The Other 338: Why a Majority of Our Schools of Business Administration Do Not Offer a Course in Business Ethics

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ABSTRACT. A recent survey indicated that the majority of schools of business administration do not offer courses in business ethics and/or the social responsibilities of business firms. The author examines the reasons for the omission of these courses, and concludes that faculty in the major disciplines and techniques of management do not recognize the complexity of ethical problems or the importance of ethical decisions in the overall management of large business organizations.

W. Michael Hoffman and Jennifer Mills Moore of the Center for Business Ethics at Bentley College reported in the May 1982 issue of the *Journal of Business Ethics* on the results of a survey[1] they conducted on the teaching of ethics at schools of business administration. 1200 colleges and universities were contacted, including approximately 700 who were members of the A.A.C.S.B. (the American Association of Collegiate Schools of Business, an accrediting institution). 655 responded, and 317 of these affirmed that a course on business ethics, or on the social responsibilities of business firms, was being offered. Hoffman and Moore quite properly noted that the terms 'business ethics' and 'social responsibilities' have different meanings to different people, so that the academic administrators who often filled out the reply forms might not have fully understood the questions relative to the type of course that was being surveyed, or may not have been fully informed about the content or even the existence of some of the courses on their campuses. Given these concerns, however, it can be accepted that approximately 40% of the 655 institutions who responded do provide some formal instruction on the need for managerial decisions in business to be morally right and just and proper as well as being financial profitable. 388 schools said that they did not offer such instruction as part of their approved curriculum. My concern is with this other 338. Why do close to 60% of the colleges and universities that replied to a scholarly inquiry on the teaching of ethics in business not offer courses, either elective or required, on the ethical problems of management?

The situation may be worse than a quick reading of the survey data would indicate. The normal assumption in survey research is that the individuals or institutions who do not respond may be represented by those who do, provided no inherent bias is found in either group by follow-up interviews, telephone calls, etc. Hoffman and Moore do not report on these interviews and calls, which would have been difficult in any case due to the continual possibility of misunderstanding terms by the administrative personnel at the colleges and universities, and expensive because of the geographic dispersal of the institutions. However, it would seem very likely that administrators at a college or university

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with a formal class on business ethics or social responsibilities described in the course catalogue and listed in the time schedule would find it both easy and pleasant to respond affirmatively, while those lacking such a course would tend to pass the inquiry to others, to delay, or to ignore the request. Seen in this light, only 317 of the 1200 colleges and universities with a program in business administration offer instruction, either elective or required, in ethics. That is 26.4%, a low number indeed.

I teach at a school of business administration that is accredited by the A.A.C.S.B. so that I expect we received a questionnaire from the Center for Business Ethics. I am normally asked to respond to inquiries relative to the ethical content of our curriculum, but I have no record nor recollection of this survey, so that I assume that we were among the non-respondents. We do not offer a course on business ethics, and a proposal for such a course was rejected eight years ago by the Curriculum Committee. I believe that a proposal for an elective course in this area would be rejected today. Let me report on the results of conversations and discussions I have had with other faculty concerning this rejection over the past eight years. This is not research; it is speculation, but it is speculation on a critically important area of business management and management training. There appear to be three major reasons for the rejection of a course on business ethics at this and other universities:

1. There is a lack of understanding about the nature of ethics in management

Ethical issues – they are seldom termed 'dilemmas' by people who reject the need for a course on business ethics – are seen as dichotomous, with a 'yes' choice and a 'no' choice, and with very explicit financial benefits and social costs associated with each of the two alternatives. Should we dispose of this toxic waste in leaking 55 gallon drums, or not? Should we make this blatantly untrue statement in our advertising, or not? Should we pay a $1,000 bribe to this purchasing agent, or not? These acts are prima facie wrong and, unless we can discover some unusual circumstances inevitably associated with each, such as the employment of large numbers of displaced workers or the development of an exceedingly effective anti-cancer drug, we must reject them quickly. However, these simple contrasts have no resemblance to what most of us have in mind when we think of ethical problems in business.

