

# Jaw-

## Business Ethics

You can lead a shark to water...

*by Richard B. McKenzie and Tibor R. Machan*

In the wake of every wave of corporate scandals — many apparently orchestrated by executives with MBAs from elite schools — pundits and academics alike have decried the detachment of modern business education from ethical considerations. Back in the “decade of greed,” in a 1989 “My Turn” column in *Newsweek*, Amitai Etzioni of George Washington University lamented that, during his visiting stint at the Harvard Business School, he had “not found a way to



help classes full of MBAs see that there is more to life than money, power, fame and self-interest." And in response to the more recent wave of corporate scandals, Provost Thomas Lindsay of the University of Dallas noted what he believed to be a source of the problem: "business school education is devoted overwhelmingly to technical training" and not to the development of students' "moral capacities." As a consequence, his university had established a "business degree program that marries technical courses with the liberal arts," in the process integrating "ethical exercises" throughout the students' business courses.

Others have hopped on the bandwagon. The Association to Advance Collegiate Schools of Business now requires its 432 member schools to make ethics a top priority. And the association is pondering the step of asking members to develop formal codes of ethical conduct for students, professors and administrators. In the view of some 120 professors from a number of business schools, this falls far short of what is needed. They recently signed a petition demanding that students be

required to take a stand-alone ethics course during their two-year MBA programs. And some business school students agree. In a survey conducted last year by the Aspen Institute, one-fifth of the MBA candidates from top schools said they were disappointed by the absence of ethics training in their MBA programs (*Browning*).

Their logic is straightforward, though hardly psychologically sophisticated: if executives have had ethical lapses (which few dispute), then teach budding executives the difference between right and wrong. We believe that such MBA-level instruction would surely do little harm. However, there are good reasons for believing it wouldn't do much good, either.

#### **DÉJÀ VU ALL OVER AGAIN?**

One reason not to expect much is that many of today's executives and managers were themselves exposed to ethics education in business school. Indeed, for more than two decades the Association to Advance Collegiate Schools of Business has required accredited undergraduate and MBA programs to



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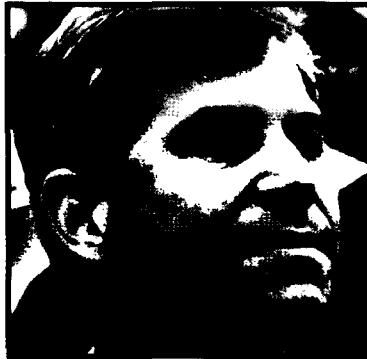
offer courses in business ethics or to integrate ethical considerations into existing ones. And while the ranks of corporate executives who have graduated from prestigious schools that met the requirement is impressive, some still managed to stray from the straight and narrow path.

Granted, some MBA programs might not be doing what they claim to be doing (an issue of ethics in itself). But is there any reason to believe that more of the same would work better? When schools are required to teach ethics even though they don't see the need, should we expect much more than window dressing?

### MAYBE IT'S TOO LATE

Proponents of additional ethics training for MBA candidates should understand that schools face an uphill battle in changing the behavior of their students, who typically have already had considerable experience in the business world. Granted, some may ace any ethics exam placed before them. But there is a big difference between scoring well and doing well when confronted by high-stakes ethical problems in the real world.

The material that MBA programs in the United States must shape is not always promising. The Josephson Institute of Ethics in Marina del Ray, Calif., surveyed more than 12,000 high school students in 2002 (*Joseph-*



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**RICHARD MCKENZIE** is professor of economics and management at the University of California (Irvine) Graduate School of Management. **TIBOR MACHAN** is professor of business ethics and Western civilization at the Argyros School of Business and Economics at Chapman University in Orange, Calif.

*son Institute*). Some 74 percent of them admitted to cheating at least once (compared with 61 percent in 1992), 38 percent had stolen something (up from 33 percent in 1992) and 92 percent had lied to a parent. Moreover, 43 percent of the respondents strongly agreed with the statement, "I would be willing to lie if it would help me get a good job."

