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ETHICAL LEADERSHIP IN THE U.S.: HOW CAN BUSINESS SCHOOLS HELP TO BUILD AND MAINTAIN AN ATMOSPHERE OF TRUST IN BUSINESS LEADERSHIP?

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Corporate scandals have rocked the foundations of many corporations in America. Those affected directly and indirectly, as well as those who do not want to be the next front page headline. This paper looks at the fact that there is a problem. How did it get this way and what can be done to turn the situation around? Congress reacted with the Sarbanes-Oxley Act and additions to the Federal Sentencing Guidelines for Organizations. Corporations are developing codes of ethics and ethical training programs like never before to try to head off potential liabilities. Business schools that once felt ethics training should be left to Sunday School are now developing mandatory courses on ethics or are instilling ethical training throughout their entire curriculums. Are these methods going to be effective?

CHRONOLOGY OF A COLLAPSE

"On November 8, 2001, people were shocked when one of the hottest companies of the booming nineties, Enron, admitted to using accounting practices that had inflated its income figures by $ 586 million over a four-year period.[i] Less than a month later, Enron filed Chapter 11 bankruptcy, and early in 2002, the Justice Department launched a criminal investigation into the company's practices. Investigators wanted to determine how much executives knew about the company's status, as they told their employees to hold their shares of Enron stock, but sold more than $1 billion of their own.[ii] The company went belly-up, employees' retirement savings were all but wiped out, and millions of investors lost a total of more than $60 billion[iii]. Investors were stunned. And the questions came: How could something like this happen? Why did it happen? Who let it happen?

On March 27, 2002, Adelphia Communications announced it also had financial problems. Founder John Rigas, along with his sons Timothy, Michael, and James was accused of using company assets for collateral of loans totaling $3.1 billion to make personal purchases and finance family projects.[iv] On June 3, 2002, Adelphia was delisted from NASDAQ.[v]

Also, on June 3, 2002, Dennis Kozlowski, CEO of Tyco, was charged by the district attorney of Manhattan in New York City with evading $1 million in sales tax on artwork and other items he had purchased for himself with company funds.[vi]

As investigators looked into Kozlowski's actions, they alleged that he and two other Tyco executives had looted $600 million from their company.[vii] The worry about private, unethical practices in businesses was becoming a very practical concern.[viii]

Later that month, Time magazine declared it to be the "Summer of Mistrust," and reported, "Most Americans-72% in the Time/CNN poll-fear that they see not a few isolated cases but a pattern of deception by a large number of companies.[ix] And that was before word got out about WorldCom, who announced that an internal audit found improper accounting procedures. Their profits from 2000 to 2002 had been overstated by $7.1 billion.[x] And WorldCom said $3.8 billion in expenses had been improperly reported during five quarters. The consequences: Seventeen thousand workers lost their jobs, WorldCom restated its financial results (wiping out all profits during those quarters) and shares of its stock fell in value by 75%."

The question that I will be looking at is what can be done to stop the unethical practices that are being imputed on society where there seems to be no restraint within corporate governance to deal effectively with unethical practices before they become front page news.

First, I intend to look at the external controls that are intended to help solve the problem of the lack of integrity that may be found in corporate leadership. I will look at laws and regulations that have been developed and/or updated to address

this issue on a national level. Secondly, I will also look at whether or not business schools have contributed to the problem by teaching that profits and stockholders are really all that matter. That the leadership's responsibility is to stockholders and that the rest of the stakeholders are irrelevant.

So then, external controls are the rules, laws and regulations that attempt to control the behavior of individual's with consequences for violating the code. Fear of punishment assists in enabling an individual not to break the rules.

Internal control then, is really self-control. The individual has either internalized the rules so that they will automatically be less likely to break the rules. The other reason that an individual would not break the rules would be due to an internal belief system that tells the individual when that tells the individual when undoubtedly, people have multiple belief systems, but all people should agree that torturing an infant is wrong.

The first major approach to these questions I will be using is that of external controls. Can rules, policies and the enforcement of ethical codes of conduct be used effectively in curbing corporate crime and corruption? I will look at theories put forth in the professional literature and draw conclusions from those theories. Next I will look at the development of internal controls. Can ethics be taught or merely enforced? Which ethical systems of rules will be used to determine whose ethical system will be used?

THE ROLE OF ETHICS IN CORPORATE DECISION MAKING

Moral philosophy, or ethics, involves defining right and wrong. Ethical theories may be divided into three categories, metaethics, normative ethics, and applied ethics. Metaethics is the investigation of the origins of our ethical principles. Metaethics focuses on the issues of universal truths, the will of God, the role of reason in ethical judgments, and the meaning of ethical terms. Normative ethics, the more practical aspect, is used to define moral standards that determine right and wrong. Applied ethics examines specific controversial issues such as abortion, infanticide, animal rights, environmental concerns, nuclear war and capital punishment. Metaethics and normative ethics provide the practical tools to try to resolve the controversial issues of applied ethics. Distinctions

between these categories often dovetail together. The lines of demarcation are often blurry.

