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CAN ETHICS RE TAUGHT? A SIMULATION TESTS A TRADITIONAL ETHICS PEDAGOGY

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ABSTRACT

Schools of business are now examining the issue of teaching business ethics due to the following recent examples of unethical behavior; the insider trading scandals, the government defense contract abuses the "junk bond" sales, and the collapse of the savings bank industry. In addition a number of authoritative bodies have made recommendations to schools of business that the subject of ethics be part of the curriculum. The American Assembly of Collegiate Schools of Business requires that "ethical considerations" be part of the curriculum (Loeb 1988). A survey of recent psychological research found that dramatic and extensive changes occur in a young adult's problem solving strategies when dealing with ethical dilemmas (Rest 1988). An ABSEL researcher (Smith 1979), attempted to measure which pedagogy would be more effective in impacting students' ethical attitudes: simulation versus classroom lecture. He found that the change in students' attitudes was greater when the students participated in a simulation.

With this in mind, the present study combined both forms of pedagogy by examining the effect a classroom lecture on business ethics had upon students' attitudes in a simulation, which posed an ethical dilemma. The results supported that of Smith; the pedagogy of classroom lecture had little effect in changing students' attitudes. However, what is unknown, is the effect of having participated in this simulation will have the next time these students/future professionals are confronted with an ethical dilemma.

INTRODUCTION

In both undergraduate and graduate schools of business the basic concepts taught are that for a business entity to survive in the long term it must generate a positive cash flow and make a profit. Much of the instruction and analytical techniques taught in financial accounting, managerial accounting, finance, management, and economics supports these concepts. With the insider trading scandals of Boesky, Levine, and Tabor, the defense contract abuse of General Dynamics and Wedteck, and the junk bond sales of Michael Milken, business schools are re-examining their mission. Schools are not only concerned with providing students with knowledge and skills hut also with giving them a grounding in professionalism, of which a major component is ethics. Many schools have added a course on business ethics or have made an attempt to inculcate an ethical dimension into several business courses. A number of authoritative bodies have made recommendations to business schools that the subject of ethics needs to be included in the curriculum. The American Assembly of Collegiate A school of Business (AACSB) requires that "ethical considerations" be part of the curriculum (Loeb 1988). The Report of the National Commission on Fraudulent Financial Reporting (The Treadway Commission) recommends that a discussion of ethics be included in every accounting course (Cohen 1989). The American Accounting Association Committee on the Future Structure, Content, and Scope of Accounting Education states that " . . .accounting education must not only emphasize the needed skills and knowledge, it must also instill the ethical standards and the commitment of a professional," (Langenderfer 1989). The "Big Six" accounting firm of Arthur Anderson & Co., S.C., realizing the importance of business ethics education, has established a "Business Ethics Program." The program's mission is to provide assistance and encouragement to the faculty of all business disciplines to incorporate ethics into their courses. Over the last four years they have brought over 1,000-business faculty to their training facility in St Charles, Illinois for a two-day seminar on teaching of business ethics.

Despite these efforts, a number of questions have been raised about the ability of business schools to teach business ethics and the impact courses on ethics may have upon the attitudes of students (Shenkir 1990). Will a course in business ethics provide a solution to, or an improvement of, the ethical behavior of future business executives and managers? A survey of recent psychological research found that, "Dramatic and extensive changes occur in young adulthood (the 20s and 30s) in the basic problem solving strategies used by the person in dealing with ethical issues," (Rest 1988). The purpose of this research is to examine what effect a classroom lecture on business ethics will have upon student attitudes in a simulation where students are confronted with an ethical dilemma.

LITERATURE REVIEW

To gain insight into factors, which may explain why individuals behave differently when confronted with an ethical dilemma, Hosmer (1988) suggests that ethical or moral standards differ because of the difference in a person's:

GOALS -	what we want out of life;
NORMS -	expectations of behavior of how we want others to behave in a similar situation;
BELIEFS -	expectations of thought; an abstract way of thinking which tends to support an individual's norms;
VALUES -	rankings or priority of an individual's goals, norms, and beliefs.

