MORAL EDUCATION

The Education of Business Leaders

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Since the Enron scandal broke, business schools, where future CEOs and corporate directors are trained, have been scrambling to figure out why they failed to protect capitalism, and how they may shore it up. Why they failed is a complex but revealing tale. I know a thing or two about it from personal experience: I taught ethics at the Harvard Business School (HBS) during the years that many of the current corporate officers were in training, from mid-1987 until mid-1989.

The failings of HBS deserve attention because it is the school to which many others look when they shape and reshape their curricula and practices, and it is far from atypical, as examining other business schools reveals. In 1987, HBS had next to no courses that taught ethics. Ethics requirements are minimal at most business schools. A 1988 survey of MBA schools found that only one-third had even one separate, required class in ethics. If, in the wake of Enron et al., business schools suddenly decided to beef up significantly their course offerings in ethics, someone would have to train scores, or perhaps hundreds, of professors; those who are prepared to teach business ethics are few and far between.

In 1987, John S. R. Shad, chairman of the Securities and Exchange Commission, granted HBS $20 million to support the teaching of ethics. The business school charged an associate dean with the delicate task of convincing the faculty to introduce a major ethics program. He spent nearly a year meeting with small groups of professors, trying to win them over to the program. He found it a tough sell.

Then, on April 21, 1989, the proposed ethics program was put to a vote by the whole faculty. The faculty's reactions ranged from cold to hostile. One economist argued, "We are here to teach science." Another faculty member wanted to know, "Whose ethics, what values, are we going to teach?" A third pointed out that the students were adults who got their ethics education at home and at church. It was decided to return the program to the drawing board.

In the deliberations that followed, the faculty debated whether ethics would be an elective or a requirement for all students and, above all, whether it would be taught separately or be integrated into all classes. Many on the faculty did not want to make ethics a requirement, but they especially objected to integrating it into their curricula. A leading member of the marketing department suggested that if the latter course were followed, his department would have to close because much of what they were teaching constituted a form of dissembling: putting small products into large boxes, putting hot colors on packages because they are known to make people buy impulsively, and so on.

The prospect of integrating ethics posed a similar problem for finance. In those days, students learned how to make a killing by breaking implicit contracts. Say, for instance, that you acquire controlling shares in a company like Delta, where workers had always worked hard and posed fewer demands than in other airlines because it was understood that they were promised lifelong employment. This arrangement, however, was never written down or formally agreed to by the management. The finance course explained that once you take over as the new management, you should announce that you are not bound by any such informal commitment. Your stock jumps (because your labor costs seem lower, absent commitments to employ workers during a downturn), you sell the company, and you move on. (To be precise, most classes at HBS are arranged as open discussions of case studies. Hence, theoretically, the faculty does not advance any prepackaged conclusions. In effect, though, professors are expected to lead their class discussion to the desired conclusion, and typically do.)

In the following years, the school decided to relegate the teaching of ethics to a separate class, to get it out of the way early in the year, and not to integrate it into all classes (the widely preferred way of teaching ethics). Students take a "mini" course on ethics upon arrival, and that is that. (Stanford Business School, until recently, prescribed a similar program—"like going to church on Sunday," said one student.)

The George Washington University's School of Business and Public Management has one course dedicated to ethics—an elective on moral reasoning. Moral reasoning is the art of clarifying what one's values are, but does not help to develop higher moral standards. Stanford describes its class on ethics in the following terms that speak for themselves:

> The three principal objectives of this course are to consider an important set of ethics systems, increase the precision with which students think about, discuss and practice ethics, and provide opportunities to apply ethics systems to business problems. The approach taken to ethics is based on moral principles of teamwork and to give students practice diagnosing team problems and taking action to improve team performance.

That is, the course's goal is to clarify moral thinking, to make it "precise"—but not transmit or promote any specific values. Many schools do less.

The Dominance of Economics

More subtle, but at least as damaging to teaching ethics, is the dominance of economists in business schools. Although business schools often offer a handful of classes on human relations and courses with titles such as "Law and Society," the faculty, conscious of the unspoken pecking order that exists among all sciences, considers economics the queen bee of social science. Other disciplines are secondary. Students are keenly aware that economics is what matters. Courses in economics and related fields, such as finance and accounting, are the core of their business education; the rest are considered by most to be merely add-on requirements.

Economists bristle at the suggestion that their field makes people less ethical than they would be otherwise. And there is no evidence that economists are personally less ethical than members of other disciplines. Moreover, economists argue that economics' assumption that people seek to maximize their self-interest or pleasure—and, in the case of corporations, profit—is simply the way of the world; "We did not make human nature." Taking this into account makes it possible to have an efficient, rational economy that maximizes the goods we all seek. However, approaching the world through the dollar sign makes people more cynical, although this is hardly economists' intention. This fact has been documented by an oft-cited experiment, which provides the kind of data economists say they respect.

