

## **The Relationships between Trust and Unethical Negotiation**

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### **Abstract**

*With the growth in international trade, business and industry, ethics has emerged as a challenge to the business community. Trust is an important theoretical stand, but the concepts of trust are still ambiguous. A quantitative and explanatory study was conducted to assess the relationships between trust and unethical negotiation. AMOS software was used to test both the measurement and the structural models that related to the research hypotheses listed. All the values of the standardized parameter estimates were negative, and the t-values were significant which indicate that trust has a negative relationship with traditional competitive bargaining, false promises, and inappropriate information gathering. For long-term relationship built, trust will be an important and significant factor for both parties. Future studies could employ a qualitative method to add value to the current findings, and the sampling plan could be expanded to other industries.*

**Keywords:** Trust, Unethical behaviors, SEM

### **1. Introduction**

With the growth in international trade, business and industry, ethics has emerged as a challenge to the business community (Brenkert, 1998). Elahee (1999) posited that the force of globalization combined with the concern for higher standard of ethics emphasize the important of realizing ethical behaviors on negotiation where negotiators may have contradictory perspective, values, and communication styles.

In the broadest sense, negotiation is a process of communicating back and forth to discuss the issues to reach an agreement that is satisfactory to all parties involved (Foroughi, 1998; Gulbro & Herbig, 1994). Differences in negotiating styles originate from the fact that every society places different degrees of importance on “relationship development, negotiating strategies, decision making methods, spatial and temporal orientations, contracting practices, and illicit behaviors such as bribery” (Acuff, 1997, p. 19). Successful negotiation not only requires acquiring technical communicative abilities, but also an understanding of the context of the negotiation by both parties (Korobkin, 2000).

Bowen (2002) reported that ethics has become an important factor to public relations theory-building that the public relations function should provide organizational conscience, and ethical and fair principles are also considered as important sources to negotiators’ behaviors (Carnevale & Pruitt, 1992). Dellech (2012) pointed out that it is difficult to think that one negotiating party is concerned ethical issues, but the other one is not. By contrast, some researchers indicated that some unethical behavior may be appropriate or even necessary to be an effective negotiator (Lewicki, 1983; Cramton & Dees, 1993).

Carr (1968) mentioned that business is like a poker game of strategic bluffs, and personal and business life are separate to demand different ethical codes. Batson and Thompson (2001) also mentioned that people may want to employ ethical principles while negotiation, but if they think they will lose some benefits, they may use unethical methods to the other party. Volkema and Fleury (2002) reported that unethical behaviors could be increased when negotiators are negotiating with counterparty from another country or face unethical counterparty. Dellech (2012) indicated that trust is an important theoretical stand, but the concepts of trust are still ambiguous although it is grown important and recognized within inter-organizational relationships. Therefore, the focus of this study is to explore the relationships between trust and unethical negotiation.

## 2. Review of the literature

Tilley (2010) noted that ethics is philosophical and cultural complex, and comes down to the choices between alternatives that are made by individuals or groups. In general, trust is “a psychological state comprising the intention to accept vulnerability based on positive expectations of the intentions or behavior of another” (Rousseau, Sitkin, Burt, & Camerer, 1998, p. 395). Moorman (2000) defined that trust is as a belief or feeling which results from the party’s reliability. Ganesan (1994) described that trust is as credibility based on the necessary competences to perform the activity in a reliable and efficient manner between parties. While trust between parties, buyers and suppliers may make long-term relationships with a limited risk, and it is ease conflict resolutions, which allows partners a better adjustment to their needs (Dellech, 2012).

Preble and Reichel (1988) noted that there are two approaches, conceptual and empirical, to research on business ethics. Conceptual approach focuses on clarifying the meaning of business ethics, moral conduct and social responsibility, and empirical approach emphasizes on examining prevailing ethics, perceptions and attitudes of general public, business people, and university students (Preble & Reichel, 1988).

Negotiation is a kind of social interaction for reaching an agreement for two or more parties, with different objectives or interests that they think are important (Manning & Robertson, 2003; Fraser & Zarkada-Fraser, 2002). Cross-cultural negotiations are more complicated due to cultural factors, environments, languages, communication styles, ideologies, and customs (Hoffmann, 2001; Mintu-Wimsatt & Gassenheimer, 2000). When conducting international business strategic alliances, business negotiation and multilateral negotiations have become essential (Graham, Mintu, & Rodgers, 1994). Gulbro and Herbig (1999) indicated that in order to achieve successful agreements, negotiations are important in order to eliminate competing points of view between the representatives of both parties.