Hosmer makes the statement that Boesky, Levine and Tabor all valued their goals of wealth, power, and position in society above their norms of acting honestly and their belief of professional responsibility. Would a course in ethics have changed their behavior? Only if their goals, norms and values were changed. Hosmer believes this would have been extremely difficult if not impossible. However, he suggests that ethics education should not focus on behavior modification but on the ethical principles of analysis. The ethical principles or systems of beliefs he suggests are described briefly:

UTILITARIANISM (Bentham/Mills) - a person should act in a manner, which will provide the greatest good (or least harm) to the majority of society. Close to cost/benefit analysis in economics.

IJNIVERSALISM (Kant) - in a ethical situation; always act In a manner consistent with that of: someone else in a similar situation. Consistency in actions is the key.

DISTRIBUTIVE JUSTICE (Rawls) - always act so the disadvantaged members of society will benefit to some degree. In other words, not to act in a manner which will benefit only yourself or the advantaged members of society.

PERSONAL LIBERTY (Nozick) - always act so that everyone's ability of self-fulfillment can be maximized.

The analysis of ethical principles by a student, according to Hosmer, will lead to an examination of one's priority of goals, norms, and beliefs. It is this process of ethical analysis that will lead to an individual's examining of and gaining confidence in his/hers moral standards of - 'Where do I draw the line?"

This raises the question of whether a college/professional course in business ethics can have an impact on behavior, or is ethical instruction the province of home, church and pre-college education? (Shenkir 1990). There are several different points of view with regard to this issue. Some argue that an individual's character and personality are so entrenched by the age of twenty, that any attempt to change a person's ethics are doomed to failure. Others claim that ethical development is a life long process for which the college years are an important period of ethical development. Psychological research suggests that exposure to ethical education during this period may produce significant results (Rest 1988). It stands to reason that people must have some ethical training in order to deal with the ethical dilemmas they may encounter during their professional careers (Shenkir 1990). Shenkir refers to Kohlberg's work in the area of moral psychology in describing a problem in ethical instruction. According to Kohlberg research people operate at any of the following six levels of moral development:

1. fear of punishment/authority
2. self-gratification
3. role expectation or approval of others
4. adherence to moral codes
5. concern for others and for broader social welfare
6. concern for moral principle

Understanding what motivates people to behave ethically may enable ethics education to influence students in developing their skills and knowledge of handling ethical dilemmas. Recognizing the various motives people have for acting ethically can lead to an identification of specific ethical concepts and subjects which need to be included in the curriculum (Shenkir 1990).

What can be done to enhance the ability of business ethics instruction to affect or change an individual's behavior? Researchers have suggested that to change an individual's behavior, the individual's attitude about an issue must first be changed. An individual's attitudes are the result of beliefs and values; and these exist In the following hierarchical order:

ATTITUDES

VALUES

BELIEFS

Where an attitude is the result of an individual's values and beliefs; values are a result of a person's beliefs and environment; and beliefs are deeply ingrained in an individual's persona and represent the individual's acceptance of something as true (Smith 1979). In order to change an Individual's attitude, their values and beliefs must first be changed. An experiment conducted by Smith found that a change in students' attitudes toward the social responsibility of business was greater in a simulation where an ethical dilemma was used versus a classroom lecture approach. He hypothesized that the reason for this result was the dynamic nature of reinforcement provided by the simulation (Smith 1979).

Fritzsche also "believes that simulations may offer a more effective medium for broaching ethical issues." He recommended "that ethical issues can he incorporated into current experientially based instruction by raising relevant ethical issues…..(Fritzsche 1988).

METHODOLOGY

Whereas Smith examined the difference between the attitudinal change of students involved in an ethical simulation versus students who only experienced classroom lecture, this study combined both forms of pedagogy and examined whether students would change their attitude(s) in a simulation after receiving a classroom lecture on business ethics. The simulation was conducted at a public university in the three sections of an advanced accounting course offered in the fall semester of 1990. The simulation revolved around the acquisition of a successful public company in the pharmaceutical industry by a large conglomerate desiring to gain quick entry into the profitable pharmaceutical market. The simulation required that students he grouped into teams of buyers and sellers, with each team consisting of three members. Students were told that they will serve as members of an investment banking team and their responsibility was to prepare a formal document describing their teams' evaluation of the Target Company and to negotiate a fair price for the company. An independent consulting firm had prepared an information summary on the Target Company. Each team of sellers and buyers received two packets of information:

Packet 1. which contained the independent consultant's report on the target company. This report contained various items of key information both qualitative and quantitative and financial data for the past five years.

