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## **Business Ethics and Ethics Education in American Business Programs**

*This essay presents an overview of what American business programs cover in their curricula regarding ethics and the reasons behind teaching ethics-related material to business students. Topics for the paper include; requirements for having ethics in the curricula, broad perspectives of what constitutes ethical business practices, and the difference between professional ethics and business ethics.*

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### **Introduction**

In addition to the traditional disciplines of Accounting, Finance, Management, Marketing, etc., Business Ethics is regularly offered in the business programs at American colleges and universities. As common as an ethics component is to a business curriculum, there is substantial variation as to how schools deliver business ethics instruction to their students. This essay provides an overview of how American business schools cover ethics. In so doing it is divided into four parts; first it discusses the rationale for offering ethics in the curriculum; second, the essay discusses several approaches different schools use when covering ethics. In the third section, there is a brief outline of Market Capitalism and Managerial Capitalism, two ethical frameworks for businesses that illustrate differing views of what constitutes ethical business practices. Lastly, section four addresses the role of Codes of Ethics for professions and how they relate to businesses.

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## **Business Ethics Education**

College courses in business ethics have a long history, but until relatively recently they've rarely been required. The history of business is rife with stories of business people acting inappropriately for the purpose of personal gain. It therefore makes sense that young business students should learn about ethics, hopefully dissuading them from making ethically poor decisions in their future careers. Especially in the last thirty years, certain American business stories have raised questions regarding the ethics of managers. Examples of such stories include, but are not limited to, the savings and loan crisis of the 1980s, the downsizing trend of the 1990s, the Enron and WorldCom bankruptcies in the early 2000s. Even today, the subprime mortgage crisis offers another example of businesses acting opportunistically rather than ethically. These examples, and many others, provide evidence that the business community experiences lapses in ethical judgment, and suggests that future business leaders would benefit from more ethics training in their education.

If there is ample evidence that the business people could use more ethics education, are schools required to teach business ethics? The answer is "Yes" and "No." In addressing the latter, the answer is "No" because there is no requirement imposed by the government or other agency that mandates what business schools across the country teach. However, the answer is also "Yes" because many schools voluntarily seek membership and recognition from accrediting bodies, and those accrediting bodies typically require business ethics in their member schools' curricula. The most prestigious of the accrediting bodies is the AACSB which stands for the Association for the Advancement for Colleges and Schools of Business, and it mandates that to remain accredited, member schools have to have to provide ethics education to their students (AACSB, 2008). For the AACSB members, the expectation is that students receive learning experiences related to "Ethical and legal responsibilities in organizations and society" (AACSB, p. 15). Business schools are not required to be accredited, so non-accredited programs are not required to teach ethics. Schools that voluntarily seek accreditation are typically required by their accrediting organization to cover business ethics in their curricula.

While accrediting bodies like the AACSB may require ethics education, they do not prescribe how member schools teach it. Therefore, we see some variation in the different curricula. Some schools require business students take an ethics course from their college's Philosophy Department, while some business schools have their own faculty who specialize in teaching ethics. Other schools like The College at Brockport, State University of New York (the author's employer) include business ethics as a component of a larger course, which in the program is called "Business, Government and Society." In this course students study the relationship between the for-profit business community and the greater environment including the community, the government, consumers, investors, and non-market interest groups. Students spend a portion of the course specifically studying classical ethical principles from Aristotle, Kant, Spencer, Rawls, and others; but one cannot discuss the role of business ethics without its context in the broader society.

### **So, What Do We Teach in Business Ethics?**

If the field of ethics concerns itself with what is right and wrong, business ethics is the study of what's appropriate or inappropriate in business. Generally, courses in business ethics

ignore the business decisions that are flagrantly illegal, since those are more legal issues than ethical issues.