Metaphysics is the study of things that exist in the universe. Some things in the universe consist of matter; while other things are non-physical in nature, such as thoughts and spirits. The metaphysical aspect of Metaethics involves defining specifically whether moral values are eternal truths that exist in a spirit-like realm, or simply human conventions.

Lawrence Kohlberg essentially established moral development (ethical development) as a field.

The goal paradigm as described by (Scholl, 1981) is imbedded in most macro and micro level theory building in organizational behavior. Its major weakness is that it does not deal with power, when it does; it does so by attempting to distinguish between rational behavior (good and collectively used) and political behavior (bad and selfishly based).

Scholl's operative goal model suggests that organizational direction is set by a set of organizational goals (Scholl, (1981). Claimant demands on the organization's top decision-makers determine the goal set. The importance given to a goal is a function of the relative power of the claimant group. Claimant groups may consist of customers, shareholders, employees, vendors, etc.

Top decision-makers must deal with potentially hundreds of claimants in developing their goal set. Established goals are used in developing a goal structure throughout the hierarchy. All goals are tied to the organizational goal set. It follows then that the goal set provides direction, becomes the basis of evaluation, and activates the integrative mechanism for the organization.

The operative goal model is not an accurate account of descriptive model for organizational decision-making. It does not capture the true human nature of decision-making, although it is recognized that organizational direction is a function of the relative power of claimants in its environment. An extension of the operate goal model that brings us closer to an accurate descriptive model of organizational decision-making is the political model. Stakeholder influence may be found in all levels of the

organization. This brings the model into the category of true open systems model (Scholl, 1981).

The decision-maker is the basic unit of the model. Organizational decision-makers deal with general stakeholders or claimants such as:

- Decision-makers supervisors
- Subordinates
- Peers
- Direct relationships with Public-in-Contact
- Direct contact with Public-at-Large

The Decision-Makers Values and Personal Goals.

A decision-maker with high relative power over all the stakeholders in their environment the decision-maker acts autonomously, making decisions using their values and personal goals. Although autonomous decision-making may define what they feel the organization should do, not all autonomous decision-makers are self-serving (although the headlines would appear to acknowledge this is so in the corporate scandals of late).

Organizational structure and culture is what truly determines the way in which a demand is placed on a decision-maker by any stakeholders.

The perspectives Scholl outlines that decision-makers may evaluate a situation from are:

- Behavioral
- Legal
- Ethical

Scholl begs the question, "when we think of the so-called moral crisis aren't we really talking about following laws and accepted professional rules? " And "Why do we obey?"

I do not believe that is the only thing we are talking about, although it is a large part of the reason. In order to ascribe validity and value to any law or code of conduct, it must be assumed that there is a right or wrong or good and bad. The law of non-contradiction would argue that in order for a rule or law to determine right or wrong, then there must be a moral standard from which to derive the rule or law. Moral relativism would say that each individual can determine their own standards of right and wrong. But that is a

contradiction. Truth by its definition is exclusive. Logically, there can only be one standard of right and wrong or no standard of right and wrong.

How Does Decision-Making Effect Multiple Stakeholders

In cases such as Enron, it is crystal clear how a poor decision affects multiple stakeholders. Retirees and employees lost their pensions, people lost their jobs and homes, stockholders lost their money, customers and vendors suffered. No one associated with Enron was left untouched by the incredible hedonistic decisions of a few. How does one make a conscious decision regarding multiple stakeholders when a decision must be made?

Using the stakeholder/claimant approach used by Scholl in developing the political paradigm, decision makers base organizational decisions on the way in which these decisions impact claimants to the decision. (Scholl, 1981)
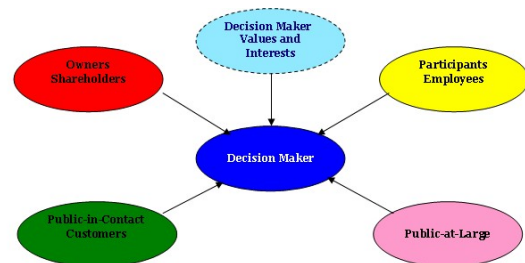
Basic Question: How do decision makers respond when the demands made by the various claimants are in conflict? The relative power of each claimant over the decision maker determines the degree to which the decision maker attempts to satisfy this demand. (Scholl, 1981)

Enter Moral, values and ethics. Values were added as an additional claimant. When none of the claimants hold significant power over the decision maker, he or she is free to make a decision based solely on his or her own interests and values (Autonomous decision maker). (Scholl, 1981)

New Question: Why do decision makers attempt to satisfy the interests of claimants with little to no power over them? This is the question answered by Jones' (1991) model. He argues that a variable called moral intensity determines the degree to which the interests (effects of the

decision) of non powerful claimants are considered. Moral Intensity has 6 components:

- Magnitude of consequences
- Social consensus
- Probability of effect
- Temporal immediacy
- Proximity
- Concentration of effect

Scholl would add another factor derived from the self concept model. This factor is the degree to which the decision maker's social identity is tied to the claimant in question (identification), or the degree to which the decision maker personally identifies with the claimant's interest. (Scholl, 1981)

External controls require more rules, regulations and laws. That requires more enforcement and higher taxes. People may obey out of fear, but they cannot internalize the reasons for these rules if no basis for keeping them is given. If they feel secure that no one is watching, the unethical practices will continue.