Packet 2. which contained instructions on what was to be included in the formal document, how the company was to be evaluated, their responsibility in negotiating a fair price, and the percentage breakdown on how their grade for the project was to be determined.

All the information contained in the packets was identical, except the sellers had included in their packet 2, a memo from two key executives of the target corporation. This memo contained the forecasted sales and profits of the Target Company for the next five years. The key executives forecasted an unfavorable trend for both sales and profits. This trend was contradictory to the financial data of the past five years. The selling teams were told that the buying teams were not aware of the information contained in the memo, since the buyers did not receive it, nor are the buyers allowed any contact with the executives of the target company. The sellers were instructed that their legal advisor had stated the following:
That it was not a legal requirement to include such written financial projections in their formal document (the memo) for public transactions, although such projections were often included. In addition, the legal advisor had also stated that it was permissible to provide such information to prospective buyers. His final advice was that there is a general legal prohibition against fraudulent misrepresentations in these types of dealings and your selling team was responsible for conducting itself in these negotiations in a legal manner. Additionally, the sellers were informed by the CEO of the Target Corporation that he was not in agreement with the projections contained in the memo, and he expected business to be strong into the upcoming year.

Thus the selling teams were faced with a purely ethical situation, since it was not known whether nondisclosure of the memo would be considered an illegal act. However, nondisclosure of the memo would place the buying teams at a disadvantage. In order to further simulate a real world ethical dilemma, the teams of sellers and buyers were told that 25% of their grade on the project would be based on the agreed negotiated price. The student now had a vested interest in the performance and behavior of his/hers group during the negotiation. Lastly, to discourage any sharing of information or any type of correspondence with any other group the students were instructed both orally and in writing that:

IT IS ABSOLUTELY PROHIBITED TO DISCUSS THIS CASE WITH ANYONE OTHER THAN WITH MEMBERS OF YOUR OWN THAN. VIOLATING THIS RULE CAN RESULT IN A GRADE OF ZERO TO THE VIOLATING GROUPS.

In order to futher discourage any sharing of information, the teams were allowed only one week to formulate a fair price and a negotiation strategy.

Two weeks prior to receiving the information and Instructions for the project, two of the sections (comprising nine selling teams) received an hour lecture on the topic of business ethics by a guest lecturer, a business law professor who was well versed in this area. The third section (comprised of five selling teams) did not participate in the business ethics lecture.

The lecture was structured such that it consisted of three distinct topics. The first topic was a discussion on the following general questions:

What is ethics?
What is moral?
Is an act which is legal also ethical?

The second topic was a discussion of the following ethical situations:

A corporation selling a drug product which has not been FDA approved in a foreign country were the government standards on new products are less stringent.

Lieutenant Calley's order to shoot innocent Vietnamese and the two soldiers who choose to disobey orders and did not shoot.

Ghandi won a case as a junior lawyer early in his career, however it was later discovered that the accountant hired to provide services in support of Chandi's client erred In favor of the opposition. Disclosure of this error will adversely affect the amount money Ghandi's client would receive. Ghandi brought this situation to the attention of the senior partner in charge of the case, who strongly recommended to Ghandi that the error not be disclosed. Ghandi in direct opposition to his senior, decided to not to sacrifice his ethical principles in order to save his career, and disclosed the error to the court.

The third topic was a discussion of a corporate executives' responsibility to the following stakeholders:

Shareowners	to maximize profits
Employees	to provide benefits and a safe workplace
Customers	to provide a quality product a competitive price
Suppliers	to bargain in good faith and provide prompt payment
Community	to provide support through jobs, protection of the environment, and charitable contributions.

To determine if students had learned or remembered what was discussed in the business ethics lecture, two weeks after the students had completed their negotiations and submitted their formal documents, they were asked to answer the following questions:

1. Is it true that what is legal is also ethical?
   Yes No

2. Corporations have an ethical responsibility to the following stakeholders:

   Shareholders
   Employees
   Customers
   Suppliers

   Do corporations have an ethical responsibility to any other stakeholder? Please name

3. It has been said "that the lawyers profession was a liar's profession." In

order to prove this statement to be incorrect Ghandi put his ethical principles to the test when he refuse to obey his superiors advice. Please explain briefly the example discussed in class.