Sociologists Gary Marwell and Ruth E. Ames conducted an experiment to test the standard economics teaching that people will (and ought to—that is, "it is rational to") "free ride." In other words, in a group in which it is impossible to tell what contribution each person has made, and rewards (say, pay raises) will be given to all members of the group, a rational person will work as little as possible. A game was arranged in which 12 groups were given a chance to free ride. The members of 11 of the groups refrained. The obvious question was, how did the 12th group differ? Its members were graduate students in economics. They learned their lesson well; too well one might say. They behaved like the "rational actors" they assume people to be.

In my own HBS classes, students mightily resisted my argument that executives can and ought to take into account ethical considerations when making decisions. (My lectures were later published in a book called *The Moral Dimension: Toward a New Economics*.) The students held, as they were taught, that if one company is 100 percent efficient and pays no mind to ethical considerations, and another company does, the first will drive the second out of business. Ethics, they told me repeatedly, is something a corporation simply cannot afford—unless being moral is good public relations and buys the corporation "goodwill," and thus has a value that can be calculated and demonstrated. I tried to sway them, and may have won over a few, but most left my class about as hard-nosed as their other classes, dominated by economists, had made them.

Ethics and Social Causes

When I asked a 1990 graduate of Stanford Business School, now the CEO of a bank, if his school taught ethics, he first simply said, "No." On second thought, he added that it had a course on the social environment ("or something like that"), but in this course, students learned how to cope if they faced a challenge on ethical grounds from environmentalists or a community objecting to the closure of a plant. Clearly, this is not what an ethics course should be. Many business schools have such classes. These classes address how to "manage" so-called stakeholders other than shareholders—with the focus being on profit and shareholder "values" (the price of their stocks), not on social-moral values.

Over recent years, many business schools have added courses on the social responsibilities of corporations. These new courses do promote values other than maximization of investors' and managers' income and wealth. One of these courses might favor concern for the environment, not in order to get the Sierra Club off your back, but out of the moral obligations we have to future generations. These courses engage social values, and usually liberal ones, such as concern for the well-being of minorities, workers, and people in the Third World. They do not address traditional values, such as personal integrity, veracity, and loyalty. This raises the interesting question: might we, some day soon, discover an environmentally friendly corporation whose managers cook the books, or a not-for-profit corporation whose CEO gets interest-free loans or uses company assets for personal aggrandizement? Whatever the merits or faults of such classes, most students do not even take them in the first place. They gain little moral education of any sort in business schools.

Open-Ended Morality

In private conversations, many a faculty member will point out, with some justification, that while it is relatively clear what economics dictates and even what the law dictates, what is "ethical" is far from obvious. Many, however, go much further and argue that what is ethical to one person is not to another; there are no objective ways to prove the merit of our moral standards. This is the business school variety of a popular philosophical position known as relativism.

The problems that result from relativism were driven home to me during a "crisis" that erupted during my time at HBS. A professor had his class read a case study about Braniff, an airline that was headed toward bankruptcy. After a customer heard that Braniff was in financial trouble, he called the head of the company and said that he wanted to purchase a bundle of tickets but wondered if the company would still be up and flying a few months later. The head of Braniff, the story goes, responded that he was not sure.

The students argued that the CEO should have lied, that he endangered the shareholders' equity by being candid, and that he represented the shareholders, not the customers. The professor teaching the class was at a loss as to how to respond and asked the associate dean in charge of ethics development how to proceed. Unsure himself, the associate dean made some phone calls to other professors. When he discovered how divided opinions were, he arranged for a faculty meeting.

Those present made numerous arguments to justify lying. One was that in many social situations, lying is common and expected. Business was said to be like poker: if you play, you know that bluffing will take place. Others advocated a "market" approach to truth-telling: people who are found to be lying will lose customers while those who are trustworthy will gain them. To the extent that this does not occur, it shows that customers do not appreciate truth-telling enough to meet its costs to them.

Others employed utilitarian arguments and a calculus of harm. Based on this calculus, it was argued that by telling the truth, the CEO could have caused the already troubled airline to collapse, causing harm to the shareholders, employees, and creditors; therefore, the CEO should have lied, even if this harmed some customers. Only two members of the seminar insisted that the CEO should not lie because in principle truth-telling is superior to lying, which is one of those self-evident truths that speaks to us directly in an unmistakable voice. (There are some exceptions to this, such as so-called "white lies." For instance, when cancer patients ask if all hope is lost, we have reason to wonder if they really want to hear the answer. But these exceptions do not a rule make.) The professor returned to his classes, as many others did, with a reinforced sense that teaching ethics was a tricky business and that he should not take a firm position in favor of one value or another. It all depends.

Unlike the purely economic approach that dominated discussions, arguments based on a calculus of harm do, in effect, address the question, “What’s right?” However, in such a calculus, moral assumptions are hidden in the relative weight given to each party. For instance, if harm to shareholders is considered something that a CEO should place greater weight on than harm to employees, the results of the calculus will reflect this normative assumption. If, in contrast, one assumes that employees are of higher moral standing, different results will ensue. If one assumes that all parties should be given equal weight, this seemingly objective tool will yield still different conclusions. The calculus of harm, then, is just a way to avoid making straightforward moral judgments by using an “objective” procedure, helping the faculty to avoid basic moral injunctions such as “don’t lie.”

