Beyond Bathsheba: Managing Ethical Climates Through Pragmatic Ethics

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Abstract
This paper explores the puzzling nature of leader behavior in order to understand the conditions that encourage unethical decision-making. Building on the extant literature of pragmatic ethics, I explore how leaders can increase the quality of ethical decision-making within their organizations by understanding the incentives of rational choice. I have developed a rational choice-based ethical decision-making model to understand the incentives behind ethical leader behavior and find that ethical behavior is likely to be rational as long as audience costs remain higher than the savings benefits incurred by unethical behavior. I conclude with analysis of how the ethical rational model compares to other prominent theories that explain unethical leader behavior and propose that the probable outcomes derived from my model better explain bad leader behavior than competing control-oriented models. The results of this inquiry underscore the transactional and practical characteristics of leadership as a tool to help leaders manage their ethical climates, improve business practices and management policies, understand the nature of individual incentives, and capture transactional components of leader behavior.

Introduction
Ethical literature provides broad considerations for guiding individual and social interaction and enhancing the general welfare of society. However, despite the maturity of the scholarly ethical discipline, stories of leaders who exhibit unethical behavior are legion. Such leaders exhibit such poor behavior for seemingly no logical reason; as prominent business, government, and military leaders, they are all highly intelligent, well educated, economically well off, and professionally accepted at the highest levels. These leaders appear to have everything going for them, yet risk ethical misbehavior for relatively modest gains. This observation presents an interesting puzzle: why do seemingly advantaged leaders engage in poor ethical behavior when they already have such an advantage over others? Moreover, what can leaders do to avoid such behavior?

In answering this puzzle, several explanations come to mind. Theories involving issues of greed, competition, relative power differences at top echelons of responsibility, and mental illness could offer simple explanations for potentially complicated behavior. However, scholars offer other explanations that are more helpful but that remain altogether unsatisfying. Park, Westphal, and Stern (2011) find that flattering comments from subordinates to CEOs are causal in producing leader overconfidence and biased decision-making (Park, Westphal, & Stern, 2011). Park et al. find that high social status in leaders exposes them to increasing levels of flattering comments and behavior (p. 261) which
inflates a leader’s sense of effective personal judgment and decreases a leader’s ability to recognize poor performance or challenge ineffective strategies (p. 267). Park et al.’s research suggests that leader behavior evolves over time so that leaders expect unwavering conformity and fall victim to “believing their own press” where they lose the ability to identify personal and performance-oriented shortcomings (p. 259).

Other scholars offer a simpler explanation for unethical leader behavior related to competition and relative power differentials at top levels of leadership. Ludwig and Longenecker (1993) noted that “ethical violations by upper managers are the by-product of success, not of competitive pressures” which makes the aforementioned puzzle even more intriguing (Ludwig & Longenecker, 1993, p. 265). According to the authors, ethical misbehavior evolves as leaders become complacent, gain access to privileged information, increase access to critical resources, and gain the ability to manipulate more favorable outcomes (p. 265). In short, this theory provides an ego-centric approach to understanding bad leader behavior, in contrast to the success-oriented theory proposed by Park et al., to explain unethical leader behavior as involving more than the need to cut corners in an increasingly competitive environment.

In the spirit of pragmatic ethics, I am proposing a more parsimonious explanation for leader behavior. As scholars note, pragmatic ethics is about the process of decision-making such that “good ethical choices emerge through the use of inquiry” (Johnson, 2015), as well as “giving primacy to habits” which “carry the past into the present” (LaFollette, 2013, p. 402). In understanding pragmatic ethics, a strategic choice model will add to ethical leadership literature and provide a unique explanation for how ethical considerations positively or negatively influence expected leader behavior. The results of this inquiry underscore the transactional and practical characteristics of leadership as a tool to help leaders manage their ethical climates, improve business practices and management policies, understand the nature of individual incentives, and capture transactional components of leader behavior.

This paper employs a deep-dive approach to understanding pragmatic ethics to uncover how pragmatic ethical processes give primacy to more strategic ethical decision-making. Furthermore, I employ the expectations of pragmatic ethics as utility variables that impact the strategic nature of ethical decision-making and present a rational choice model to uncover the conditions that incentivize ethical leader choices.

