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# Wage Cuts and Managers' Empathy: How a Positive Emotion Can Contribute to Positive Organizational Ethics in Difficult Times

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**Abstract** Using the lens of positive organizational ethics, we theorized that empathy affects decisions in ethical dilemmas that concern the well-being of not only the organization but also other stakeholders. We hypothesized and found that empathetic managers were less likely to comply with requests by an authority figure to cut the wages of their employees than were non-empathetic managers. However, when an authority figure requested to hold wages constant, empathy did not affect wage cut decisions. These findings imply that empathy can serve as a safeguard for ethical decision making in organizations during trying times without generally undermining organizational effectiveness. We conclude by discussing the implications of our research.

**Keywords** Business ethics · Positive scholarship · Positive organizational ethics · Empathy · Compliance · Obedience · Ethical decision making

## Introduction

As the worldwide economy seemingly slides from one recession to the next, cost cutting has become an organizational paradigm. Turner et al. already noted in 2002, that “for many organizations, the struggle to compete has meant adopting practices that attempt to reduce costs and increase productivity—a *do-more-with-less* mentality that favors profits over the welfare of people” (p. 716). Yet, as a

do-more-with-less mentality becomes more prevalent, humanistic counterforces emerge. In academia, one such counterforce is positive organizational scholarship. It seeks to realize the strengths of organizational members and systems to foster human and organizational well-being (Dutton et al. 2006a). Within this larger domain, positive organizational ethics or positive business ethics (Stansbury and Sonenshein 2012, p. 340) can be viewed as “the study of that which is morally excellent or praiseworthy in business.” Positive organizational ethics (POE) stands for a proactive and mindful approach to ethics that moves beyond compliance with rules. It focuses on strengths as opposed to deficits in order to uncover morally sound approaches of managerial conduct (see also the work on moral courage by Sekerka et al. 2009). These strengths include moral emotions (Haidt 2003; Sekerka et al. 2012; Tangney et al. 2007) such as empathy, “an other-oriented emotional response elicited by and congruent with the perceived welfare of someone in need” (Batson 2008, p. 8). Given that, as the opening quote from Turner et al. implies, managerial myopia on profits is widespread, empathy is a virtue that brings back into focus human welfare, thus, enabling morally sound decisions.

This myopia on profits can manifest itself in wage cut decisions, a classic ethical dilemma of whether employees or owners of a company should bear the costs of a crisis. Kahneman et al. (1986) found in their seminal research that employees considered wage cuts due to deteriorating labor market conditions as highly unfair. Recently, wage cuts have been used widely in the public sector, for example, in the United States (Reuters 2012), but also in Spain and Portugal (British Broadcasting Corporation 2012), where thousands of employees reacted with strong protests. In our study, we used a wage cut scenario to operationalize an ethically charged environment that forced managers to take

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a position either in favor or against their employees while economic conditions were worsening. Through the lens of POE, we investigated how the empathy of managers affected their decisions to cut employees' wages. As discussed in detail below, our key hypothesis was that managerial empathy would lead to non-compliance with pressures for wage cuts, such that empathetic managers were less likely to cut employees' wages in reaction to worsening economic conditions. The remainder of this article unfolds as follows: we briefly discuss the potential contribution of our work, and then introduce the concept of empathy before developing our hypotheses concerning the its role for non-compliance in wage cut decisions. We also present the methods and results of an experimental test of our hypotheses and finally discuss the implications of our findings.

Our research potentially makes both theoretical and practical contributions. From a theoretical point of view, we aim to not only illustrate empirically the nature of POE but to also establish boundary conditions for the effects of empathy on managerial decision making, such that empathy plays an increasingly important role the more ethically challenging a situation becomes. That is, empathy effects are more likely to occur in situations in which the well-being of other stakeholders is at risk. Moreover, as input into managerial reflection and action, our research may convey that empathy should contribute to balanced views about the relationship between an organization and its stakeholders.

## Empathy

### Concept of Empathy

The concept of empathy “in the broadest sense refers to the reaction of one individual to the observed experiences of another” (Davis 1983, p. 113) and has been described as a uniquely human characteristic (e.g., Selman 1980) with its own neural system (e.g., Bagozzi and Verbeke 2012). Empathy entails conceptually independent, but interrelated cognitive and emotional processes (e.g., Duan and Hill 1996). The cognitive aspect refers to perspective taking, the ability “to imagine how the person in need is affected by his or her situation” (Batson and Shaw 1991, p. 112). Piaget (1932) observed that human beings develop this ability over the course of their childhood and stressed that it is an important prerequisite for non-egocentric behavior (see also Selman 1971). Among empathetic individuals, this cognitive process leads to an affective response, namely the feeling of empathy for the person in need. For the purpose of our research, we adopt the earlier mentioned definition of empathy by Batson (2008, p. 8) as “an other-

oriented emotional response elicited by and congruent with the perceived welfare of someone in need” (see Eisenberg et al. 2004, for a similar definition). Thus, our focus is on the “affective aspect of the empathetic experience” (Duan and Hill 1996, p. 263) albeit we recognize that the ability to take another person's perspective is a precondition for empathetic emotions.