Nevertheless, three-quarters of the students prided themselves on personal virtue, claiming, "when it comes to doing what is right, I am better than most people I know." A similarly large percentage said that their parents wanted them to do the right thing, and virtually all respondents agreed that it was important to them to be trusted by others.

This means that a substantial majority admitted to having cheated, stolen or lied in spite of recognizing the difference between right and wrong, and in spite of claiming to understand the value of personal integrity.

### ETHICS 101 OR CATECHISM 101?

While there may be any number of good ethics courses in MBA programs, no one should be deluded into believing that most – especially those taught only in response to a mandate – measure up. "Ethics" is one of those delightfully ambiguous words whose definition is perpetually in dispute.

For some, teaching "ethics" means nothing more than indoctrination in what is religiously or politically correct, while for others it amounts to laying down the law, however subjective. In his *Newsweek* column, Etzioni chastised his Harvard students for believing that advertising had a social value, never not-

ing counterarguments by such notable social philosophers as F.A. Hayek. Do we really want professors to be evangelists for their own ethical viewpoints? If not theirs, whose? Imagine the business ethics that would have been taught in all-white universities in the 1940s and 1950s.

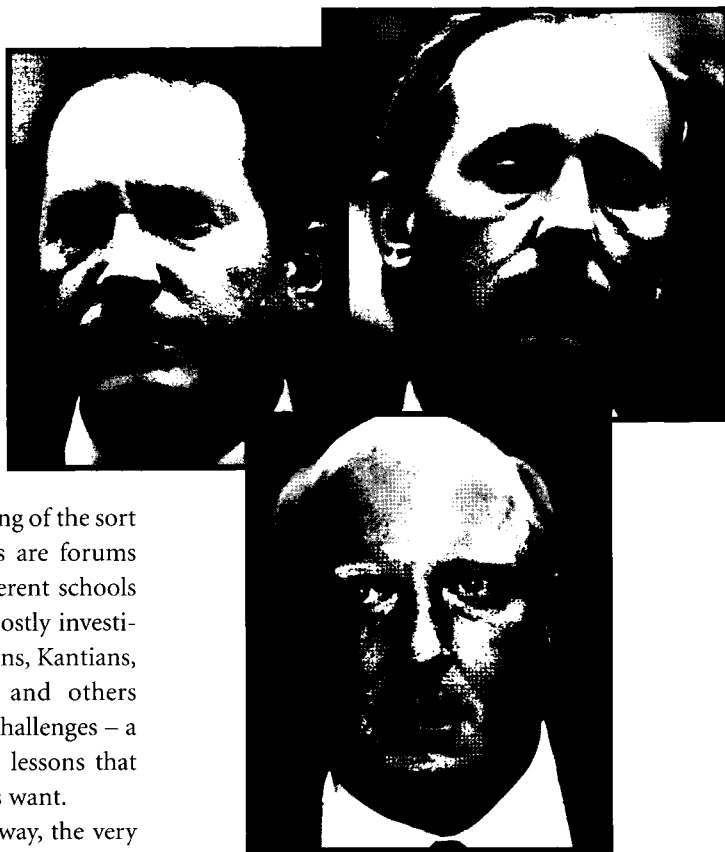
In fact, in the cautious world of higher education, nothing of the sort happens. At best, ethics courses are forums for a guided exploration of different schools of thought. So, typically, they mostly investigate what utilitarians, Aristotelians, Kantians, pragmatists, egoists, altruists and others would do in the face of ethical challenges – a far cry from the Sunday school lessons that critics of contemporary business want.

To put the problem another way, the very teaching of ethics creates an ethical dilemma. After all, most schools of higher learning say their goal is to promote inquiry, not to inculcate somebody's settled doctrine.