**Pragmatic Ethics**

Pragmatic ethics can positively influence strategic decision-making to underscore the fundamental and continuing Deweyan notion that pragmatic ethics remain process-centric, scientifically compatible, logical, and habit-driven (Johnson, 2015; LaFollette, 2013). Furthermore, the literature of pragmatic ethics sufficiently uncovers a relationship between ethical considerations and strategic choices that provide a nuanced understanding of the variables that inform leader choices in ethically-challenging environments.

Whitford (2002) challenges rational actor theory and its assumed “paradigmatic privilege” by challenging the “portfolio” assumption that beliefs and desires are sufficient inputs for strategic utility models (Whitford, 2002, p. 327). However, Whitford’s theory takes an overly continuous view of pragmatism where “ends” of one choice become the “means” of the
next choice. In countering Whitford’s argument, a strategic choice model would reduce the level of analysis from the systematic to the individual level and take a Bayesian approach to understanding changes in decision-making over time. In pragmatic terms, lessons learned through early leader choices impact the habits of leader choices in later decisions (LaFollette, 2013).

Using a business-oriented model, Woiceshyn (2011) examines ethical decision-making through the premise that “unethical decisions harm the decision makers themselves as well as others, whereas ethical decision makers have the opposite effect” (Woiceshyn, 2011, p. 311). The author presents a theory of rational egoism where “reasoning (conscious processing) and intuition (subconscious processing) interact through forming, recalling, and applying moral principles necessary for long-term success in business” (p. 312). Woiceshyn also considers previous studies that found “managers employ the same process when making decisions involving ethics as they do for any long-term decisions affecting their companies” to imply that ethical choices can be more optimal than unethical ones, which supports my research interests in rational ethics (p. 312). Furthermore, Woiceshyn introduces causal factors for leader behavior to include audience costs and the probability of getting caught; this “moral intensity” according to Trevino and Youngblood, can be applied in a strategic choice model (p. 312).

In addressing LaFollette’s (2013) habit-forming aspects of pragmatic ethics, Caras and Sandu (2014) argue for the “epistemic and pragmatic need and academic functioning of a model embodied in ethical expertise” (Caras & Sandu, 2014, p. 142). For Caras and Sandu, ethical expertise involves “rigorous training in moral philosophy” as “an imperative condition for an ethics expert, precisely because his role is to provide professional counseling to professionals whose expertise does not involve ethics exclusively” (p. 143). Although Caras and Sandu fail to address the relative utility of expert counsel, they clarify the distinction between performative and pragmatic expertise, which makes a valuable connection between ethical counseling and utility.

Ali and Lin (2013) explore pragmatism in voter theory to identify when a rational person would “incur the cost of voting, even when it is improbable that any one of them is pivotal” (Ali & Lin, 2013, p. 73). This gives explanatory power to understanding the potential costs of ethical behavior given inherent inefficiencies in achieving outcomes in intensely competitive environments. Ali and Lin also offer a mathematical explanation for voter behavior and add support for the rational approach by identifying how audience costs and varying probabilities of being caught can impact the expected utility of leader choices. They also imply that increased transparency can influence the above factors and add further explanatory power to a strategic choice model to imply that ethical transparency might also motivate ethical decision-making for a rational actor.

Pihlström (2013) investigates religious pragmatism as “a middle path option for those who do not want to give up either their scientific worldview or their possible religious sensibilities” (Pihlström, 2013, p. 27). This concept avoids the scientific implications of my research into rational pragmatism by sidelining the strictness of empirical evidence toward a “richer conception of evidence as something that can be had, or may be lacking, in the 'laboratory of life'” (p. 28). However, the author does suggest that pragmatism informs the
context of both religious and non-religious groups to “recognize someone or some group as belonging to the same intellectual community of inquirers” (p. 34).

In a similar vein to Pihlström, Martela (2015) celebrates pragmatism as an alternative way to understand the “clash between positivists and constructivist research methodologies in organization studies” (Martela, 2015, p. 537). The positivist approach expresses the current understanding of indigenous leadership and “general theories about organizations and their members, which are reminiscent of the powerful universal laws found in natural sciences” (p. 538). Likewise, the constructivist approach assumes that reality can be “subjective constructions built from a variety of symbolic constructs” that lack the universality of positivism. Pragmatism, as a third way, might help organizational research to be “navigated in beneficial directions while avoiding both extremes” (p. 538). Martela argues that pragmatism can add “ethicality and practical relevance into organizational research” (p. 538) which supports a utility-based bargaining perspective where pragmatism might explain the bargaining space between competing political actors (Bapat & Kwon, 2015; Lake, 2010; Walter, 2009).