Conceptually, empathy differs from sympathy, compassion, and altruism. Sympathy can be defined as “an emotional response stemming from the apprehension of another's emotional state or condition, which is not the same as the other's state or condition but consists of feelings of sorrow or concern for the other” (Eisenberg et al. 2004, p. 387). Hence, managers may feel sympathetic towards outraged employees without feeling outraged themselves. The latter, however, is characteristic of empathy. Compassion, according to Atkins and Parker (2012, p. 525), is a “process involving both feeling and action”, and it is this action component that distinguishes compassion from empathy. In the current study, we focused on the contribution of empathy to ethical decision making. Finally, altruism can be defined as behaviors that aim to enhance the welfare of others (Eisenberg 1991), which, among other things, can be motivated by empathy, as we discuss in more detail below.

In positive psychology (Seligman and Csikszentmihalyi 2000) and positive organizational scholarship (Cameron et al. 2003), empathy is treated as a moral virtue at both the organizational and individual levels. First, at the organizational level empathy is a basis of compassion and connectedness (e.g., Dutton et al. 2006b; Pavlovich and Krahnke 2012). Second, at the individual level it is a human quality of moral goodness (Park and Peterson 2003, 2008). Cawley et al. (2000), for example, examined empathy as a component in their virtues approach to personality. These scientists found that empathy was consistently related to extraversion and agreeableness and concluded that it was, at least in part, based on personality. The fundamental position of the “empathy as a virtue” approach is that empathy motivates human behavior that creates positive consequences for other people and stakeholders (in fact, some conceptualizations of empathy include a behavioral component, Davis 1994).

For POE, empathy is a particularly important emotion due to its role in moral reasoning (Kohlberg 1969; Selman 1971). In Kohlberg's theory of moral development, for example, the more advanced stages are critically predicated on the capacity for empathy. The critical role of empathy for ethical and moral conduct has also been more recently reinforced by, for example, Werhane (1998) who considered empathy as a critical ingredient for moral imagination in management decision making. Furthermore, Tangney et al. (2007) noted that empathy is associated with concern

for others, an inhibition of aggressive behavior towards others, and a motivation to help others in distress and subsequent helping behavior. In particular, the link between empathy and helping behavior has received broad empirical support in the psychological literature, which we briefly review below.

### Social-Psychological Research on Empathy

Empathy has been studied as both a state (e.g., Batson et al. 1981; Stocks et al. 2009) and a trait (Detert et al. 2008; Duan and Hill 1996; Moore et al. 2012; Verhaert and Van den Poel 2010), the latter representing our approach to operationalizing empathy. According to the empathy–altruism hypothesis, empathy results in the motivation to help those in need and ultimately helping behaviors. Batson and his colleagues (see Batson 2009, for a review), for example have repeatedly theorized and also shown that a concern to assist persons in distress (and not egoistic needs) primarily motivate empathetic helping behavior. They have found, for example, that neither (1) a need to reduce one's own distress or negative state (e.g., Dovidio et al. 1990), nor (2) rewards, nor (3) concerns about negative social evaluations, nor (4) similarity to the person in need stimulated the behavior of empathetic individuals.

Furthermore, empirical evidence has shown that empathy as a trait predicts altruistic behavior (Eisenberg et al. 1999). In a meta-analysis, Eisenberg and Miller (1987) reported that trait empathy generally was associated with pro-social and related behaviors. More recently, Verhaert and Van den Poel (2010) found a relationship between empathetic concern and charitable giving in a fundraising campaign.

### Management Research on Empathy

Management research on empathy is still nascent and relatively sparse (e.g., Johnson 1993), albeit blossoming more in recent years. As mentioned above, Cameron et al. (2003) referred to empathy in their treatment of positive organizational scholarship (see also Arnaud and Sekerka 2010). Leadership researchers (e.g., Cameron 2011; Choi 2006; Day 2001; Holt and Marques 2012; Humphrey 2002; Turner et al. 2002) argue increasingly for the importance of empathy for leadership effectiveness. Choi (2006), for example, asserted that empathy underlay charismatic leadership, such that empathetic leader behaviors stimulated followers' need for affiliation.