Internalization of the rules of fair play and how the decision-making process affects multitudes of stakeholders would limit the amount of legislation necessary in the world of business. Corporations that have the respect and trust of the public-at-large are more likely to have the higher profits and stock prices. Johnson and Johnson must be the quintessential example of a strong, ethical decision to pull Tylenol of shelves worldwide back in the nineteen seventies when bottles were laced with poison. It cost the company millions of dollars and it took time to recover, but the reputation, trust and respect it engendered more than made up for it.

We are still in the fallout of the scandals of recent years. Many of these cases are still in the courts and may not be resolved for years to come. The passage of the Sarbanes-Oxley Act and the FSGO guidelines have shown that we are heading in a direction of external controls. In the long run, control may help the integrity of executives who survived the firestorm.

Many corporations are developing and implementing codes of ethics and compliance programs. Ethics trainings are rampant in corporate America. The question beckons, is this a fad or will real long term changes occur?

Without the intrinsic controls of morality and self-discipline, we will head right back where we started from. But without intrinsic controls, are not training programs to enforce compliance with extrinsic controls nothing more than teaching the perpetrators how to get around the controls?

CAN ETHICS BE TAUGHT OR ARE THEY CAUGHT?

Lawrence Kohlberg, former professor at Harvard University, became famous for his work there. As a developmental psychologist he soon moved to the field of moral education. He became well-known for his theory of moral development which he popularized through research studies conducted at Harvard's Center for Moral Education. Dependent on the thinking of Swiss psychologist Jean Piaget and American philosopher John Dewey, he created his theory of moral development. James Mark Baldwin was also a source of inspiration for Kohlberg. Kohlberg demonstrated that people progressed through stages of moral reasoning (their basis for ethical behavior). He identified six stages of moral development that could be classified into three levels.

Level	Stage	Social Orientation
Pre-Conventional	1	Obedience and Punishment
	2	Individualism, Instrumentalism, Exchange
Conventional	3	"Good boy/Girl" Theory
	4	Law and Order
Post-Conventional	5	Social Contract
	6	Principled Conscience

The first level is generally found at the grade school level. At this level people behave according to socially acceptable norms because they are told to by an authority figure. At the second stage of this level right behavior means acting in your own best interest.

Conventional moral thinking is that which is generally found in society. Stage 3 of this level is characterized by an attitude of seeking to gain the

approval of others. Abiding by the laws and responding to the obligations of duty are the primary factors of the second stage.

Level 3 of moral thinking is one that is not reached by the majority of adults according to Kohlberg. In stage 5 there is a genuine interest in the welfare of others. Stage 6 which is the last stage was based on respect for universal principle and the demands of individual conscience.

According to Kohlberg, individuals could only pass through these stages one at a time. They could not by pass stages. They could only come to understand a moral rationale one stage above their own. Kohlberg believed it was important to present people with moral dilemmas for discussion which could help them to see the "reasonableness" of a "higher" stage morality and encourage their development in that direction. Kohlberg believed that moral development occurs through social interaction and that it could be promoted through formal education.

Emile Durkheim was the first French academic sociologist. In his work he tried to answer three main questions- sociological, methodological, and moral. He formulated several theories of social change and modernization. He also developed ways of examining social facts, divisions of labor, solidarity and the contemporary dichotomy between society and the individual.

Durkheim was focused on the social-structural determinants of man's social problems. In his opinion, there must be a system of sanctions and social regulation in society to secure balance between societal and individual needs. Durkheim believed that in times of rapid social change the balance is disturbed and that social regulations break down and individuals are left to their own devices. This state is called "anomie" and is caused by rapid movements in the social structure that upset previous networks and rules. Anomie is a state of relative normlessness in a society when individuals are left without any regulations and moral guidance.

Durkheim believed that organic solidarity was a way of protecting society from pathological developments of individualism. It is a means of establishing the required balance between society and individual needs and a kind of binding force. Individualization of solidarity was Durkheim's

answer to individual's demands and t the growth of individualism.

I concur with _____ that what you believe will determine how you behave. Learning begins at the feeling level. If a student has a strong negative feeling towards a teacher, they will never learn from that teacher. Whether it's a teacher or supervisor, credibility always precedes communication. The right to "teach" or "train" a student or employee has to be earned by the "teacher." The teacher must be perceived as authentic in order to earn trust and respect.

The reason Kohlberg does not see many individuals who he would define as having reached stage 6 is due to the fact that most moral educators: parents, teachers, preachers, are more concerned with raising "good kids" who stay within the external controls. The test of all extrinsic motivation is: does it trigger intrinsic motivation? If it does not, then it is not legitimate. The goal should not be to raise "good kids." The goal should be to raise good adults.

Responsibility needs to be developed with accountability. People need to be challenged. Moral relativism has removed the challenge by removing the responsibility. Everyone can be motivated, but it takes a lot of patience.

FOUR STAGES OF TRAINING

TELLING	SHOWING	CONTROLLED SITUATION	REAL LIFE SITUATION
HEAR	SEE	DO	DO

These elements need to be actively and authentically demonstrated both in the classroom as well as the workplace. As states previously, credibility always precedes communication. You cannot impart that which you do not possess.