Farjoun, Ansell, and Boin (2015) draw upon organizational research to explore pragmatism as “the problem-solving philosophy that builds on a rich and behaviorally plausible model of human nature” (Farjoun, Ansell, & Boin, 2015, p. 1787). Interestingly, they also use pragmatism to challenge both rational and structural models in favor of “a richer and more realistic view of human behavior” to account for the individualistic, social, and complex nature of individuals (p. 1788). However, pragmatism can serve as a theoretical bridge that connects rationality to ethical considerations to support rational choice by providing “effective desires [that] furnish us with our working capabilities” (p. 1790).

Kelley and Nahser (2014) argue that pragmatic thought is a pedagogical tool that “prepares students to become responsible managers, to develop sustainable strategies, and to be creators of shared value” (Kelley & Nahser, 2014, p. 631). This concept not only supports the ethical value of the pragmatic ethical perspective as compared to utilitarianism, Kantianism, altruism, and justice models but lends potential to rational ethics (Johnson, 2015). They underscore the need to move beyond simple analysis to more integrated systems thinking to identify how strategic leaders can combine rationality and utility with improved ethical behavior (p. 636).

Baker and Schaltegger (2015) challenge common global responses to inequality and environmental concerns by contrasting the “commercial and industrial activity by various organizations aimed at meeting the financial demands,” against a “broader set of stakeholders including governments, NGOs and the media” endeavoring to hold the former accountable (p. 264). The authors not only tie together the rational influence that pragmatism can have on strategic models but also suggest how “wicked problems” challenge the creative and judgment-based abilities of decision-makers that can be proven neither right nor wrong (Conklin, 2001, p. 8-9).

Morgan (2014) observes pragmatism from a social research perspective to challenge pragmatism’s association with mixed-methods scientific research. Specifically, Morgan reinforces philosophical rather than qualitative characteristics of pragmatism “by moving beyond the narrow approaches that reduce pragmatism to practicality” (Morgan, 2014, p. 1045). Similarly, Ali and Lin’s (2013) explanation of the impact of audience costs on voting
behavior (p. 75) is underscored by Morgan’s pragmatic explanation for understanding actions and choices as “not just what researchers do but why they do things the ways they do” (Morgan, 2014, p. 1051). Although Morgan challenges some of the scientific assumptions of pragmatism, the potential for ethical considerations to inform choices remains valid.

The scholarly perspectives outlined in the literature of pragmatic ethics define a gap in the ethical literature that remains insufficiently covered in rational actor theory and reinforces the potential for pragmatic ethics to inform utility-based strategic decision-making. In the following section, I explore the potential for pragmatic ethical considerations to impact ethical choices following the Deweyan aspects of inquiry against the backdrop of a theoretical strategic choice model. In taking Johnson’s (2013) words to task, I use a rational choice model to borrow from the “same strategies as solving other dilemmas” in providing a unique, imaginative, and creative understanding of ethical behavior (p. 167).

A Theory of Rational Pragmatism

The literature of pragmatic ethics underscores the connection between ethical considerations and rational choices. To support the theoretical expectations of pragmatic ethics, a stylized strategic choice game can explain the impact of ethical considerations on a leader’s rational utility and can uncover how the utility of ethically superior choices compare to less ethical ones. Rational choice theory is based on the primary assumption that “a decision-maker chooses the best action according to her preferences, among all actions available to her” (Osborne, 2003, p. 4). Furthermore, the terms “utility” and “payoff” reflect only the decider’s preferences, regardless of “the nature of her likes and dislikes” (p. 4). In presenting a rational choice model, I expose the theoretical impact of multiple factors that influence a decision-maker’s overall payoff and expand on the benefits and costs that remain constant across competing choices. Additional factors in the model capture potential for savings benefits and audience costs to incentivize unethical leader behavior.