In terms of empirical studies, Detert et al. (2008; see also Moore et al. 2012) hypothesized and found that dispositional empathy was negatively related to moral disengagement, that is processes through which individuals justify unethical behavior. Specifically, these researchers

argued that individuals high on dispositional empathy would refrain from dehumanizing and blaming victims of unethical behavior as well as distorting negative consequences of such behavior. Mencl and May (2009) examined the moderating and direct influences of empathy on ethical decision making. In a vignette and questionnaire study of HR professionals, cognitive empathy was associated with principle-based evaluations that placed the well-being of others first. Cohen (2010) obtained similar results in a negotiation context, showing that negotiators high in empathy were more likely to report that they refrained from ethically questionable negotiation tactics that hurt their counterparts. Finally, and of particular relevance to scenarios in which corporate profits and human welfare represent trade-offs, Wang and Murnighan (2011) argued that emotions like empathy that are associated with an interpersonal mindset can serve as a counterforce to calculative strategies that are associated with a profit-oriented economic mindset.

Marketing scholars also increasingly study empathy, in particular as a property of salespersons for ethical conduct toward customers. Bagozzi and Verbeke (2002), for example, found that the sale of an inferior product led to feelings of guilt only among salespeople high in trait empathy. Another example is a study by Agnihotri et al. (2012) who investigated salespersons' capacity for empathy. Thus, by now the call by Bagozzi (2003) for more research on empathy and its effects in the workplace seems to have resonated among management scholars, albeit the body of literature remains small. This literature, however, has shown that empathy can affect other-oriented ethical behavior which is an important foundation for our theoretical arguments presented next.

### The Current Study: Empathy and Non-compliance with Wage Cut Requests

In this section, we develop the argument that empathy can result in non-compliance with organizational pressures for wage cuts. Our starting assertion is that a situation in which organizational authorities demand from managers that they cut the wages of their employees can be conceptualized as a situation of organizational compliance. Thus, we draw on the literature on compliance and obedience in organizations (e.g., Hamilton and Sanders 1992, 1999; Petersen and Dietz 2008), according to which compliance with instructions from organizational authorities (which includes requests to cut the wages of employees) is a fundamental principle of organizational functioning. Then, we theorize about the role of managers' empathy in their compliance behavior with requests to cut the wages of their employees.

## Compliance with Authority

Management theorists have traditionally treated the relationships between authorities and their subordinates as a defining feature of organizations. Simon (1997, p. 144), partially drawing on the work of Barnard (1938), argued that when agreeing to an employment contract managers sign a “blank check”, with which they promise to deliver their “undifferentiated time and effort” to the organization and its authorities. Simon viewed authority as “the power to make decisions which guide the actions of another [person]” (p. 179). In organizations, this power derives from the legitimacy stemming from the system of hierarchical role relations (Weber 1947).

Empirical evidence, including recent studies (e.g., Brief et al. 2000; Petersen and Dietz 2008), has consistently demonstrated compliance and obedience effects, even if authority figures gave unethical instructions. For example, in Petersen and Dietz’s (2008) study, employees complied with an organizational authority’s instruction to prefer ingroup candidates and to exclude outgroup candidates. Seemingly these employees perceived it as part of their job to show compliance behavior. Petersen and Dietz’s arguments imply that the psychological process that underlies compliance with instructions from above is a transformation during which managers displace responsibility for their actions to the highest organizational authorities (Hamilton and Sanders 1992, 1999; cf. Bandura 1999). In this process, the assumed legitimacy of organizational authorities obligates managers to follow authorities’ preferences (Brief et al. 2001). Dietz and Pugh (2004) further suggested that compliance with unethical instructions is particularly likely when these instructions and the resulting behaviors are justified as business necessities. In this case, these instructions become “ideological accounts” (Schlenker 1980) that link behavior to super-ordinate organizational goals, such as profitability. Thus, when organizational authorities demand that managers cut the wages of their employees, they may do so because they consider it their duty to comply as organizational role players and because they view it as serving superordinate organizational goals. Finally, compliance with unethical instructions including wage cut requests may be amplified when managers lack the moral courage to stand up to authority figures (Comer and Vega 2011).

Applied to a wage cut scenario, in which an authority (e.g., a CEO) recommended that managers cut the wages of their employees at the front-line because economic conditions have deteriorated, we anticipated that managers would tend to comply with such instructions. Demanding a wage cut due to economic conditions should be viewed as a “business justification” (Brief et al. 2000; Dietz and Pugh 2004) that facilitates unethical behavior. Formally stated,

**Hypothesis 1** Participants receiving a request from an organizational authority figure to cut wages will do so.

Despite the powerful effects of an authority’s instructions on behavior, the phenomenon of compliance has its limits. Simon (1997, p. 185) spoke of the “area of acceptance” in which a manager is “willing to accept the decisions made for him by his superior.” Requests that fall outside the area of acceptance, however, are rejected. The size of this area varies for several reasons including personal preferences (e.g., Barnard 1938; Brief et al. 2001; Simon 1997). When wage cuts are requested, empathy can represent such a preference as explained below.