Values are transmitted from one generation to another through families. As families spend less time together and are influenced more by outsiders, values transfer breaks down, according to Dr. Ned C. Hill, dean of Brigham Young University's Marriott School of Management. The process is exacerbated by the way business subjects are taught in business schools. By the time graduates find themselves in business careers, then as executives and managers, other pressures kick in, such as the pressure to generate profits. Then, when they have the opportunities to make or

not make decisions, they lack the values-based foundation to keep them from acting fraudulently or unethically, Steve Albrecht had a similar take on the argument. Fraud research suggests there are three elements common to all frauds; a perceived pressure, a perceived opportunity and some way to rationalize the fraud as acceptable and consistent with an individual manager's personal code of ethics. Without the integrity and ethics you are more likely to rationalize, says Albrecht.

CAN TRUST IN CORPORATIONS BE RESTORED?

According to a national survey by Barna Research Group conducted in July, 2002, people's reactions ran the gamut from hostility to indifference-but few Americans retain a high level of trust in the leading cultural influencers, such as corporate executives. It was interesting to see the results of the survey that people made a clear distinction between their views of the executives of large corporations and those who own small businesses. The latter group of individuals was given "complete" or "a lot of confidence" by 41% of the public-more than three times the level assigned to leaders of large businesses.

According to George Barna, whose firm conducted the survey, the primary way of gaining people's trust and confidence is by demonstrating strong character. Restoring lost trust is extremely difficult according to Barna and it is particularly challenging among America's oldest residents. One of the most astounding outcomes of the research is the lack of confidence in any cultural influencers maintained by people 55 or older. Only 1% of these elder citizens had "complete" or "a lot" of confidence in big business executives.

A majority of adults (55%) believed that greed or immorality motivated the difficulties. Just less and one-third (31%) stated that a lack of professionalism was to blame, either in the form of practical incompetence (13%), bad decision-making that did not have illegal or inappropriate motives (10%), or inferior internal communications (8%).

An ethics policy can improve accountability, strengthen morale and performance, and attract more qualified candidates, thus enforcing brand loyalty, enhancing brand equity and boosting the bottom line. Loss of trust (justified or not) has disastrous consequences. It takes 10 times the resources to acquire new customers as it does to hold on to existing ones. Even if a management team survives a reputation setback with corporate psyche intact, the financial consequences of expensive litigation, or fallout in brand loyalty, may deal the final blow.

Professor Thomas Donaldson, a legal studies professor at the Wharton School of Business at the University of Pennsylvania, says there are three compliance programs corporations can implement:

- Code and compliance regulating employee behavior
- Identity and values that speak what the company stands for, and
- Social outreach or "social accounting"

Ethics is an integral part of all relationships. Nothing cements a human relationship with a stronger bond that trust. What drives business? Human relationships?

Loss of trust has disastrous consequences. The perception of trust worthiness is critical to an organizations mission and goals. Therefore, it is important that in the hiring process the human resource philosophy must be to hire people whose personal values are in step with the organization's corporate values. When personal and corporate values align a relationship will be based on mutual trust.

According to Gary Irvin, CCE, CEO of FORUM Credit Union," Ethical conduct among our people is predisposed, to the extent possible, through the hiring process. It goes without saying that FORUM CU does not tolerate unethical conduct. But, we've found we've not had to assume a 'watchdog' posture regarding ethics as we try hard to find people who will fit well with our visions and values framework."

Bill George, in his book Authentic Leadership, says internal decision makers have no framework for decision making, which is the most frequent reason companies get themselves into trouble. Without clear purpose, it is next to impossible for stakeholders to know what a company stands for and where it is going. George states, "Let me be very clear about this: there is no conflict between serving all your stakeholders and providing excellent returns for shareholders. In the long

term it is impossible to have one without the other. However, serving all the stakeholder groups requires discipline, vision and committed leadership.

A code of ethics describes the general value system, ethical principles, and specific ethical rules embodied by an organization.

- Codes of Ethics are designed to raise expectations (aspirational provisions)
- Legitimize dialogue about ethical issues (communication provisions)
- Encourage ethical decision-making (judgment provisions)
- Prevent misconduct and provide a basis for enforcement (accountability and enforcement provisions)

(Source: "Code of Ethics Toolkit: A Guide to Developing Your Organization's Code of Ethics," ERC, 2001)

A survey conducted by the Society for Human Resource Management (SHRM) and the Ethics Resource Center (ERC) showed that senior executives' attitudes regarding misconduct by middle and senior management points out that there is a need for stronger ethics by senior executives, including compliance programs to set policy behavior. In judging ethical behavior, the survey indicated that executives tend to look at the extent and severity of misconduct. Some viewed behavior or actions commonly perceived as wrong to be wrong "only sometimes." Further eight out of 100 executives felt that tampering with company records was not always wrong, and two out of 100 thought it was not wrong at all.

