positions (Judge, Piccolo, & Kosalka, 2009), are motivated by financial success (McHoskey, 1999) and are opportunistic (Hegarty & Sims, 1978). In addition, those who possess Machiavellian attitudes typically have an intense distrust of others to the point of being paranoid and cynical (Christie & Geis, 1970; Dahling et al., 2009). As such, high Machs are willing to cheat, lie, and steal in order to achieve their ambitions (Christie & Geis, 1970; Fehr, Samsom, & Paulhus, 1992; Jones & Paulhus, 2009; Ross & Robertson, 2000), even going so far as to mimic the attitudes and behaviors of their peers in order to exploit them (Hurley, 2005). High Machs, however, do not typically exhibit extreme antisocial behaviors (Jones & Paulhus, 2009) and can be effective communicators and leaders (Deluga, 2001), charismatic, skillful negotiators, and influential in social exchanges (Babiak, Neumann, & Hare, 2010; Judge et al., 2009).

Reviews of the ethical decision-making literature conclude that high Machs tend to be less ethical than low Machs (e.g., O'Fallon & Butterfield, 2005). The results from more recent metaanalyses on the relationship between Machiavellianism and CWB, in particular, support this conclusion (Kish-Gephart, Harrison, & Treviño, 2010; O'Boyle et al., 2012). Most of the research on Machiavellianism, however, has focused on its relationship to ethical judgment and behavioral intention (Kish-Gephart et al., 2010; O'Boyle et al., 2012). Consequently, there is scant research regarding how this trait impacts the decision-making process such as the activation of ethical fading (that leads to one's judgment), behavioral intention, and actual conduct in an ethical situation.