A second concept, closely related to ethics is the concept of being socially responsible. A firm acting socially responsibly is one that is obviously concerned about the financial implications of the business, but also other broad areas such as workers' rights or environmental concerns. A socially responsible firm is one that obviously concerns itself with successfully fulfilling the mission of the organization, but also addresses the *externalities* of doing business. Externalities are the undesired and largely unavoidable consequences of doing business. For example, a manufacturing company with a large factory potentially produces air, water, and noise pollution, none of which is desirable to the local community. Similarly, a large successful retail store might create traffic jams as many people visit the location. These are examples of externalities, and socially responsible companies attempt to the best of their ability, to minimize the externalities of operating a business.

Some companies believe that being socially responsible also means sharing their wealth with other members of society through philanthropic efforts by supporting nonprofit organizations. In the United States, many corporations are big donors to nonprofit organizations such as colleges and universities, cultural institutions like museums, or health care organizations. It's important to note that all wealth in the U.S. has its genesis in the for-profit business sector. From this wealth, the business sector financially supports the public sector (the government) and the rapidly growing non-profit sector.

## Two Theoretical Approaches

Theoretically speaking, there are two broad approaches to discussing business ethics, Market Capitalism and Managerial Capitalism. Managerial capitalism suggests that managers are responsible to their owners or shareholders, but they are obligated to address the concerns of all other constituents or stakeholders, groups that have significant interests in the actions of the organization. This is why this approach is often called The Stakeholder Theory of Business Ethics (*Freeman 1984*). In fact, this approach is the one endorsed by the Business Roundtable, a highly influential nonprofit interest group, made up of chief executive officers from major corporations (*Business Roundtable, n.d.*). Besides shareholders or owners, other stakeholders include: employees, customers, suppliers, the community including public interest groups and the government. Imagine a juggler juggling many balls and each ball represents a different stakeholder. Managers must lead the organization in a profitable way appeasing the demands of the shareholders, but they also must appease the different demands of the stakeholders. If a company can successfully and genuinely satisfy the diverse, and often, conflicting demands of its different shareholders, it must be doing things ethically. However, if management is unable to satisfy the needs of all the different shareholders, the company is obligated to find new management, one that can satisfy all the different needs. From the Managerial Capitalism perspective, we've seen companies broadening their mission of simply providing certain goods and services, to serving the broader community and other constituents.

The alternative perspective, Market Capitalism, is deeply rooted at the University of Chicago. Market capitalism believes a corporation should only focus on its mission and market activities, providing its goods and services to its customers (*Miles 1993*).

Moreover, the corporation is beholden to only one constituency, its shareholders, and the sole responsibility of management is to maximize shareholders' wealth. In fact, to a Market Capitalist, doing anything else is acting unethically. If a firm acts too generously or socially responsible, it will get beaten by competitors that are acting less beneficently, thus hurting the firm in the long run. Market capitalism is often misinterpreted to suggest the emphasis on maximizing shareholder wealth is an excuse to act unethically. This isn't necessarily true. First market capitalists do not advocate breaking laws, even if it benefits the shareholders. Second, Market Capitalism is not strictly a short-term perspective. What might maximize profits in the immediate future may be detrimental in the longer term, so it probably shouldn't be adopted. If a firm does something to hurt its reputation, it would harm itself in the marketplace. Quite simply, the Market Capitalists believe firms should focus on maximizing the profits of their business.

Here's an example that distinguishes the Managerial Capitalism and Market Capitalism perspectives: McDonalds the enormous chain of fast food restaurants also supports the Ronald McDonald House Charities, whose primary mission is to provide, "a home away from home for families of seriously ill children receiving treatment at nearby hospitals" (*Ronald McDonald House Charities 2008*). It's a noble purpose and they provide a valuable service. Managerial Capitalists applaud such efforts. McDonalds shares its profits by supporting a charity and society is better off. However, Market Capitalists don't like such philanthropy for two primary reasons. First, every dollar McDonalds spends on its charity is a dollar taken away from their shareholders. If the shareholders want to support a charity, that is their individual prerogative. Second, McDonalds is a restaurant company, not a health-care support agency. They are better at making and selling hamburgers than they are housing sick children and their families. McDonalds should focus on serving its mission and anything else such as charities distracts them from maximizing profits for their shareholders. However, there is a caveat to this. If a charity such as the Ronald McDonald house actually benefits the profits of the corporation, through good public relations or goodwill (or tax breaks), it's not really an act of generosity anymore, it has become a strategic activity.