Economic performance is the traditional bottom line focus. Corporate social responsibility expands to incorporate what is referred to as the triple bottom line-social, environmental and economic performance. Human Resources is the logical place to house corporate social responsibility initiatives, as human resources, with skills in people management, can cut across all departments to institute systematic change. Hand in hand with programs that impact company success and thus its profits, HR can support change in organizational ethical behavior and policies, with focus on stakeholder relations within corporate government. Ethical decisions made in private have their own pressure, because one may be tempted to believe that a private indiscretion will never become public knowledge. Public decisions involving other people carry a different kind of pressure- that of conformity. No matter how much pressure there is, you can't allow others to force you into an unethical decision.

The best way to produce long term results and create a growing, prosperous company is to serve all your stakeholders in the most ethical way possible. During the past decade serving stakeholders has become a non-essential issue to many executives. Corporate raiders have initiated their depredations. Many executives and boards of directors bought into the idea that generating profits for shareholders was management's only responsibility. This is just the type of economic scenario that is endorsed by economists such as Milton Friedman.

Only companies that serve their customers better than their competitors do will survive. Executives neglected their employees and customers by focusing only on the value of their stock. They abandoned their suppliers and turned their backs on their communities. Due to the implementation of the Federal Sentencing Guidelines for Organizations, many companies have implemented much stricter standards for ethical behavior. Many corporations are now emphasizing the creation of legal and ethical company cultures.

Most companies begin ethics training to comply with legal mandates and to gain liability protections. While that is a strong rationale, the training may also improve employee morale, recruitment and retention.

To be effective training must be mandatory for all employees. "All members of an organization should participate-from the board room to the shop floor. If leadership is exempt, it sends a clear message to employees that some people are exempt from the rules," states Patricia Harnerd of the ERC.

Ethics training should include a copy of the organization's code of ethics, a discussion of relevant compliance laws, an ethical decision-making model and resources for help and role-playing scenarios.

Employees should receive a copy of the code of ethics and should understand the underlying meaning. Strong ethics programs cover five

elements: responsibility, respect, fairness, honesty and compassion. The code of ethics for the company should define these elements and set the appropriate behavioral standard. Other "hot topics" that should be addressed are e-mail appropriateness, Internet use, confidentiality, security and harassment-physical, verbal and emotional, as well as workplace romance.

Employees must understand the laws that apply to their jobs. Managers who conduct applicant interviews need to know if any questions are illegal. Employees who receive vendor gifts must understand the legal limits-or the limits placed by employers- on the dollar value of any gifts.

Decision-making models present questions employees can ask themselves to help them make ethical decisions. For example,

- Is the action legal?
- Does it comply with our values?
- If you do it, will you feel bad?
- How would it look in the newspapers?
- If you know its wrong, don't do it.
- If you're not sure, ask. Keep asking until you get an answer.

According to the February 19, 2005, issue of "The Economist", it is not necessary to refute the claim that if business schools are responsible for moral turpitude at the top of corporate America. Most of the corporate leaders currently in the dock never went near one.

Many top business schools have taken steps to offset any ethically desensitizing influence there may have been in their MBA coursework."

The author asserts that Mr. Ghoshal and his supporters are right that top business schools strive for academic respectability and that this has led them to rely heavily on economic theory. The author also asserts that they are wrong to criticize this. As long as schools are teaching academic degrees, they have to teach the most compelling business theories around. "It may be a pity that these are mostly found in economics. But what is the fault of other disciplines for not coming up with ideas to rival, for example, agency theory or the maximization of shareholder value.

The real problem arises when students or their new employers believe that an MBA, is, somehow a qualification for business leadership. It is not, nor could any academic degree provide this. Law or medical degrees are necessary but not sufficient for the making of outstanding lawyers or doctors. In a similar way, a good MBA degree can help provide a student with analytical skills and theoretical knowledge useful to a business career. But becoming a successful leader of men and women in a turbulent business world requires maturity and wisdom.

PROTECTION FOR THE STAKEHOLDERS

Knowledge Is A Deadly Friend, When No One Sets The Rules.

Due to corporate scandals and surveys showing how little employees trust executives, many companies have started establishing codes of ethics governing the way they operate.[xi]

Ethics training gained momentum in the mid-1990s in response to the Federal Sentencing Guidelines for Organizations (FSGO) of 1991.

FSGO set minimum standards in order to lessen the penalties if an organization is found responsible for misconduct," says Patricia J. Harnerd, president of the Ethics Resource Center (ERC), a non-profit organization in Washington, D.C. FSGO is voluntary, although many companies comply. It requires the implementation of a code of conduct, ethics training, and high-level oversight, establishment of an ethical culture and periodic measurements of program effectiveness.

Ethics training was also boosted by passage of the Sarbanes-Oxley Act of 2002, which requires publicly traded companies to disclose whether they have adopted a code of ethics for senior officers.

Sarbanes-Oxley has rattled the accounting industry by calling for reforms in financial reporting, corporate governance and auditing. As a result, many people with ties to the field are heading back to school. PriceWaterhouseCoopers LLP will be conducting in-house training- for accounting professors. Although corporate training is not new, what is new is the material to be addressed and its pressing importance. The challenge to the accounting professor is to integrate the teaching of ethics and professionalism in accounting across the broad spectrum of courses so that students develop

abilities related to moral reasoning and ethical decision-making, and develop safeguards for preventing unethical behavior. Sarbanes-Oxley has brought to the forefront the importance of ethical behavior.