The ethical problem in business is the conflict, or at the least the possibility of that conflict, between the economic performance of an organization, measured by revenues, costs and profits, and the social performance of that organization, stated in terms of obligations to other persons both within the organization and within the society. The nature of these obligations is, of course, open to interpretation, but most people would agree that they include requirements to prevent environmental deterioration, to maintain competitive markets, and to produce useful and safe products and services. The problem is that these obligations are costly, both for organizations evaluated by financial standards and for managers subject to financial controls. The chemical company that discharges hazardous wastes into a waterway will be more profitable than an equivalent firm that invests in proper disposal equipment. The sales manager who pays a small bribe to a purchasing agent will have a better record, and receive higher commissions, than another person who refuses to countenance illegal payments. The design engineer who agrees to sharply reduce material costs will be more appreciated, and more likely to be promoted, than another who emphasizes product quality and consumer safety. There is, or should be, a balance between economic performance and social responsibility. The purpose of a course on business ethics is firstly to examine that balance, identifying the components in the decision, and then to develop logical means of reasoning that will help in determining the proper or 'right' balance among those components.

Determination of the proper balance between economic performance and social responsibility for an organization is not a simple choice between dichotomous alternatives, each with a clearly identified outcome and each with a known probability of occurrence. Instead, there are multiple alternatives, each representing mixed benefits and harms, each having an uncertain chance of occurrence, and each with personal as well as organizational implications.

I know that this more complex view of the ethical problem in business is certainly familiar to the habitual readers of the *Journal of Business Ethics*, but let me give a very brief example for any non-habitual readers who, hopefully, are beginning to recognize the importance of a formal study of the ethical content in business management. The exhaust from a diesel engine contains approximately 900 chemical compounds.[2] Most, though not all of these compounds have been identified, but few, except for the rare overlaps with the compounds in the exhaust gases from a gasoline engine, have been studied. I think that it is safe to assume that some of the chemical compounds in the diesel exhaust are harmful, to human health or to air quality. I think that it is also safe to assume that in total the exhaust from a diesel engine is less harmful than that from a gasoline motor due to the lack of the lead compounds (lead is still added, though in much smaller amounts, to 'lead free' gasoline) and to the lower levels of the nitrous oxides. Let us assume that one compound is found to be very deleterious to roadside vegetation. What are the managers of that company to do?

The managers of the diesel manufacturing company have a number of choices that interrelate economic, social, environmental and human factors, and that have very mixed benefits and damages, very uncertain probabilities of occurrence and very definite career implications attached to each of the alternatives. If they close down to production of diesel engines, they will harm their own employees, suppliers, dealers, customers and owners, and they probably will cause even greater deterioration in the air quality as gasoline engines replace the diesels. If they develop, at considerable cost, a catalytic converter to reduce or eliminate the harmful compounds, they may find that their prices are higher, and that consequently they are less able to compete within the market. They might consider absorbing the costs, as a contribution to national welfare, but the reduced profits would doubtless cause increased resistance in labor wage negotiotins, and the burden would be shifted from society generally to the workers specifically. They might approach the federal government, and allow a regulatory agency to establish industry-wide standards so that all producers would have to compete with the same cost and price structure. Assuming that it is possible to establish a new standard on air quality – most political realists, I think, will admit that government regulations seem to be the result of a compromise between interest groups more than the outcome of a decision based upon scientific logic – there still remains the question of what should be done about the international market. 40% of the diesel engines manufactured in the United States are sold abroad, or are installed in domestic equipment that is then sold abroad. If national standards are extended internationally for U.S. producers, they probably will be unable to compete, with all of the consequences of that inability reflecting upon the economies of scale and the costs of production for the domestic market. If national standards are not extended internationally for U.S. producers, there is an implicit statement made about the worth of foreign environments and the health of foreign peoples in comparison to those in the United States. Ethical issues are complex.

People who view ethical issues as simple dichotomous choices between known alternatives believe that personal moral standards are adequate for the decision. That is why we hear so often that, "You can't teach moral standards; by the time our students get to the senior class in college, or the 2nd year of a graduate M.B.A. program, their moral standards are set, by their parents, their church, their associations, etc." My response is that I do not want to teach moral standards; I want to teach a method of moral reasoning through complex ethical issues so that the students can apply the moral standards they have. Of course, I will not be displeased if, as a result of looking at complex ethical issues and the obvious group injustices and personal wrongs that derive from some managerial decisions, the students' moral sensitivities have been increased and their moral standards have been reinforced, but that will be a consequence and not the objective of the course in business ethics.