Market capitalism suggests that businesses should focus on maximizing profits for their shareholders, and that gives the impression that market capitalists are greedy or do not believe in serving the larger good. Their defense is that if every company focused on its mission of making burgers, or selling shirts, or manufacturing cars, or whatever; society benefits with a stronger economy and greater overall wealth. The shareholders can use their increased wealth to support charities, it needn't be the corporations themselves.

Critics of Market Capitalism claim that this emphasis on profits has brought on many of society's ills, including but not limited to: higher unemployment due to outsourcing of jobs in the manufacturing sector; greater environmental degradation because of hesitancy to adopt cleaner processes; exploitation of third world workers; even a falling standard of living for wage earners as companies try to keep their costs low. Yet, businesses defend themselves by saying, "we're providing what the market wants." The market votes by what it purchases. If the market were truly against environmental degradation, they wouldn't purchase from companies that pollute; or if they were truly against moving jobs overseas to third world countries, they wouldn't buy inexpensive clothing made in countries like China or Bangladesh. The broad market rarely fails to support a company because of its Market Capitalist ideology.

Managerial capitalism and market capitalism are the two ends of the spectrum of business ethics, but both share certain realities that we can teach students. First greed is not a good business strategy. Profits are good even necessary; but too much profit creates a moral hazard for a company not doing the right thing. Even if a company is acting legally, any time a company tries to make too much profit, they're, in fact, helping their competition which can compete with lower prices. Secondly, the desire for excessive profits is the catalyst for people to start doing wrong things. Enron's a perfect example of how a few people tried to use their organization as a mechanism to increase their personal wealth at the expense of all constituents, and as a result, what was once the fifth largest corporation in America went bankrupt within a couple of weeks. Third, greed invites regulation; and no company – market capitalistic or managerial capitalistic – wants more regulation. The Sarbanes-Oxley Act became a law largely as a reaction to the Enron and WorldCom bankruptcies. More recently, the sub-prime mortgage fallout will unquestionably bring new regulations to the financial services industries.

### **Business Ethics Compared to Ethics in the Professions**

Occupational theorists have long debated the role of business leaders in society. Many are rich, some of influential, a few are even visionaries, but for all their success, business people are not members of a legitimate profession like medicine or law. If a doctor or lawyer acts unethically, their professional organization can take away that person's license and they can no longer practice their field. Business doesn't have such a self-governing body. There are minimal restrictions to being a businessperson. For all his success in business, Bill Gates founder of Microsoft and once the world's richest man never graduated from college. He didn't need a degree or certification, nor did he need to pass any entrance exam. Like most entrepreneurs, he started a business without worrying about membership in a professional organization with its own code of ethics. The business community doesn't adhere to a single set of ethics like professions do. This is important. Without a code of ethics, many believe business people are less ethical than those in established professions. This isn't necessarily true, but an existing code of ethics gives the impression that members are ethical since they have such a code to follow. Also, since business people do not their own ethical code of conduct, they have only laws, their own consciences, and their knowledge of ethics to determine what is ethically appropriate.

In closing, there is one last aspect of business ethics that many of us try to teach our students, and that is; there are no such things as ethical or unethical companies. Ethics exists at the individual level, so there are only ethical or unethical people. On the other hand, people have influence over how others in the organizations think and behave, so they may create organizational cultures that may lend themselves to more or less ethical behaviors among their members. Ultimately, however, ethical decisions and behaviors are those of individuals. For this reason, so many American business programs find it important to teach business ethics and require it in their curricula.

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