On November 1, 2004, a much stricter ethics training requirements was authorized in an amendment to the FSGO of 1991. The amendment outlines much stricter training requirements and emphasizes creating a legal and ethical culture committed to ethics and compliance.[xii]

The business community, the Republican administration, and most economists are troubled by the turn toward more regulation. There must be an encouragement in the business community of moral behavior is business regulations are to be minimized. One of the best ways to do this would be to develop associations and enforce moral codes in ways similar to the legal and medical professions. Also, to encourage business leaders to elevate integrity into their agenda, and to prevail upon business schools to expand the moral education of executives. It is a detriment to both business and society to allow those businesses that undermine the social acceptance of all business to continue in their abhorrent behaviors. The business community needs to maintain the legitimization of business by enhancing its ethical conduct and by either rehabilitating or isolating those members who continue to undermine the social acceptance of business.

Everywhere you go today the most screaming need is for leadership. You go to the universities, they teach you all the techniques, they teach you all the skills, but they never teach you how to develop your character. So who needs fresh evidence of what happened in our society, in Enron, and WorldCom, etc. etc. What's lacking? How can you get an individual who makes off with millions of dollars, dollars that the employees gave because he told them to buy the stock as they would have something for their retirement? And he lives in the plushest home you have ever seen in the city of Houston and the employees are dying in a pile.

A most fascinating study was done by two brilliant professors at Rice University, an intensive study of the Enron debacle. The problem was one of character. That's why leadership is lacking.

Finding people of character is like looking for the lost chord. Because people put money and prestige and whatever else they're after ahead of character.

According to General Norman Schwarzkopf, in a speech given at Rice University, the general commented that "leadership has two components, competence and character. Ninety-nine percent of the failure in leadership is because of a failure in character, rather than competence." Having character is the only way to sustain success. Confucius asserted, "To know what is right and not to do it is the worst cowardice." The bigger the decision, the more courage it may require.

John C. Maxwell in his book, There's No Such Thing as Business Ethics, states that "only a person of character can impact others. Character is the key to living a life of integrity and ethical excellence." He provides four guidelines for living a life of character that exhibits ethical excellence:

Character is more than talk: Many people talk about doing the right thing, but action is the true measure of character. Dennis Kozlowski, the CEO of Tyco, often touted the frugal way he conducted business and talked about the Spartan offices the company maintained. However, anyone who watched his actions closely could have seen that his talk and walk didn't line up.

Talent is a gift – Character is a Choice: There are a lot of things in life a person doesn't get to choose, such as where you are born, who your parents are, and how tall you are. But there are some critical things that every person does choose. We choose our faith, our attitude and our character.

Character Brings Lasting Success with People: Trust is essential when working with people. Character engenders trust.

People Cannot Rise Above the Limitations of Their Character: There really are only three kings of people. Those who don't succeed, those who achieve success temporarily, and those who become and remain successful.

Some of the scandals that took place early in this decade are currently being replayed in courtrooms from New York to Alabama. The trials are reminding the public how unethical was

the behavior of some of the nation's top managers only a few short years ago.

ETHICS: TO TEACH OR NOT TO TEACH THAT IS THE QUESTION

There is no such thing as business ethics, just ethics. John C. Maxwell

The finger of blame for much of this behavior is pointed at the MBA. Sumantra Ghoshal, a respected business academic who died last year, argued in a paper to be published shortly that the way MBA students are taught has "freed them from any sense of moral responsibility" for what they subsequently do in their business lives. This he believed (and other respected academics, such as Jeffrey Pfeffer of Stanford, are carrying his argument forward), is because management studies have been hi-jacked by the dismal science of economics.

In 1987, Harvard Business School had no courses that taught ethics. A 1988 survey of MBA schools showed that not even one third of the business schools even had one separate required class in ethics.

In 1987, former Securities and Exchange Commission Chairman John Shad pledged to fund most of a $30 million business leadership and ethics program at Harvard University.

So with the incoming class of Fall 1988 all students will be required to take a mandatory course in business ethics.

Mr. Ralph James, a director of development for the business school, said that over the past five years (1983-1988), there's been a commitment to making ethics a priority at the school. "I don't think the overall commitment by the school or the resources of the school to bring this commitment about would be as strong without Mr. Shad's gift."

Amitai Etzioni in his paper, The Education of Business Leaders, asserts that business school weakens whatever moral character the student already possesses. There is no question that a problem exists in business schools, the question is, is there a solution?

Etzioni argues that MBA students should be required to take a minimum of one ethics class, although he believes that ethics education should be incorporated into all classes. Problems exist with this proposition. In order to teach ethics, the teacher needs to be well versed in ethics and able to defend or reject arguments in order to teach ethics properly and effectively. Are we really talking about moral values? Ethics, per se, is a segment of philosophy.

According to Frederick G. Crane, business people are now being placed beneath politicians on the "esteem totem pole."

"Education is the most consistent and powerful correlate to the development of moral judgment." (Etzioni, p. 149 (1))

Students want to be ethical. Ethics is ethics and ethical decisions in business or otherwise must be utilized for the common good of all stakeholders.