Gunia, Brett, Nandkeolyar, and Kamdar (2011) indicated that high trust negotiators believe that the other party will share information in good faith, but low trust negotiators are not sure what they will do. High trust in negotiations is based on the belief that counterparts will use shared information to identify benefits (Kimmel, Pruitt, Magenau, Konargolband, & Carnevale, 1980). In contrast, low trust negotiators are likely to fall back on behaviors in order to reduce their vulnerability (Kimmel et al., 1980). Williamson (1993) presented that trust can reduce transactions costs between negotiation parties, and each party can decide whether or not they view trust as a function associated with this decision on transactions costs (Seppänen, Blomqvist, & Sundqvist, 2007).

Lewicki (1983) reported that there were five categories of lying on negotiation including (1) misrepresentation of value to opponent; (2) bluffing; (3) falsification; (4) deception; and (5) misrepresentation to constituencies. Anton (1990) mentioned that four dimensions were unethical behaviors on negotiation, such as (1) misrepresentation of value to opponent; (2) bluffing; (3) deception; and (4) falsehood. Lewicki and Robinson (1998) pointed out that those behaviors like (1) traditional competitive bargaining; (2) bluffing; (3) misrepresentation to the opponent; (4) misrepresentation to constituencies; (5) misrepresentation to opponent’s network; and inappropriate information gathering were unethical. Robinson, Lewicki and Donahue (2000) proposed that inappropriate negotiation strategies included (1) traditional competitive bargaining; (2) attacking opponent’s network; (3) false promises; (4) misrepresentation; and (5) inappropriate information gathering.

## 3. Methodology

A quantitative and explanatory (correlational) study was conducted to assess the relationships between trust and unethical negotiation. A schematic model was developed by the researcher and shown in Figure 1. Research hypotheses were proposed the relationships between trust and unethical negotiation. These were based on the key gaps in the literature, the recommendations addressed in this study, and the theoretical framework that was used to guide this study. The research aims to provide answers to the following hypotheses:

Hypothesis 1: Trust has a negative relationship with traditional competitive bargaining.

Hypothesis 2: Trust has a negative relationship with false promises.

Hypothesis 3: Trust has a negative relationship with inappropriate information gathering.

### **3.1 Instrumentation**

A two-part questionnaire for the study was developed in order to measure the research variables. In the questionnaire, three of the items were designed to examine trust according to the theory of Klein in 2007 by means of a five-point Likert scale, and ranged from strongly agree (5) to strongly disagree (1). Three unethical dimensions are as dependent variables, three of the items designed for each, which was developed and defined by Robinson, Lewicki and Donahue in 2000 by means of a five-point Likert scale, and ranged from very appropriate (5) to not at all appropriate (1). The self-reported inappropriate negotiation strategies (SINS) scale by Robinson, Lewicki and Donahue in 2000 is as following (p. 655):

Traditional competitive bargaining:

1. Make an opening demand that is far greater than what you really hope to settle
2. Convey a false impression that you are in absolutely no hurry to come to a negotiated agreement, thereby trying to put time pressure on your opponent to concede quickly
3. Make an opening demand so high/low that it seriously undermines your opponent's confidence in his/her ability to negotiate a satisfactory settlement

False promises:

1. Promise that good things will happen to your opponent if he/she gives you what you want, even if you know that you can't (or won't) deliver these things when the other's cooperation is obtained
2. In return for concessions from your opponent now, offer to make future concessions which you know you will not follow through on
3. Guarantee that your constituency will uphold the settlement reached, although you know that they will likely violate the agreement later

Inappropriate information gathering:

1. Gain information about an opponent's negotiating position by paying you friends, associates, and contacts to get this information for you
2. Gain information about an opponent's negotiation position by cultivating his/her friendship through expensive gifts, entertaining or 'personal favors'
3. Gain information about an opponent's negotiating position by trying to recruit or hire one of your opponent's teammates (on the condition that the teammate bring confidential information with him/her)

These socio-demographic questions and the coding schemes used included: Gender: 1 = male; 2 = female. Age: 1 = under 25; 2 = 25–35; 3 = 36–45; and 4 = over 46. Education: 1 = high school diploma or equivalent; 2 = associate degree; 3 = bachelor degree; and 4 = graduate degree.