## Empathy and Compliance and Non-compliance

Broadly speaking, on the basis of the empathy–altruism hypothesis, we assume that empathetic managers do not consider compliance with a request from authority figures as merely doing their job. Instead empathetic managers are primed to consider to what extent their decisions and behaviors affect the well-being of others, in particular, of those in need. This sensitivity to the needs of others prompted by the emotions that empathetic managers experience, in turn, can foster ethical behavior, if otherwise these others may be harmed (see also, Eisenberg 2000; Kohlberg 1969, for similar arguments). This reasoning is consistent with Mencl and May’s (2009) earlier mentioned finding that empathy was related to principle-based evaluations in ethical dilemma situations.

Applied to the specific context of wage cut decisions, empathetic agents are predisposed to experience the same negative emotions to wage cuts that the affected employees (i.e., the targets of empathy) would experience. Consistent with the empathy–altruism hypothesis, these empathetic managers can be expected to interpret cutting the wages of their employees not merely as a business decision but as an act that undermines the well-being of these employees. Wage cut decisions deprive others of income that they most likely need, and the negative consequences of wage cuts (in addition to the financial loss) are well established. For example, Greenberg (1990) demonstrated that a pay cut led employees to steal more from their organization, in particular when they perceived the pay cut as unfair [see also the earlier mentioned research by Kahneman et al. (1986)].

In summary, it is plausible to argue that managers high on empathy are particularly sensitive to the negative effects of complying with requests for cutting the wages of their employees, and therefore react with non-compliance with these requests (i.e., do not cut wages). Managers low on empathy, however, are not sensitive to these consequences for their employees and, hence, tend to comply with such requests. If, however, an authority does not request a wage

cut, but merely demands to keep wages constant, we do not expect that managers high and low on empathy differ. Stated formally:

**Hypothesis 2** Requests to cut/hold constant wages by organizational authority figures and managers' empathy interact, such that managers' empathy reduces compliance with requests to cut wages of their employees. Empathy, however, does not affect managerial compliance behavior when organizational authority figures demand to hold wages constant.

## Method

### Sample

Participants were 112 students who attended social psychology seminars at the University of Kiel/Germany. Sixty nine (62 %) of the participants were women, and the average age was 23.62 years ( $SD = 4.93$ ). The participants, who were recruited for two separate studies (a questionnaire study and an in-basket exercise), received course credit for their voluntary participation. The choice of a student sample is defensible, as we intended to examine whether we could find the theorized effects. In addition, as Detert et al. (2008) noted, by college age individual dispositions (including that of empathy) are presumably formed. Moreover, Locke (1986, see also Stone-Romero 2002) concluded that there was remarkable consistency between findings obtained in laboratory and field settings.

### Overview

The design of the study was a quasi-experimental design with two independent variables: the experimental manipulation "request to cut/hold constant wages" and the quasi-experimental variable "participants' empathy." The dependent variable was the decision to cut wages (yes/no).

### Procedure

#### *Stage 1: Pre-experimental Test*

At the beginning of the semester, participants completed questionnaires in group sessions. We informed them that the questionnaires were designed to investigate various factors that could affect how managers made decisions. The questionnaire included a measure of empathy described in more detail below. In addition, participants completed a number of demographic items.

#### *Stage 2: The Experiment*

Four weeks later, participants worked on an in-basket exercise that we described as a managerial decision making task. The participants played the role of "Thorsten Folger," Chief Financial Officer (CFO) of a German fast food chain, "Der schnelle Happen" ("The Quick Bite"). They read descriptions of both the organization and their role as Thorsten Folger, and, then had 30 min to complete the in-basket exercise. The in-basket exercise required participants to make decisions regarding a variety of issues, for example, what salary to offer an incoming manager and when to record a gain on the potential sale of a property. For each in-basket decision, participants had to choose from a number of alternatives. They learned through memoranda that the vice president (VP) of Human Resources, Mrs. Schmidt-Schwarz, would be leaving and that participants, thus, were temporarily responsible for personnel-related decisions. One of these decisions concerned a potential wage cut for overpaid personnel.

We randomly assigned participants to one of two experimental conditions: (1) request to cut wages, and (2) request to hold wages constant. These conditions were embedded in the following memorandum from the president of the company, Mr. Niemeyer, to Thorsten Folger:

Thank you for sending me the results of the wage survey Mrs. Schmidt-Schwarz has done. I agree with you that it is clear that the economic conditions in southern Germany have driven wage levels down for easily replaceable, unskilled labor and that we are in the uncomfortable position of paying our personnel in this category of labor 9 % above the market wage rate.

The question, therefore, is what, if anything, do we do about it. Since Human Resources is your responsibility, the decision is yours. However, I want you to know what I think.