People who view ethical issues in business as simple dichotomous choices, and who consequently believe that personal moral standards are adequate for those choices, often express the basic moral question in management as "Shall we take the right action?" Others, who think that ethical issues in business are complex and extended decisions between multiple alternatives with mixed outcomes and uncertain probabilities, would state the same basic moral question of management as "What is the right action to take?". There is a world of difference between those two personal challenges, and the second requires instruction in moral reasoning to resolve.

This is somewhat in the nature of an aside, but it would appear that a misunderstanding over the nature of ethics in management was at the base of Prof. Drucker's recent attack on the teaching of business ethics as causistry[3]. Drucker argued that business ethics were "just another fad", and that courses on that topic were attempting to teach students a special set of ethics for people in managerial positions, and not a general set of ethics applicable to all individuals. I would respond somewhat less temperately than did Reverend Oliver Williams,[4] and explain that the intent of most courses in this area is not to develop a special set of standards, but to assist students to logically be able to apply their own standards.

2. There is an obvious reliance upon the concept of Pareto Optimality in economics

Economics has often been described as the basic discipline of business,[5] and many of the current business functions (finance, production and marketing) and techniques (financial accounting, managerial accounting and operations research) are increasingly based upon the microeconomic paradigm. It might seem difficult to relate the debits and credits of financial accounting to microeconomics, but information is viewed as an input factor of the firm, along with capital, labor and material, and is 'priced' in much the same way, through a factor market.

A central concept of economic theory is that the price relationships of the product markets (for consumer goods and services) and of the factor markets (for capital, labor, material and, currently, information) can be used to optimally satisfy consumer wants/needs *provided* the managers of the producing firms act to maximize profits. A firm is maximizing profits when it is producing the most wanted products with the most available resources, so that if all managers would follow a decision rule to profit maximize, the society could reach a state of equilibrium termed Pareto Optimality. At this equilibrium, as is well known, the scarce resources of society are being used so efficiently that no member of the society can be made better off without harming some other member. Economic theory recognizes the possible injustices in this utilitarian result, and a political process is added to the economic system to distribute the benefits and allocate the costs democratically.

Pareto Optimality, combined with a political system to ensure democratically-determined justice in the distribution of benefits and the allocation of costs, is a difficult paradigm to oppose. It forms the unstated basis of Milton Friedman's famous article 'The Social Responsibility of Business Is To Increase Its Profits',[6] and is an accepted tent of economic thought. Technical arguments – that it is difficult for a firm to compute the external costs of environmental pollution so that they may be added to the internal cost of the product, for example – and pragmatic objections – that many markets are not truly competitive, but are dominated by large corporations – are not viewed as major issues by most economists. The standard reply is that the external or social costs of production can be approximated, particularly with the data processing capability of modern computers, and that non-competitive markets can be made price competitive by public policy changes to reduce company size and eliminate entry barriers.

Theoretic arguments against the economic paradigm are much more effective than the technical or pragmatic objections, but they have not been widely publicized. The theoretic arguments are that there are assumptions in economic theory about both the nature of human beings and the worth of human beings that are simply not tenable.[7] On the nature of human beings, it is necessary in the economic model to accept that members of society are able to selfishly maximize their personal utilities for goods and services in the product markets and their personal receipts of wages, interest payments and rents in the factor markets at the same time as they are generously distributing social benefits and allocating social costs through democratic decisions in the political system. This complete reversal of roles that must occur instantaneously as the individual moves between the economic system and the political system does not seem wholly realistic.

The assumptions about the worth of human beings also appear to be undefensible. Everyone in the economic system must be treated as a means and not as an end in themselves. Customers for goods and services are people who maximize material satisfactions as a means of determining product demand curves. Owners of land, capital and labor are people who maximize financial revenues as a means of determining factor supply curves. Company managers are people who maximize corporate profits for the shareholders as a means of determining market supply and factor demand. No one acts as an independent human being, pursuing their own goals of self-development and self-actualization, and no one acts as a moral human being, treating others with consideration and respect.

The economic reliance upon the concept of Pareto Optimality may decline as the untenable assumptions become recognized, but at present this attitude or belief serves as a major barrier to instruction in the ethics of management at many schools of business administration.