### **3.2 Population**

The survey was distributed to car dealers of used and brand-new automobile sectors including Honda, Toyota, BMW, Mercedes-Benz and Volkswagen in Taipei and new Taipei cities. When participants agreed to participate who were given a survey questionnaire on a clip board, and retrieved the questionnaire after finished.

### **3.3 Methods of data analysis**

Hair, Black, Babin, and Anderson (2010) indicated that structural equation modeling (SEM) has become a popular multivariate approach because it provides a means of assessing theories that is conceptually appealing. AMOS software (version 18.0), which includes an SEM package with maximum likelihood estimation, was used to test both the measurement and the structural models that related to the research hypotheses listed. The present research also made use of a number of criteria to determine the inclusion of items and the goodness of fit of the model. Hair et al. (2010) suggested a six-stage procedure for employing SEM, which the research also followed here.

## **4. Results**

There were 221 questionnaires collected, but 17 questionnaires were incomplete or invalid. All questionnaires were coded for statistical analysis using the SPSS 14.0.

From the 204 respondents, in total, 158 (77.5%) respondents were male and 46 (22.5%) were female. 48 (23.5%) of the respondents were under 30 years old, 102 (50%) were between 30 and 45, 54 (26.5%) were older than 46. In the study, 52 (25.5%) respondents had a high school diploma or equivalent, 90 (44.1%) held a bachelor's degree and 62 (30.4%) had a graduate degree.

The univariate normality of the skewness and kurtosis values and the multivariate normality were used to assess the normality. The most commonly used critical values of univariate normality are  $\pm 3$  and  $\pm 10$  (Kline, 1998). In the study, all the values of skewness were between  $-.079$  and  $.586$ , and the values of peakedness lay between  $-.808$  and  $.225$ . The observed variables all had univariate normal distributions. The value of Mardia statistic is for multinormality measurement, and it is constructed a test based on skewness and kurtosis. Bollen (1989) indicated that if the value of Mardia is smaller than  $p(p+2)$ ,  $p$  indicating the amount of observed variables, all dimensions are multinormality. In the study, the value of Mardia is  $20.082$ , smaller than  $14(14+2)$ , indicating multivariate normality distribution.

The validity of the construct was measured using the convergent and discriminant validity. The convergent validity was used to determine whether scale items converged on a single construct during measurement (Steenkamp & Van Trijp 1991). This was determined from the evaluation of the factor loadings (which must be at least 0.5), composite reliability (at least 0.6) and average extracted variance (at least 0.5) in the study (Hair et al. 2010; Fornell & Larcker 1981). In the structural models, all the factor loading estimates were higher than  $.58$ , the composite reliability (CR) values ranged from  $.75$  to  $.95$ , and the extracted average values of variance lay between  $.51$  and  $.85$ . This evidence supports the convergent validity of the measurement model, as shown in Tables 1.

The discriminant validity is the extent to which a construct is truly distinct and unique, and this measure captures phenomena that other measures do not (Hair et al. 2010). Bagozzi and Phillips (1982) stated that metrics support discriminant validity if the upper and lower limits of the computed confidence interval did not include the number 1. In the present research, a model was constructed for each of the 6 paired correlations of the latent variables. Then, the correlation was set between the two constructs to 1, and a 95 percent confidence interval was applied in order to apply a bootstrap. As the results, all values of paired correlations of the latent variables were from  $-.505$  to  $.499$ , the number 1 is not included with the upper and lower limits of the confidence interval, which indicates discriminant validity among the theoretical constructs.

The results of the SEM model shown in Figure 2 were obtained using AMOS 18.0, and the model fits are reported in Table 2. The overall model fit  $\chi^2$  was  $74.629$  with 51 degrees of freedom. The  $p$ -value associated with this result was  $.017$ . The  $p$ -value was significant using a type I error rate of  $.05$ ; thus, the  $\chi^2$  goodness-of-fit statistic does not indicate that the observed covariance matrix matches the estimated covariance matrix within the sampling variance.

The value of RMSEA, an absolute fit index, was  $.048$ . This value is smaller than the guideline value of  $.10$ , therefore, RMSEA supports the model fit. The value of GFI ( $.943$ ) was higher than the guideline value. RMR had a value  $.049$  was smaller than  $.05$ . SRMR ( $.102$ ) was higher than  $.05$ . The normed  $\chi^2$  was  $1.463$ . This measure is the chi-square value divided by the number of degrees of freedom. A number smaller than  $3.0$  is considered to be very good. Thus, the normed  $\chi^2$  suggests an acceptable fit for the structural model.