Then, participants in the cut-wages condition read:

I believe it is important we respond to the problem by immediately cutting by 9 % our wages of those people who are over-paid, thereby, bringing what we pay into line with the current market wage rate.

Participants in the hold-wages-constant condition read:

I believe that it is important we respond by holding constant for the next two to three years the wage levels of those people who are over-paid, thereby, allowing the market wage rate to catch up with what we currently pay.

After the in-basket exercise, participants completed a manipulation check and then were debriefed.



## Measures

### *Empathy*

We assessed participants' empathy with two 7-item empathy subscales developed by Davis (1980), the perspective taking scale and the empathic concern scale. The perspective taking scale aims to measure "the tendency or ability of the respondent to adopt the perspective, or point of view, of other people" (p. 6). The empathic concern scale indicates "the tendency for the respondent to experience feelings of warmth, compassion, and concern for others undergoing negative experiences" (p. 6). A sample item of the perspective taking scale is "Before criticizing somebody, I try to imagine how I would feel if I were in their place." A sample item of the empathic concern scale is "I often have tender, concerned feelings for people less fortunate than me." The task for participants was to indicate to what extent they agreed with each of the statements on 7-point Likert-type scales, ranging from "describes me very inaccurately" (1) to "describes me very accurately" (7).

Confirmatory factor analyses showed that both a two-factor solution (representing the two subscales) with a higher-order factor,  $\chi^2 = 43.98$ ,  $df = 33$ ,  $p = 0.09$ , CFI = 0.91, and RMSEA = 0.06, and a one factor-solution,  $\chi^2 = 43.40$ ,  $df = 34$ ,  $p > 0.10$ , CFI = 0.92, and RMSEA = 0.05, fit the data similarly well. Because the one-factor solution was more parsimonious, we computed one measure of empathy by averaging the items (see the [Appendix](#) for the items). The internal consistency coefficient for this measure was 0.71. The scale mean was 4.92 ( $SD = 0.76$ ) with scores ranging from 2.5 to 6.5.

### *Dependent Measure: Decision to Cut Wages*

The dependent variable was the participants' decision to cut wages (coded as "1") or not (coded as "0"). A pre-test in a separate sample of 39 undergraduate students required participants to judge on a 7-point scale the altruism of either a decision to cut wages or a decision to hold wages constant. As expected, participants perceived the decision to cut wages as less altruistic than the decision to hold wages constant,  $t(37) = 2.43$ ,  $p \leq 0.05$ .

### *Manipulation Check*

After the in-basket exercise the participants filled out a questionnaire that, in addition to numerous filler items, contained the two statements: "Mr. Niemeyer believed that it was important to respond to the problem of overpayment in southern Germany by immediately cutting the wages of those overpaid by 9 %." and "Mr. Niemeyer believed that it

was important to respond to the problem of overpayment in southern Germany by holding constant wage levels of those overpaid for the next 2 or 3 years." Participants responded to these items on 7-point Likert-type scales, ranging from "strongly disagree" (1) to "strongly agree" (7).

## Results

### Manipulation Check

The results of the manipulation check indicated the effectiveness of the manipulation. Participants in the cut-wages condition agreed more strongly with the statement that the president of the company believed that it was important to respond to the problem of overpayment in southern Germany by cutting the wages by 9 % than did participants in the hold-wages-constant condition,  $t(110) = 5.66$ ,  $p < 0.001$  (respectively  $M = 4.26$ ,  $SD = 2.26$  and  $M = 2.18$ ,  $SD = 1.57$ ). Participants in the hold-wages-constant condition agreed more strongly with the statement that the president of the organization believed that it was important to respond to the problem of overpayment in southern Germany by holding constant the wages than did participants in the cut-wages condition,  $t(110) = 7.03$ ,  $p < 0.001$  (respectively  $M = 4.67$ ,  $SD = 2.16$  and  $M = 2.09$ ,  $SD = 1.69$ ).

### Main Analyses

We used a logistic regression analysis (e.g., Cohen et al. 2003) to test (a) that participants receiving a request from an authority figure to cut wages will do so (Hypothesis 1); and, (b) that the more empathetic participants are, the less they will comply with a request from an authority to cut wages (in comparison to their compliance with a request to hold wages constant) (Hypothesis 2). A logistic regression was appropriate for analyzing our data, as the dependent variable was dichotomous and non-normally distributed (Hosmer and Lemeshow 1989). Table 1 shows the results of the hierarchical logistic regression analysis, and Fig. 1 is a graphic representation of the hypotheses and the results.