"A major virtue of the prevailing neoclassical paradigm is that it states its core assumptions very clearly." Etzioni changes these assumptions by exploring the consequences of such a change. He makes three basic assumptions concerning what people are after, how they choose their ways, and who is doing the choosing.

The neoclassical assumption is that people seek to maximize one utility (whether it is pleasure, happiness, consumption, or merely a formal notion of a unitary goal), we assume that people pursue at least two irreducible "utilities," and have two sources of valuation: pleasure and morality.

> …the economy is a subsystem of a more encompassing society, polity, and culture. Therefore, it is assumed that the dynamics of the economy, including the extent to which it is competitive, cannot be studied without integrating social, political, and cultural factors into one's paradigm. Similarly, social collectivities aught to be viewed, not as aggregates of individuals, but as having structures of their own, structures that place individuals (and other subunits) not according to their individual attributes, but which deeply effect their dealings with one another. (Etzioni, Education of Business Leaders).

Trust is pivotal to the all relationships, including economic ones. Without trust business transactions could not take place. Could checks be written, would people feel safe to invest their money in anything from a simple savings account to the stock market Society could not function on a daily basis without a foundational element of trust at its core.

In The <u>Moral Dimension</u>, Etzioni states Tory social scientists have a simple answer. "Trust is a value with which youngers are inoculated by their "socialization agents" (parents, educators, peers).Those who violate the value are either re-educated to embrace it, or punished until they abide by it, and others are deterred from transgressing. Whigish economists see trust as arising out of previous transactions, based on rational calculations and efficient "rules of thumb."

According to Etzioni, "individuals are neither simply depositories of their society's values nor free agents." They struggle to form their individual course, both building on and finding off the values their society set, never free from them, yet never mere subjects.

While some individuals may be over-socialized, the point they loose their self-identity and self-control in the WE of a charismatic social movement, while some others under socialized, often deviant, criminal or insane-society requires a balance, and builds on properly socialized individuals. The neoclassical paradigm is hedonistic and self-centered.

The line of conflict is this paper is going to be discussing is between moral values and other sources of valuation.

The neoclassical paradigm does not merely ignore the moral dimension but actively opposes its inclusion. Etzioni holds that moral commitments deeply affect all behavior, economic included. (The Moral Dilemma).

The core of the neoclassical paradigm is that there is more to life than a quest to maximize one's satisfaction.

Marxists, psychologists, and neoclassical economists "make sense" only if you buy into their core assumptions and their particular modes of validation. Etzioni's hypothesis: rationality is not a self-sustaining attribute.

Wall Street puts a lot of pressure on companies with their quarterly profit forecasts. There is also a lot of greed which creates pressure. The laxness in corporate governance standards allowed frauds like WorldCom, Enron, and Tyco to happen. More recently, Fannie Mae and Freddie Mac go themselves into trouble by trying to beat Wall Street. Much of the problem is also senior executive bonuses based on the price of their company's stock.

It is very difficult to define moral behavior.

MORAL EDUCATION

"To educate a person in mind and not in morals is to educate a menace to society." Theodore Roosevelt.

Ethics requirements are minimal at most business schools and those who are prepared to teach business ethics are few and far between.

> In my own Harvard Business School classes, students mightily resisted any argument that executives can and ought to take into account ethical considerations when making decisions. 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 "good will," and this 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. (Etzioni, Moral Dilemma).

The business scandals described in this paper have not only brought significant harm, both directly and indirectly to millions of people, but have also demonstrated the importance of ethical behavior in business. Failure to recognize that business has a moral obligation to multiple stakeholders has greatly harmed the reputation of American business both at home and abroad. The behavior and decisions that brought down Enron, WorldCom, and Arthur Andersen is unacceptable. Neglect of business ethics in business schools has been tolerated too long. Unfortunately, there can be no doubt that the recent scandals and a disregard for ethics are connected. I do not feel that it is the responsibility of business schools to go all out in an overreaction to the bad press they have received in recent years. By the same token, they have an obligation to instill in students that there are multiple stakeholders in virtually every business decision and these factors need to be taken into consideration when making decisions that will impact many people with long term consequences.

Considering the above, did ethics have an impact on Arthur Anderson's bottom line? You bet it did.

Business schools have a responsibility to acquaint their students with the ethical challenges they will face in the business world. Beyond that, business schools must provide tools to their students to help them meet these challenges both legally and in a manner that reflects the highest standards of ethical business practices. A solid ethical foundation must be the basis upon which one's business career is built.