In the SEM model, the CFI had a value of  $.985$ , which exceeds the CFI guidelines for a model of this complexity and sample size. The other incremental fit indices (NFI =  $.954$ ) also exceeded the suggested cutoff values. All the incremental fit indices presented an acceptable fit. The parsimony index of AGFI had a value of  $.912$  and the PNFI was  $.737$ . Both indices were considered to represent a good model fit, given the acceptable critical value. The overall structural fit results of these analyses showed that the model provides a reasonable fit.

For hypothesis 1, the value of the standardized parameter estimates was  $-.299$ . The standard error was  $.060$ , and the  $t$ -value was significant ( $p = -3.183^{**}$ ). For hypothesis 2, the value of the standardized parameter estimates was  $-.177$ . The standard error was  $.080$ , and the  $t$ -value was significant ( $p = -2.330^*$ ). For hypothesis 3, the value of the standardized parameter estimates was  $-.370$ . The standard error was  $.081$ , and the  $t$ -value was significant ( $p = -4.958^{***}$ ).

## 5. Conclusion

There were totally 204 useful questionnaires in the study. Most of respondents are male, age between 30 and 45, and held a bachelor's degree. In the study, the observed variables all had univariate normal distributions, and the value of Mardia is 20.082, smaller than  $14(14+2)$ , indicating multivariate normality distribution. In the structural models, all the factor loading estimates, composite reliability (CR) values, and the extracted average values of variance were over the criteria. This evidence supports the convergent validity of the measurement model. As the results, all values of paired correlations of the latent variables were not included the number 1, which indicates discriminant validity among the theoretical constructs.

The results of the SEM model shown that the  $p$ -value associated with this result was .017. The  $p$ -value was significant using a type I error rate of .05; thus, the  $\chi^2$  goodness-of-fit statistic does not indicate that the observed covariance matrix matches the estimated covariance matrix within the sampling variance. According to previous research, a number of indices are available to evaluate model fits (Bentler, 1992; Fornell and Larcker, 1981; Jöreskog and Sörbom, 1992), but no single index or standard is generally agreed; hence, multiple criteria should be used to evaluate the overall fit of the theoretical model (Hair et al., 2010; Bagozzi and Yi, 1988).

The value of RMSEA is smaller than the guideline, therefore, RMSEA supports the model fit. The value of GFI (.943) was higher than the guideline value. RMR had a value .049 was smaller than .05. SRMR (.102) was higher than .05. The normed  $\chi^2$  was 1.463 which smaller than 3.0 is considered to be very good. Thus, the normed  $\chi^2$  suggests an acceptable fit for the structural model.

In the SEM model, the CFI had a value which exceeds the CFI guidelines for a model of this complexity. The other incremental fit indices also exceeded the suggested cutoff values. All the incremental fit indices presented an acceptable fit. Both indices of AGFI and PNFI were considered to represent a good model fit, given the acceptable critical value. The overall structural fit results of these analyses showed that the model provides a reasonable fit.

For the three hypotheses, all the values of the standardized parameter estimates were negative, and the  $t$ -values were significant. The results indicate that trust has a negative relationship with traditional competitive bargaining, false promises, and inappropriate information gathering, and three hypotheses are all supported. Anderson and Narus (1992) pointed out that trust is the fact of believing that one party will deploy actions able to be translated into positive results, and will not have negative effects to the results. For long-term relationship built, trust will be an important and significant factor for negotiation parties.

The findings were limited to automobile sectors. The study was constrained by financial resources and time; therefore, it adopted only a quantitative research method and employed a self-reporting questionnaire to conduct a survey. The study measured single factor affecting in unethical behaviors. Although the SEM provided a good fit to the hypothesized model, future research could use a different design to examine the causal relationships posited by the theories. Additionally, future studies could employ a qualitative method to add value to the current findings. To make the results more general, the sampling plan could be expanded to other industries.