The game begins with a Leader’s (L) choice between two mutually exclusive decisions that compete between an ethical (E) and unethical choice (¬E) as described in Figure 1 below. The payoff for E is expressed as a function of benefits (B) minus costs (C) where the difference represents the overall payoff (B – C). Likewise, the payoff for ¬E considers the same B and C but also incorporates other factors that affect the overall utility of ¬E. For purposes of simplicity, this model only considers savings (S), defined as benefits that follow from unethical choices that include variations in B, reductions in C or other shortcuts so that the payoff of (B – C + S) > (B – C). Without the value of S, the two choices would be equal and L would have no incentive to ever play ¬E. However, leader behavior suggests that L often does play ¬E, implying that in some cases ¬E > E. For the purposes of understanding this model, it is assumed that B and C are identical for each choice, the goal of L is to maximize the value of the total payoff, and the choices are mutually exclusive and exhaustive. The model’s usefulness serves only to explain the impact of the ethical variable on a leader’s choice such that, ceteris paribus, all other factors are constant.
Adding to the complexity of the model are the ideas presented by Ali and Lin (2013) where the probability of being exposed for engaging in bad leader behavior adds to the utility of a rational choice. For ~E, there is a probability of getting caught (P) and not getting caught (1 – P), where the choices are exhaustive and where P + (1 – P) = 1.

Furthermore, the model captures the negative effect of getting caught in the form of audience costs (C*) so that \((B – C) > (B – C – C^*)\). Incorporating \(S\) and \(C^*\) into the model serves to ensure specific conditions that affect L’s utility; not getting caught playing ~E has higher utility than E such that \((B – C + S) > (B – C)\), while getting caught playing ~E has a lower utility than E such that \((B – C) > (B – C – C^*)\). For choice E, there are no negative ethical considerations and L neither worries about P nor \(C^*\), as both P and \(C^*\)=0.

In calculating the expected utility of both choices (E and ~E), L is expected to calculate the “utility for each possible outcome times the probability of that outcome’s occurring if a given action is chosen” (Morrow, 1994, p. 350). Under the assumptions of rational choice theory, expected utility (EU) drives the decision-maker’s preferences (Cohen & Cohen, 2008; Morrow, 1994; Osborne, 2003). If the EU of L’s choices are such that \(EU(E) > EU(~E)\), a rational L should choose E. If the conditions are such that \(EU(~E) > EU(E)\), then a rational L should choose to play ~E. The following summarizes the EU for both E and ~E:

\[
EU(E) = (P)(B – C) + (1 – P)(B – C) = (B – C)
\]
\[
EU(~E) = (P)(B – C – C^*) + (1 – P)(B – C + S)
\]

Therefore, to answer the research question proposed, ethical considerations can impact the overall payoff of a rational choice model so that L should choose to play E if it can be determined that \(EU(E) > EU(~E)\), given the guaranteed payoff of \((B – C)\) compared to the probability of getting caught and the risk of getting a payoff of \((B – C – C^*)\). In the interest of simplicity, solving the equation \((B – C) > (P)(B – C – C^*) + (1 – P)(B – C + S)\), reveals the potential for rational ethics to be true given that audience costs \((C^*)\) meet the following criteria:

\[
C^* > \frac{s(1 – P)}{P}
\]

This means that L is likely to choose the most ethical choice when audience costs \((C^*)\) outweigh the benefits of savings \((S)\) based on L’s probability of getting caught. Using variable probabilities of \(P\), and holding the value of \(S\) constant, the equation reveals the expected relationship between getting caught and leader behavior at the extremes. When...
P is 0, L should play ~E and when P is 1, L should play E. However, outside of a strict binomial distribution for P, the results are more dynamic.

Modeling alternative values for P such that 0 > P > 1, we find the value that C* becomes inversely proportional to P as $P \to 1$, meaning that the threshold for audience costs to encourage ethical behavior drops drastically as P increases to 1 and that $C^* > 0$ always remains true. However, when the probability of getting caught is low ($0 > P > 1/2$), $EU(E) > EU(\sim E)$ will only be true when $C^*$ is significantly higher than in cases where $P > 1/2$. The graph in Figure 2 illustrates that the relationship between increasing P and monotonically decreasing C* thresholds. When the probability of getting caught is below $P = 0.5$, audience costs thresholds must be significantly higher than when the probability of getting caught is high.