3. There is an objection to management ethics on the grounds that the study is 'unscientific'

The last argument that I have heard expressed against courses in business ethics is that the topic is, by its nature, non-empirical and consequently non-scientific. The few people who make this argument are willing to admit that ethical decisions in business are complex, with multiple alternatives, mixed outcomes and uncertain probabilities, so that the personal moral standards of the students are often not adequate to resolve ethical dilemmas, and they are prepared to reject the comforting concept of Pareto Optimality in economics, but they are not ready to accept moral reasoning and ethical analysis as a full academic discipline. It is alleged that business decisions are, or should be, based upon objective thought processes, and that ethical analysis has to be subjective, and therefore has no place in the business curriculum. In prior years there was little that could be said against this view, except to admit that the 'two cultures' were alive and well, or at least that one of those cultures was fully represented at many schools of business administration.

Now, there is a more convincing response. Many of the recent writings on the overall direction or general management of large corporations have emphasized the need for an orientation toward values rather than towards profits. Both Pascale and Athos[8] and Peters and Waterman,[9] two of the books in this stream of literature that have appeared on the best selling list of the New York Times, have positioned 'shared values' as central to the management of successful firms, surrounded by the subordinate concepts of 'strategy', 'structure', 'systems', skills', 'staff' and 'style'. If shared values are important in management, and the objective evidence of Japanese industrial performance over the past ten years seems to indicate that they are, then it is necessary for business managers to be able to work with values, and determine not only what they are but what they should be. The determination of what values should be is the province of 'unscientific' and 'subjective' ethical analysis. I think that most of us will admit the shortcomings of our field of study; and confess that there is no scientific or objective means of determining what is right and just and proper and, for modern business organizations, what is likely to bring about the personal commitment of large numbers of people. The lack of a scientific basis does not make the topic unimportant. Employees at all levels want to be able to devote their efforts to a cause that is right and just and worthy, but someone has to decide upon that cause.

In summary, I am concerned that only 317 schools of business administration in a survey of 1200 colleges and universities conducted by Professors Hoffman and Moore were able to confirm that they offered coursework, either elective or required, in business ethics and/or social responsibility. As the results of a non-statistically valid survey of faculty at non-randomly selected schools of business administration, I would propose that there are three reasons for the omission of these courses. There is a lack of understanding about the complexity of the ethical decisions in business. There is a reliance upon the concept of Pareto Optimality in economics. There is an objection to managerial ethics on the grounds that the study is unscientific and subjective.

What can be done? I believe that persons active in the study of moral standards and social responsibilities for business organization have to explain the complexity of ethical decisions, the assumptions of economic theory, and the importance of shared values or our colleagues in other disciplines. This can be done by seminars and workshops at schools of business adminsitration, and through articles submitted to the professional journals in marketing, finance, organizational theory, etc. The essence of these seminars, workshops and articles would be "Here are important ethical problems that are not tractable to your usual forms of analysis; what should be done about them?" In the past, we have often spoken about the need to sensitize business students to the presence of ethical problems in management; I am suggesting the prior need to sensitize business faculty to the importance of those problems.

Notes

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[1] Michael Hoffman and Jennifer Mills Moore, 'Results of a Business Ethics Curriculum Survey Conducted by the Center of Business Ethics', *Journal of Business Ethics*, May 1982, p. 81.

[2] Henry Schacht, 'Responsibility at Cummins: A Commitment in Search of an Institutional Arrangement', unpublished talk delivered at the Spring Hill Center Conference on Corporate Responsibility, November 15th, 1977.

[3] Peter F. Drucker, 'What Is Business Ethics?', *The Public Interest*, Spring 1981, p. 18.

[4] Oliver F. Williams, 'Business Ethics: A Trojan Horse?', *California Management Review*, Summer 1982, pp. 14–24.

[5] See, for example, Robert A. Gordon and James E. Howell, *Higher Education for Business*, Columbia University Press, 1959, or Frank C. Pierson, *The Education of American Businessmen*, McGraw-Hill, 1959.

[6] Milton Friedman, 'The Social Responsibility of Business is to Increase Its Profits', *New York Times Magazine*, 13 September 1970, p. 32f.

[7] LaRue T. Hosmer, 'Managerial Ethics and Microeconomic Theory', working paper published by the Division of Business Research, Graduate School of Business Administration, The University of Michigan, October 1983.

[8] Ricard T. Pascale and Anthony G. Athos, *The Art of Japanese Management,* Simon and Schuster, 1981.

[9] Thomas J. Peters and Robert H. Waterman, *In Search of Excellence: Lessons from America's Best Run Companies*, Harper and Row, 1982.