As a first block, we entered the control variables of gender, age, and year of studies. This step yielded a non-significant  $\chi^2(3)$  of 3.92,  $p > 0.10$ . As a second block, we entered the moderating variable empathy and the dummy-coded experimental variable request to cut or hold constant wages. This step yielded a marginally significant  $\chi^2(5)$  of 9.29,  $p < 0.10$ . Consistent with Hypothesis 1, participants in the cut-wages condition were more likely to cut wages ( $M = 0.63$ ;  $SD = 0.48$ ) than were participants in the hold-wages-constant condition ( $M = 0.40$ ;  $SD = 0.49$ ),  $b = -$

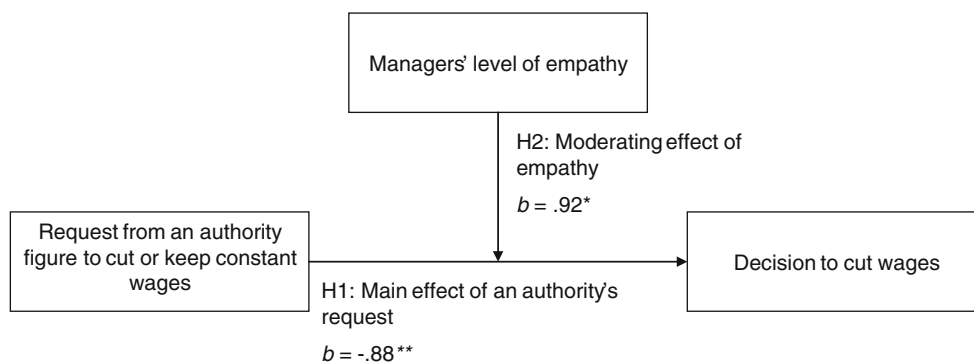
**Table 1** Logistic regression results predicting wages cut

Regression blocks	Decision to cut wages					
	<i>b</i>	<i>b</i> /SE	Odds ratio	$\chi^2$ (df)	$\Delta\chi^2$	Pseudo $R^2$
Block 1				3.92 (3)		0.046
Gender	0.44	0.44	1.55			
Age	-0.10	0.07	0.90			
Year	-0.09	0.14	0.91			
Block 2				9.29 <sup>†</sup> (5)	5.37	0.078
Gender	0.45	0.47	1.56			
Age	-0.10 <sup>†</sup>	0.06	0.90 <sup>†</sup>			
Year	-0.08	0.14	0.92			
Request	-0.88*	0.45	0.41*			
Empathy	-0.05	0.21	0.95			
Block 3				13.30* (6)	4.01*	0.106
Gender	0.45	0.48	1.56			
Age	-0.10 <sup>†</sup>	0.06	0.91 <sup>†</sup>			
Year	-0.08	0.14	0.92			
EM	-0.92*	0.44	0.40*			
Empathy	-0.50	0.32	0.60			
Request × empathy	0.92*	0.48	2.50*			

*N* = 101. Reported values have robust standard errors

Request was coded as 0 = request to cut wages and 1 = request to hold wages constant

<sup>†</sup>  $p \leq 0.10$ ; \*  $p \leq 0.05$



**Fig. 1** The moderating effect of empathy on the relationship between a request from an authority figure and a decision to cut wages. \*  $p = 0.055$ , \*\*  $p < 0.05$

0.88,  $z = -2.08$ ,  $p < 0.05$ . Results revealed no main effect of empathy,  $b = -0.05$ ,  $z = -0.25$ ,  $p > 0.10$ .

In the final block, we created an interaction term by multiplying the two variables added in second block, i.e., the experimental variable and the empathy variable. This block yielded a significant  $\chi^2(6)$  of 13.30,  $p < 0.05$ . Consistent with Hypothesis 2, the interaction term was marginally significant, indicating that the effect of the manipulation on the decision to cut wages was dependent on the level of empathy,  $b = 0.92$ ,  $z = 1.92$ ,  $p = 0.055$ .

To further investigate this interaction effect, we conducted a follow-up analysis as recommended by Cohen et al. (2003). For each experimental condition (cut wages or hold wages constant), we performed separate logistic regression analyses on the dependent variable “decision to

cut wages: yes/no” with the control variables and the empathy measure as predictors. Consistent with Hypothesis 2, results revealed that participants’ empathy had a marginally significant negative effect on their decision to cut wages in the cut-wages condition,  $b = -0.55$ ,  $z = -1.61$ ,  $p = 0.106$ . However, participants’ empathy did not affect the decision to cut wages in the hold-wages-constant condition,  $b = 0.46$ ,  $z = 1.28$ ,  $p = 0.20$ .

**Discussion**

We theorized from a POE perspective that empathy as a moral strength would lead to non-compliance when an organizational authority requested a wage cut. The results

of an experiment are consistent with this argument, showing that in the presence of such a request the odds of a wage cut decision decreased as participants' empathy increased. When an authority requested to hold wages constant, however, empathy did not affect this decision. These results illustrate an essential feature of positive organizational ethics, namely that ethical conduct ultimately comes from moral strength that has to be proactively enacted by agents rather by passive compliance with rules, regulations, and instructions.