**Figure 2. The Effect of Increasing P on C* (S is constant)**

Furthermore, when P is uncertain ($P =1/2$), the threshold for $C^*$ to impact leader choices is already approaching $C^* > 0$. However, the model also indicates an expected relationship between $C^*$ and S such that L will only play E as long as $C^* > S$ when $P=1/2$. In Figure 3, when the value of S is increasing while P is held constant at low, medium, and high probabilities, we see that audience cost thresholds increase at varying rates. When the probability of getting caught is low (Low P), the threshold for $C^*$ increases linearly so that $C^* > S$ and $C^* > 0$ is true for all values of S. Thus, even when the probability of getting caught is low, the $C^*$ threshold creates conditions where $EU(E) > EU(\sim E)$ and L remains expected to play E. When the probability of getting caught is uncertain at $P=1/2$ (Mid P), the ratio of $C^*$ to S remains fixed at 1 to 1 so that $C^*$ is never greater than S. At this point, $EU(E)$ cannot surpass $EU(\sim E)$ and L remains incentivized to play $\sim E$. Lastly, when P is high (High P), the threshold for $C^*$ remains near but greater than 0 so that L remains incentivized to play E.
However, this solution becomes more complicated when considering the potential for $S$ to be increasingly high. In conditions where $P$ is uncertain and the value of $S \rightarrow \infty$, the assumption that audience costs remain greater than savings becomes problematic. In fact, negative publicity in a media-driven world could have a paradoxical effect on the value of audience costs so that decision makers are rewarded for unethical behavior. Some decision makers gain popularity following unethical choices, which serve to discount the value of $C^*$ in any realistic manner. This model does not explain cases of extreme savings or diminishing audience costs, which would require significant modifications for the utility of $E$ and $\sim E$ in such cases.

**Conclusion**

The purpose of this paper was to help leaders and managers understand pragmatic ethical considerations from a rational perspective, given the understanding that pragmatism provides a more process-oriented, scientifically compatible, and habit developing ethical construct than other more normative ethical considerations. Using this model as a tool, leaders should be able to limit unethical decision making by understanding rational incentives, anticipating potential bad behavior, and improving policies and practices where bad ethical choices occur. Despite lacking a “normative core” pragmatic ethics provides leaders with an opportunity to incorporate ethical behavior into increasingly uncertain environments (Johnson, 2015). That said, the normative disadvantage of pragmatism could potentially limit pragmatism’s use in real-world situations where leaders are known to fall short in demonstrating ethical behavior.

In contrast to other research that suggests leaders evolve into bad ethical decision making due to flattering comments and unrealistic expectations for success (Ludwig & Longenecker, 1993; Park et al., 2011), the question of how strategic choices influences rational leader behavior helps to better understand one aspect of negative human behavior. Does the nature of human behavior reveal that “cheaters never win,” or does
leader behavior actually suggest the darker reality that “nice guys finish last?” Through the extant literature of pragmatic and rational ethics, the expected value of rational choices can help understand leader ethical behavior.

By modeling the rational incentives that influence leader choices, the rational model uncovers how varying probabilities of getting caught, combined with audience costs and savings benefits, contribute to unethical leader behavior. Likewise, the model supports the idea that ethical behavior, especially in uncertain conditions, can remain rational as long as audience costs remaining sufficiently high. That said, the potential for the savings associated with unethical choices to become increasingly high makes the assumption that audience costs can keep up with savings to positively impact leader behavior problematic. At some point, audience costs could reach a maximum value while savings benefits continue to rise and this model does not claim to explain behavior at such extremes.

Lastly, the model provides an alternative explanation for unethical leader behavior at senior levels that goes beyond flattery and clarifies the findings of Ludwig and Longenecker. The model adds a practical dimension for enabling leaders to understand the role that personal incentives play in managing ethical climates from a transactional perspective. Instead of ascribing a leader’s bad behavior to an increasing belief in the ability to “manipulate outcomes,” my model’s transactional approach to suggest that a leader’s bad behavior follows largely from the expected probability of getting caught. Policies that favor transparency and increase the probability of exposing unethical choices can help leaders better leverage audience costs to encourage ethical behavior. Although the two explanations share similarities, Ludwig and Longenecker’s explanation relies upon an internal locus of control over outcomes, while the rational model suggests an external locus of control predicated on the stochastic nature of probability. By switching the causal variable from individual control to random probability, leaders might better understand that getting caught is less a function of skill and more of a function of inevitability over time.

References


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**About the Author**

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