#### ETHICS TEACHING AS DIVERSION

Ethics courses come at a cost, not so much in dollars and cents but in terms of other courses that could have been taken instead. Moreover, these other courses – for example, accounting – might do more than ethics instruction to keep firms on the straight and narrow. An ethics class might explore how various schools of thought see the difference between right and wrong, but other business courses can improve their ability to detect dishonest behavior.

Sherron Watkins, the vice president at Enron who alerted the company's chairman to the company's apparent misdeeds, recently gave a talk at the business school of the Uni-



versity of California (Irvine). One student asked her how she discovered that her company was a financial house of cards. She didn't respond with praise for her ethics training. Rather, she explained how her accounting training had come into play, saying something to this effect: "I noticed in Enron's financial documents that one of the company's external partnerships had \$700 million of Enron assets on its books, all backed by Enron stock. I thought to myself, 'If these assets are good enough to be backed by the company's stock, why aren't they good enough to be on Enron's books, backed directly by the company?'"

Students who forgo an accounting course to take an ethics course could easily miss the distinction; something had to be wrong with the evaluation of those assets. Watkins quickly discovered that the partnership was an



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accounting sham, designed to get both failing and underperforming assets and the accompanying debt off the company's books.

### THE ETHICS OF ETHICS COURSES

Then there is the ethical question of whether business students should be required to spend money and time on an ethics course. This is significant, given the widely varying economic circumstances of MBA candidates. Some are pursuing degrees full time, while others must combine work with school. By the same token, business students are a mix with radically different experience levels and educational, religious and cultural backgrounds. In an era in which diversity is celebrated, instructing students on matters of right and wrong would seem to undercut the goal of respecting differences.

It is rather odd, in any case, that ethics teachers and texts tend to zero in on business as somehow especially prone to unethical behavior, even though unethical behavior can plague any profession – not least, university teaching.

### DOES ANYBODY REALLY LISTEN?

The proponents of ethics courses seem convinced that ethics courses make people behave more ethically. But research on the issue is inconclusive.

A 1988 study compared the moral judg-

ments of nearly 2,300 business managers and other professionals with those of some 200 college students who were taking a business ethics class at the time (*Wood, et al*). Respondents were asked to circle a number on a scale of one ("never acceptable") to seven ("always acceptable") for 16 ethical "vignettes." Here are two examples:

- An executive earning \$50,000 a year padded his expense account by about \$1,500 a year.

- Because of pressure from his brokerage firm, a stockbroker recommended a type of bond that he did not consider a good investment.

The researchers concluded that 8 to 10 percent of the business and professional respondents showed "no moral dimensions." They added: "Nothing legal, moral or interpersonal will stand in their way of pursuing their own interests to the limit.

Neither motives nor consequences mattered." About the same percentage of undergraduates in a business ethics class held much the same values.

This study also concluded that in seven of the 16 vignettes, the ethics students were more inclined than the business executives to engage in "questionable activity," while business people took the dubious prize in just one. For example, three-quarters of the business people said that expense account padding was "never acceptable," while only one-fourth of the ethics students marked "never acceptable." (In the remaining eight



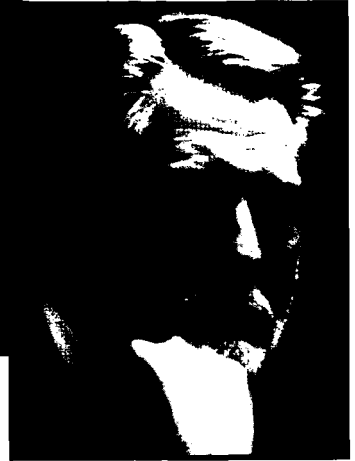
situations, there were no significant statistical differences between the two groups.)

It is unclear whether ethics courses affect outcomes. One study found a significant improvement for management students, but not for accounting students, on issues of “social responsibility” (*Arlow and Ulrich, 1980*).

Another study suspected that the measured improvement was spurious – a function of the students’ greater awareness after the ethics course of what the questioners wanted to hear (*Wynd and Mager*). To account for this potential “premeasurement bias,” they tested 345 students at the start of their ethics classes and then gave the test to a different set of 205 students at the end of their ethics courses.