Before elaborating on the contribution of our research, we would like to draw attention to the complexity of wage cut decisions. As Kahneman et al. (1986) and also Fehr et al. (2009) explained, when labor market conditions worsen, such that the supply of labor increases and/or the demand for labor decreases, economic rationality implies that firms lower wages. Thus, at first glance the behavior of the empathetic participants as agents in our study to resist a request to cut the wages of their employees despite worsening labor conditions may seem irrational. Research by Kahneman et al. (e.g., Greenberg 1990), however, has shown that wage cut decisions carry disproportionate moral costs that ultimately undermine organizational efficiency. For this reason, in wage cut decisions a managerial decision-making approach that is solely based on economic utility, arguably the predominant model in corporations (Ferraro et al. 2005), is both morally and economically suboptimal. Perhaps the most important contribution of our study is that we show how empathy as a moral virtue contributes to avoiding such suboptimal decisions in wage-cut dilemmas, without undermining organizational efficiency when wage cuts are not requested.

### Theoretical Contribution

In research on POE, it is important to understand when virtues, such as empathy, affect decision making. We found that empathy of managers can turn an ethical dilemma into an ethical achievement, but when the well-being of other stakeholders is not a risk, empathy does not influence decision making. Hence, empathy can serve as a safeguard for ethical managerial action in dilemma situations that concern both the well-being of the organization but also that of other stakeholders. Empathy, however, does not generally imply dysfunctional "giving-it-away" behavior, that might put the organization at risk, as the lack of a main effect of empathy as well as the absence of an effect of empathy in the hold-wages-constant condition revealed.

More broadly speaking, our study informs theory on the design towards durable and resilient ethical performance (e.g., Powley 2009) by highlighting the role of empathy. Hence, we address an important gap described by Fineman

(1996, p. 557) as follows: "At present, mainstream research on business ethics is almost an emotion-free zone. Yet, as Solomon (1991) observes, 'without such emotions there can be no ethics, no business ethics, whatever the rules, policies, the corporate codes and fine speeches from company headquarters' (p. 197)." More recently, Sekerka and Bagozzi (2007) as well as Tenbrunsel and Smith-Crowe (2008; see also Hine 2004) also highlighted the role of emotions in making ethical business decisions. Tenbrunsel and Smith-Crowe (p. 586), for example, stated that "it will become necessary for theory to relax the assumption that ethical decision making is exclusively the product of reason" to accommodate findings by neuroscientists (e.g., Damasio 1994; Haidt 2001) that demonstrated the emotional basis of moral decision making.

Our study further suggests that the design of ethical organizations should take into account (or create space for) organizational members' emotions and their emotional reactions (see also Dutton et al. 2006b; Pavlovich and Krahnke 2012). The selection of managers on, at least partially, moral virtues seems like an obvious intervention. Specifically with regard to empathy, we additionally concur with Detert et al. (2008) that interventions to enhance empathy can contribute to ethical decision making. Both selection and training on moral virtues, however, can be effective only if organizations have practices and procedures that allow their members to express and act on these virtues (for additional recommendations on designing an ethical organization, see also Sekerka et al. 2009, as well as Verbos et al. 2007). These practices and procedures should institutionalize the use of moral virtues. Then the use of moral virtues (or more broadly positive organizational ethics) would become the norm rather than the exception as it was the case in our experiment. As one concrete idea, which follows directly from our study, organizations may explicitly protocol that decisions are both rationally sound and emotionally comfortable to the decision makers. If the latter is not the case, the lack of comfort should be explored explicitly. Hence, emotional reactions can become a check or a warning signal for morally inappropriate decisions.

### Practical Contribution

In discussing the practical contribution of our work, we acknowledge that making such recommendations on the basis of an experiment limits us to reflecting on the causal relationships that we identified. We can say confidently that an effect of empathy on wage cut decisions is theoretically defensible and also can exist. Thus, for example, our suggestion above for decision protocols on both rational soundness and emotional comfort is theoretically founded and should be applicable to the context of a wage cut.



At the current stage, as a practical implication, our study sensitizes managers to the role of empathy in managerial decisions. Thus, as a means of stimulating perspective taking, managers and practitioners may ask themselves: "What are the effects, in particular the negative ones, of my decisions on other stakeholders?" and "Can I visualize how others will react to this decision?" Furthermore, empathetic managers and practitioners may ask: "Have I listened to my empathetic concerns in my ethical decisions? If not, why not? Finally, what was the result of dealing with an ethical dilemma, while ignoring my empathetic reaction: did the decision turn out to be effective or not?" We find these questions to be quite powerful tools to sensitize managers to the role of empathy in ethical decision making.