CONCLUSION

"Most people never think. They just merely rearrange their prejudices." Psychologist William James

Moral Values in the United States

More than three in four Americans, 77%, say moral values in the country are getting worse; only 16% say they are getting better. These results show no change since last year, but Americans were slightly more optimistic about the outlook for morality in 2002 and 2003. In polls conducted in those two years, one in four Americans said the state of moral values was getting better, while two-thirds said it was getting worse. [May 2-5, 2005; May 2-4, 2004; May 5-7, 2003; May 6-9, 2002] (Gallup.com)

G.K. Chesterton, the famous theologian, philosopher, and journalist once offered this bit of advice: "Whenever you remove any fence, always pause long enough to ask yourself the question, 'Why was it put there in the first place?'" We must be cautious in knocking down fences. Deeds and ideas that were once abhorrent to us we now celebrate. As Robert E. Fitch, philosopher of ethics puts it:

Ours is an age where ethics has become obsolete. It is superseded by science, deleted by psychology, dismissed as an emotive by philosophy. It is drowned in compassion, evaporates into aesthetics, and retreats before relativism. The usual moral distinctions between good and bad are simply drowned in a maudlin emotion in which we feel more sympathy for the murderer than for the murdered, for the adulterer than the betrayed, and in which we have actually begun to believe that the real guilty party, the one who somehow caused it all, is the victim and not the perpetrator of the crime. (Robert E. Fitch, The Obsolescence of Ethics," Christianity and Crisis: A Journal of Opinion 19 (16 November 1959):163-165).

As communism was a dismal failure in Russia, so is moral relativism in the United States. It is not the rapid changes in society that Durkheim associates with the cause of suicides, it is the utter hopelessness and lack of meaning that so many young people believing there is nothing to live for that drives them to acts of desperation. It is the belief that has become rampant in this country that "he who dies with the most toys wins," that causes executives to run amok and play roulette with the life savings of their employees and feel no remorse for the tragic results of their actions.

George Barna noted in his book, A Fish Out of Water, that recent surveys of several highly regarded national leaders, including President Bush, showed that the esteem of those leaders was largely founded on people's trust in their character and convictions. According to Barna, "Skills can be learned but character is a reflection of the heart that is formed from a person's early years and emerges as they age. As society becomes more complex and fast-paced, one of our coping mechanisms is to assign heightened degrees of authority and trust to our leaders. We are seeing increasing numbers of people recognizing that political solutions are short-term fixes for deeper problems and issues. Americans are searching for leaders whose character makes them trustworthy."

Barna's research also drove home the importance of a person's upbringing as the mirror to both their character and values. While Barna Research Group frequently conducts surveys that evaluate the spiritual condition of the nation, Barna indicated that there were surprisingly few differences between people of faith and other adults in relation to the recent moral crisis. "It is in times of crisis-whether it be terrorist attacks, financial abuses, sexual scandals or ludicrous judicial rulings-that a foundation of firmly held moral convictions rises to the surface and serves as a rallying point for millions of otherwise contentious or disconnected people. Sometimes it takes some pain and suffering to nudge people to an understanding of what they really believe and what truly matters in life."

Neither American business nor business schools exist in a vacuum. American business has made significant steps to develop codes of ethics and the training of its employees in those codes of ethics. Its efforts continue in these areas. However, those efforts are hindered if schools of businesses are not fully committed to the education of their students in the skills and knowledge associated with business ethics. The danger is that business schools pay lip service to business ethics. Surveys have indicated declining levels of honesty in students entering universities. They have also pointed to declining concern about social issues by those who come back out of the university pipeline at the MBA level. Is it any wonder that business scandals occur, when financial performance is the ethos of required courses, while ethical performance is left to scramble to find a few minutes in courses taught by those who have little sympathy for the subject matter and less professional training in this area? We do not think so. The AACSB should have the courage of its convictions and require not only the inclusion of business ethics in separate courses, but also evidence that schools of business are making a concerted effort to develop the ethical competency of their students in core areas of the business curriculum." (Ethics Research Center Fellows statement on incorporating ethics teaching into business school curricula).

I concur with Barna's findings that political solutions are short-term fixes for deeper problems and issues.

The best long term solution to the problem would be a return to the intrinsic values that were once a taken for granted part of the American way of life. Until we regain the concepts that truth by definition is exclusive and that everything is not relative and there are moral absolutes on which to base decisions there are going to have to continue to be regulatory controls to protect stakeholders' interest. There will always be scoundrels in American business, but there need not always be tight regulation on industry if executives would learn to look at the whole.

The union movement took many years of blood, sweat and tears to gain a rightful foothold into the fruits of corporate America. What kind of movement will it take be a fairly self-regulating situations where everyone can prosper again?

The Edgewater Beach Hotel in Chicago was the 1923 meeting place for a particular group of men. They were some of the wealthiest and most powerful people in the world at that time. Just how wealthy? More money was controlled by these men together than was contained in the US Treasury! They were political giants and captains of industry. Below is a roll call of them and what happened to them.

- Charles Schwab- president of the largest independent steel company- died broke.
- Arthur Cutten- greatest of the wheat speculators- died abroad, insolvent.
- Richard Witney- president of the New York Stock Exchange- died just after release from Sing Sing prison.
- Albert Fall- member of a U.S. president's cabinet- was pardoned from prison so he could die at home.
- Jess Livermore- the greatest "bear" on Wall Street-committed suicide.
- Leon Fraser- president of the Bank of International Settlements- committed suicide.
- Ivar Kreuger- head of the world's greatest monopoly- committed suicide.

Often people who go for the gold trade everything else of importance in their lives for the opportunity to gain it. But then they lose even those material gains. While short-term success may come to many people who put the acquisition of wealth first, you can best measure the quality of their lives by looking at their later years. (Maxwell, No Such Things as Business Ethics).

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