These researchers asked students to indicate the extent of their approval or disapproval on a scale of one to five on 17 conditions – for example, “executives conspire to fix prices for electrical equipment” and “auditor overlooks bribe.” The study concluded that the ethics classes had “no significant impact on student attitudes toward ethical decision situations.” The researchers attributed the absence of impact to the fact that “basic values” are set early in life and are subject to change only by “significant emotional events.” A single course in ethics, they suggested, is “apparently not enough of an emotional event to change students’ attitudes.”

To be sure, research results in this field are sufficiently ambiguous to allow for a variety of conclusions. In a 1992 review of the major assessments of



the impact of ethics education, seven out

of 10 studies reported a positive impact, while only two studies showed no impact and the remaining study showed mixed results (*Glenn*). Over the course of four years, this researcher presented 460 undergraduate and MBA candidates taking courses in “business and society” with 53 ethics situations at the start and at the end of the course. These situations required the students to make what the researcher considered to be “ethical judgments.” An unstated number of other students, enrolled in other courses, served as a control group.

Students in the treatment group improved their ethical scores over their course work, but so did the students in the control group. In fully 75 percent of the situations, there was no statistically significant difference in improve-

ment between the two groups. This implies that in only a quarter of the situations did the treatment group improve more than the control.

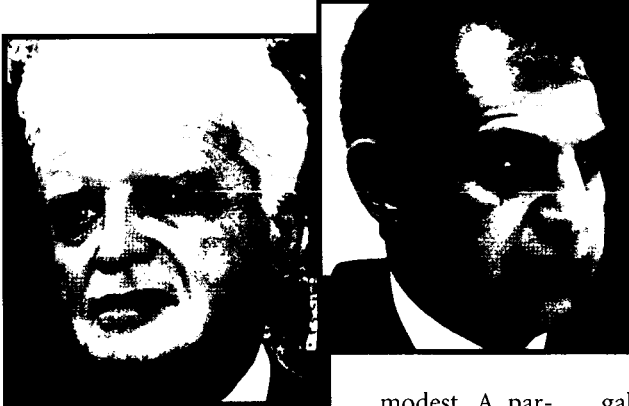
Another study of 261 students in a business and society course, which emphasized “ethical components of managerial decision-making,”





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showed a significant improvement in the “moral reasoning” between the start and end of the class (*Boyd*). However, the difference in outcome between the ethics students and a control group taking a course in operations research was very



modest. A parallel study of students in an organizational behavior course with some coverage of ethics by the same researcher actually showed a decline in test scores.

### YOU SAY POTAYTO, I SAY POTAHTO

Note, moreover, that the tests showing positive results have often been designed with the content of the course – not an independent framework of ethical behavior – in mind. Did a course improve the ethical judgments of the students on the many ethical matters not covered by the course?

We simply don't know.

What we do know is that the situations presented to the students on the surveys had Delphic ambiguity. For example, here are four of the situations in which the treatment group's improvement was greater than the control group's:

1. “Whatever is good business is good ethics.”
2. “Competition forces businessmen to resort to shady but necessary practices.”
3. “In a merger scenario, I would not use

inside information to make profit from rising stocks.”

4. “A separate ethics course should be included in my degree program.”

Now, Statement 1 is ambiguous because it depends on unspecified definitions of “good business” and “good ethics,” and the students in the control group may have suffered more from not knowing the researcher's definition of “good.” With regard to Statement 2, economists have long argued competition itself forces business people to shy away from “shady” practices.

Or consider Statement 3. Using insider information for personal gain is illegal. The students in the course may have conflated the fact of its illegality with the (debatable) idea that it is unethical. Statement 4 is an invitation to students completing the course to conclude that they didn't waste their time.

Note, too, that the research doesn't have much to say about the sticking power of learned ethical behavior. One set of researchers who reported positive findings on the impact of an ethics course among 120 students at the time they took the class tracked down the students four years later and retested them (*Arlow and Ulrich, 1985*). They found no difference between the ethical reasoning of those students and that of a control group never exposed to ethics training.