It is tempting simply to point to the recent scandals to show the net effect of ethics not being taught properly in typical business schools. But this would be unfair. Many other factors combine to form the character of a business executive. Among these is the total social environment—the Reagan eighties were more supportive of a business free-for-all than the liberal sixties. Peer pressure and internal corporate culture also play key roles.

A study conducted by the Aspen Institute found that business school education not only fails to improve the moral character of the students—it weakens whatever they brought with them to business school. Entering students showed some interest in creating quality products and being helpful to consumers; by the time they got their diplomas, the main thing on their minds was how to increase the share prices of the company they were about to serve. The study encompassed nearly 2,000 MBAs who graduated in 2001 from the top 13 business schools, including those at Carnegie Mellon, Columbia, the University of Pennsylvania, and Northwestern. The study examined student attitudes upon entering, at the end of one year, and upon graduating. Those who held that maximizing shareholder values was one of the primary responsibilities of a corporation increased from 68 percent upon entrance to 82 percent by the end of the first year. While this attitude fell back a bit upon graduation, it was still more widely held than when students entered the school, before they took any classes. The percentage of those who held that a primary responsibility of a corporation is to "comply with all laws and regulations" did increase during schooling—all the way to 24 percent. Other concerns, such as the environment, equal opportunity employment, and privacy, fared less well. Asked what they would do if their own values and those their corporation was pursuing came into conflict, students said that they were most likely to move on. Over the course of graduate school, students became less willing to get together with like-minded others to try to straighten out the course of the corporation or otherwise act on behalf of what they considered right.

In another study, which focused on the students of business schools at state universities, nearly two-thirds (63 percent) of the students admitted to having stolen something from their employers. (Typically business schools expect their students to have had some work experience.) Of these, a majority (61 percent) said "no" when asked if they felt guilty about their acts. Students were asked, suppose they could make (for themselves or their company) over $100,000 if they acted illegally, and there was only a 1 percent chance that they would be caught and sent to a minimum-security prison—would they do it? Thirty-five percent responded "yes." One student remarked, "People who commit white collar crimes spend a few months in a 'prison country club' and come out set for life. If no one gets hurt [as a result of the illegal act], why not go for the gusto!" In another study, 71 percent of surveyed business students believed that their own intuition was adequate for rendering moral decisions.

What Is to Be Done?

Some of what is needed clearly follows from the preceding analysis: ethics education should move from its supplemental, separate status into all parts of the curriculum; it should be required of all students rather than merely being an elective; more faculty capable of and committed to teaching business ethics must be trained and recruited; and economists are best put down a peg or two and the humanities raised up. Ethics should not be treated as a way to cope with or circumvent challenges by outsiders (such as the consumer protection movement or advocates of the poor) but as something a decent human being heeds, what Orit Gadiesh, the chair of the consulting firm Bain & Company, calls their "true north," and others call an inner, nonnegotiable core. Imparting concern for fashionable social causes is fine, but this should not come at the cost of failing to promote personal values and moral character.

As mentioned before, the concern that ethical issues are often complicated and controversial and that it is often unclear what values should be taught is a reasonable one. However, there are some basic moral principles that are not complicated and can be taught without great controversy. The type of behavior at the heart of recent scandals—cooking the books, deceiving employees and costing them their savings, issuing audit results verifying the legitimacy of bogus financial statements—is roundly condemned. Business schools should teach that these actions and others like them are unacceptable even if it is possible to get away with them. This would not require agreement on other values or more complex issues.

Congress could haul the deans of the leading business schools before a hearing to tell the public what they have been doing—and what they plan to do differently now—for ethics education. The resulting public scrutiny might prompt them (and other members of faculties) to serve as better role models than they now are. At the least it would get them off the boards of companies such as Enron, where some deans of business schools found themselves during the recent scandals.

The accrediting body of business schools can also play a significant role. Schools that are not accredited or lose their accreditation are clearly disadvantaged in the marketplace of getting students and placing them once they graduate. Currently, the ethics requirements set by the Association to Advance Collegiate Schools of Business are vague at best. Ethical concerns are included under the broader topic of the need for "an understanding of perspectives that form the context for business." Coverage of this topic is expected to include "ethical and global issues" as well as political, social, legal, regulatory, environmental, and technological issues. Read between the lines: this framework suggests, you must learn to negotiate a minefield of social demands; one of the many is ethics. Instead, the requirement should be straightforward: no MBA student should graduate without having taken at least one full-term course in a class aimed at heightening students' ethical standards, and ethics education should be incorporated into all classes.

Ethics education will not guarantee that we will never face another slew of business scandals or unethical directors and CEOs. It will only make scandals less likely, and business a better place. Education is often expected to make future generations—and through them society—better off than we now are. It is less frequently noted that education reflects the social environment in which it takes place. Hence, given that there is now a great concern with business ethics, we are likely to see (and are already witnessing) numerous new attempts to strengthen ethics education in business schools. Not a moment too soon.