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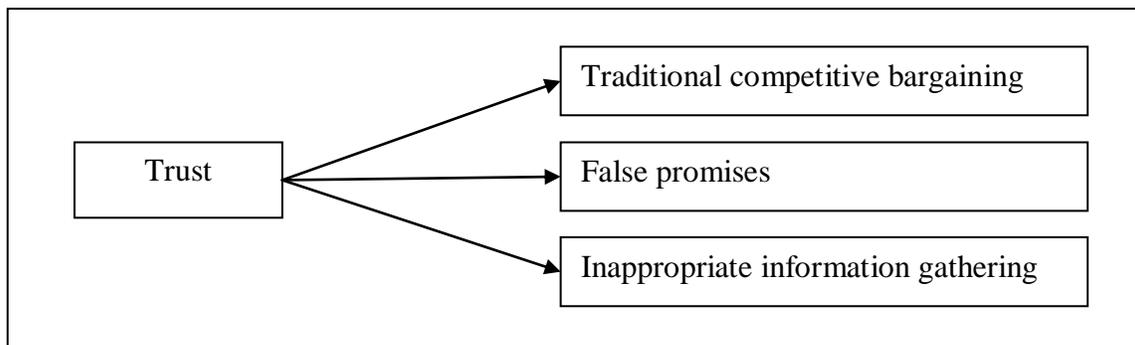


Figure 1. Schematic model depicting relationships between trust and unethical negotiation

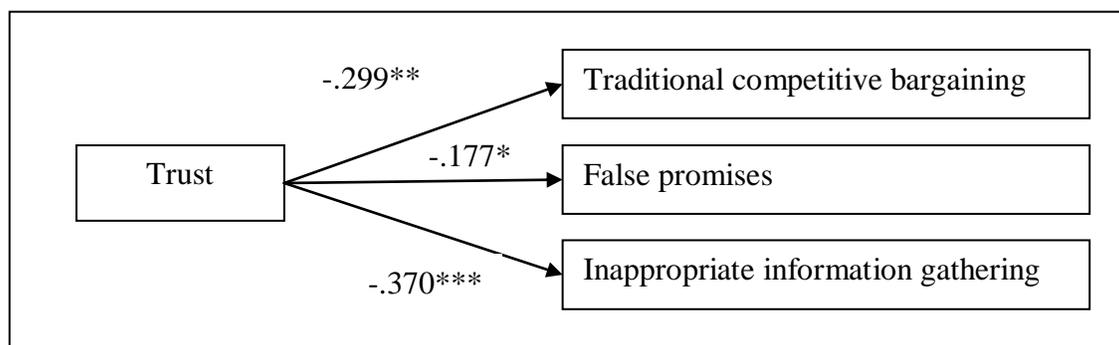


Figure 2. SEM Model

**Table 1: Standardized parameter estimates, composite reliability and average variance extracted values for the structural model**

Construct	Indicator	Standardized Parameter Estimates	CR	AVE
Trust	Trust 1	.85	.87	.72
	Trust 2	.86		
	Trust 3	.84		
Traditional competitive bargaining	T 1	.65	.75	.51
	T 2	.79		
	T 3	.69		
False promises	F 1	.91	.95	.85
	F 2	.95		
	F 3	.91		
Inappropriate information gathering	I 1	.92	.93	.80
	I 2	.87		
	I 3	.90		

**Table 2: Comparisons of goodness-of-fit indices of SEM models**

GOT Indices	Criterion Guidelines	SEM Results
Chi-square ( $\chi^2$ )		
Chi-square		74.629
Degree of freedom		51
Probability	$p > .05$ (Jöreskog & Sörbom, 1992)	<b>.017</b>
Absolute fit measures		
GFI	$> .80$ (MacCallum & Hong, 1997)	.943
RMSEA	$< .10$ (Steiger, 1990)	.048
RMR	$< .05$ (Wu, 2009)	.049
SRMR	$< .05$ (Jöreskog & Sörbom, 1992)	<b>.102</b>
Normed chi-square	$< 3$ (Hair et al., 2010)	1.463
Incremental fit measures		
NFI	$> .90$ (Bentler, 1992)	.954
CFI	$> .90$ (Gerbing & Anderson, 1992)	.985
Parsimony fit measurement		
AGFI	$> .80$ (MacCallum & Hong, 1997)	.912
PNFI	$> .50$ (Wu, 2009)	.737

**Table 3: Standardized parameter estimates for the structural model**

Hypotheses	Estimates	S. E.	t-value
H1	-.299	.060	-3.183**
H2	-.177	.080	-2.330*
H3	-.370	.081	-4.958***

\*  $p < .05$ . \*\*  $p < .01$ . \*\*\*  $p < .001$ .