These questions also alert HR managers to the impact of wage cut decisions on employees. These questions may also inform the management of wage cuts in situations in which the trade-off is not between corporate profits and employees' salaries but between corporate survival and employees' salaries. In this case, cutting wages would have less negative effects on employees than would keeping wages constant (at least, they retain the option to keep their jobs). Then, reacting to one's empathetic feelings would suggest to an agent to involve employees in the decision making process even more, which, in turn, may lead to more effective decisions. Employees as subject-matter experts may understand the need to cut wages, but may also suggest other ways to reduce costs and, as the research by Greenberg (1990) implies, react less negatively to wage cuts if they were treated fairly during the decision process.

### Limitations

The key empirical strength of our study, namely the use of an experiment that allows us to draw causal inferences with considerable confidence, comes with the cost of lacking external validity. Both the use of a student sample and a simulated setting can be questioned, but we do not claim that our findings are predictive of what will occur in a natural setting. Instead our data are supportive of our theoretical explanations for the role of empathy in ethical decision making, and these data and theoretical explanations certainly can form the basis for engaging managers and practitioners in a dialogue about empathy, as we described in the preceding section. Furthermore, we aimed to minimize the artificiality of our study, following the recommendation of Weick (1965), who stated that, although an organizational phenomenon may be studied in a laboratory, "it will retain its relevance to natural organizations if the experimental situation retains some

properties of the setting, task, and participation associated with natural organizations" (p. 254). Thus, we employed an in-basket exercise for which "evidence exists that such exercises can realistically simulate the actual decision making environments of managers and... that managerial behaviors in simulated decisions parallel those ultimately exhibited on the job (Moses and Byham 1977)" (Bartol and Martin 1990, p. 602).

### Future Research

Our suggestions for future research follow from our preceding discussion. There is a need to replicate our findings in both laboratory and field settings with different samples including managers. While we are well aware of the questions that can be raised about experimental research, our study also shows the advantages of such research. At the current time, research on POE is still in its infancy and, hence, studies that convincingly demonstrate cause-effect relationships constitute an important step in advancing knowledge. For example, as mentioned earlier, Mencl and May (2009) interpreted their finding of an association between empathy and principle-based evaluations such that empathetic decision makers placed more emphasis on the well-being of others. It is, however, also plausible that decision makers who use an ethical framework that emphasizes the well-being of others are more sensitive to their empathetic concerns than are utilitarian decision makers. Experiments that manipulate participants' ethical decision making framework (e.g., justice-based versus utilitarian) and empathy can help disentangle whether empathy affects the choice of an ethical framework or one's ethical framework affects sensitivity to one's empathetic tendencies. It would also address if a decision maker's framework is a boundary condition for the effects of empathy in ethical decisions.

Boundary conditions can also be addressed by examining when empathy leads to poor decisions, for example, when consistently underperforming employees are kept in their jobs by overly empathetic bosses. There might be at least two reasons for negative effects of empathy on effective decision making. First, one has to distinguish between mindful and mindless empathy. Stated differently, it would be naive to make decisions based solely on empathy. Instead ethical decisions are rationally sound and emotionally tolerable, which is likely not the case if consistent underperformers are kept long-term. Second, Holt and Marques (2012) distinguished between empathy and pity, which may be considered as dehumanizing and, hence, not contributing to ethical decisions.

In addition, scholars of business ethics can benefit greatly from the social-psychological research on, for

example, the consequences of empathy. While we employed a dispositional operationalization of empathy, social psychologists have often employed situational manipulations (see Batson 2009, for a review), for example, by priming participants through references to people in need. Situational manipulations do not only represent a methodological variant, but derive from theoretical questions, such as whether managers are more likely to be altruistic towards employees who fit the prototype of people in need or whether managerial empathy and altruism is more likely in situations of public scrutiny. These questions aid in advancing research on POE by further delineating boundary conditions under which empathy facilitates ethical decisions.

## Conclusion

In our study, we show that empathy can lead to non-compliance with requests by authority figures to cut wages. This finding and our underlying theoretical arguments add to the nascent literature on POE, in particular by showing how and when a moral virtue results in moral decisions during difficult times.

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## Appendix

### Empathy Scale

1. I sometimes find it difficult to see things from the “other guy’s” perspective. (R)
2. I sometimes try to understand my friends better by imagining how things look from their perspective.
3. When I’m upset at someone, I usually try to “put myself in his shoes” for a while.
4. Before criticizing somebody, I try to imagine how I would feel if I were in their place.
5. I often have tender, concerned feelings for people less fortunate than me
6. Sometimes I don’t feel very sorry for other people when they are having problems. (R)
7. When I see someone being taken advantage of, I feel kind of protective towards them.
8. Other people’s misfortunes do not usually disturb me a great deal. (R)
9. When I see someone being treated unfairly, I sometimes don’t feel very much pity for them. (R)
10. I am often quite touched by things I see happen.

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