Most subjects learned in school require some maintenance – that is, time and resources in the review of key concepts. And students forced to take a course may see no personal gain from keeping up.

Indeed, the problem of getting people to act ethically (with or without training) is much like the problem of getting them to pay their taxes voluntarily: many people won't do it without some direct incentive. And even

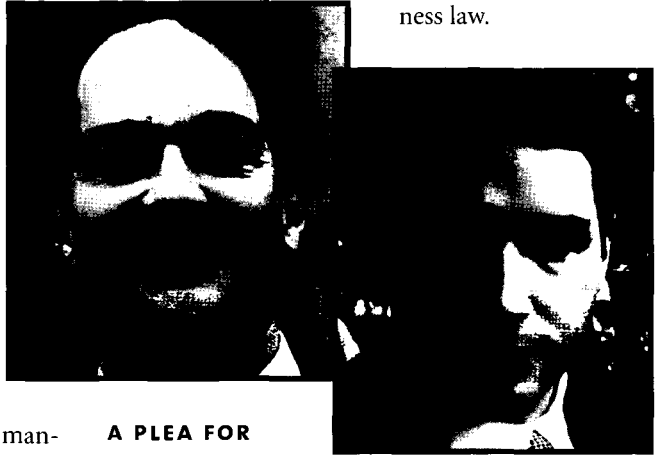
people who understand that ethical behavior is good for the group may decide to take a free ride on the good behavior of others.

Furthermore, the field of business has a special problem with ethics. Government regulates many business activities with ethical objectives in mind. So professionals are not expected to do the right thing because they think it's right, but because they are legally required to do so.

Consider minimum wage laws, which pretty much remove from the sphere of business the concern about whether employees are being paid well enough. The same could be said for other labor issues such as discrimination. Indeed, all too often, ethics courses become mired in matters of what government rules are mandated, instead of focusing on what is the right way for people to conduct themselves.

Indeed, so many of the challenges presented to students in appraisal of their moral reasoning evaluate only their understanding of the law. For example, researchers at Stetson University wrote that they intended to measure business students' propensity to engage in illegal and unethical practices (*Duizand and McCann*). However, in constructing 11 scenarios for a before-and-after survey, they chose only matters that constituted illegal

acts, including several violations of the Internal Revenue Code and other violations of the country's tort, copyright, fraud, securities, immigration, bribery and antitrust laws. It's no wonder the business students outperformed the comparison group; they knew more about business law.



#### A PLEA FOR HUMILITY

You may be tempted to conclude that we oppose any and all training in business ethics. Not so. What we do oppose is the simplistic view that mandated ethics courses will improve business conduct.

Perhaps business schools can contribute more to the ethical maturation of leaders-to-be. Perhaps not. But woe unto those who believe there is a magic bullet for preventing the sorts of lapses in business ethics that have surfaced in the past few years. **M**

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# My Weekend Tax policy with and Nick and other willful Adam misunderstandings

by Leonard Burman and Joel Slemrod

*The following is an imaginary debate between partisans in the modern tax policy wars. The goal is to try to tease out economists' honest differences and maybe find some common ground. Although we've heard real people make every one of the arguments expressed here, our characters are fictional. — LB and JS*

I'm an economist and a tax expert, but you'll never see me on the CBS Evening News. For I am a two-handed economist ("on the one hand ... on the other hand ..."), the kind that Harry Truman hated and TV news show bookers avoid like SARS. I see two sides of almost every policy issue. In short, I am not constituted to enlighten in 30 seconds or less.

But I'm the exception; one-handed economists abound. I (naturally) have mixed feelings about these folks. As an economist and a teacher, I am always thrilled to see economics explained to the innocent. Yet, those insights seem to take the true believers places even Captain Kirk has never been before.

Thus, it is odd that I ended up spending a January weekend alone