If at least one member answered at least 2 of the three questions correctly it would be inferred that the selling team learned or remembered the topics and concepts discussed in the business ethics lecture.

To determine the extent to which the memo was disclosed during the negotiations, two student assistants and myself were assigned to monitor each group of sellers and buyers during the negotiations. Negotiations were all held on the same day, and groups were to sign up for a convenient time. The individuals monitoring the negotiating sessions were instructed on what to listen and look for in order to determine the extent of disclosure. Full disclosure represented the sellers actually displaying the memo to the buyers. Partial disclosure represented the sellers making mention of the fact that they had in their possession a confidential memo; it was then up to the buyers to follow up on this information. Nondisclosure represented the fact that the sellers neither displayed or made mention of the memo.

If the sellers included the facts of the memo or made some reference to the memo, this was considered to be disclosure In the formal document. Disclosure of the memo in the document was determined by the instructor/author.

RESULTS

The following table illustrates the results of the students' behavior in the simulation:

Grp#	Disclosure Neg	Disclosure Doc	Ethics Lecture	Learning	# of Stud.	Correct Answers
1	F	Y	NO	N/A		
2	N	N	NO	N/A		
3	N	Y	NO	N/A		
4	N	N	NO	N/A		
5	N	N	NO	N/A		
6	N	N	YES	YES	1	3 OF 3
7	N	N	YES	NO	0	2 OF 3
8	N	N	YES	YES	1	2 OF 3
9	N	N	YES	YES	2	3 OF 3
10	N	N	YES	YES	2	2 OF 3
11	N	N	YES	YES	2	3 OF 3
12	N	N	YES	YES	1	3 OF 3
13	P	N	YES	YES	1	3 OF 3
14	N	N	YES	YES	2	3 OF 3

Neg = negotiation
Doc = formal document
F = full disclosure of memo during negotiations
P = partial disclosure of memo during negotiations
N = no disclosure of memo during negotiations
Y = reference of memo was made in formal document
N = no reference of memo was made in formal document

Of the nine selling teams who received the classroom lecture on business ethics, eight learned or remembered what was discussed. Only one of the eight selling teams, who remembered or learned, partially disclosed the facts of the memo during the negotiations. None of the nine selling teams that lad the lecture disclosed the facts of the memo in their formal document.

Of the selling teams who did not receive the classroom lecture on business ethics, one selling team fully disclosed the memo during negotiations and in their formal document, and another selling team disclosed the memo in their formal document.

DISCUSSION

Informal discussions with members of the selling teams who participated in the classroom business ethics lecture revealed that discussion of the memo occurred in their group meetings. Their discussion pertained to "what to do about the memo," should they or shouldn't they disclose the memo since it would adversely affect their position as sellers resulting in a lower selling price and ultimately a lower grade on the project. The reasons the selling teams used to defend their decision not to disclose were:

1. the question of the legality of their action not to disclose the memo; since their legal advisor stated that it was not a legal requirement to include written projections in their formal document.

2. the CEO disagreed with the conservative projections and he expected sales and profits to be strong in the current year.

Ironically, these two reasons to support their action of non-disclosure could be also have been used to discount the impact of full disclosure of the memo.

One possible explanation to explain why student's receiving the business ethics lecture chose not to disclose the memo could be found in Hosmer's theory, which suggests that members of the selling teams like Boesky, Levine and Tabor all valued their goals of high grades (wealth and power) and position in receiving future job interviews (position in society) greater than their belief of professional responsibility! It was not known that if the lecture had provided the students with the skills to conduct an ethical analysis of the situation, then possibly they would have behaved differently.

The fact that the only selling team which chose to fully disclose the memo in its negotiations and in its formal document did not receive the business ethics lecture, may support the point of view that an individual's character and personality are so entrenched by the time they reach college that any attempt to change a person's ethics is guaranteed to fail. What is unknown, however, is what effect, if any, will having participated in this simulation will have on these students the next time they are confronted with an ethical dilemma.

The results of the simulation do give some support to the findings of Smith, (i.e., that a classroom business ethics lecture was less effective in changing student's attitudes than if they had actually participated in a simulation), since none of the nine selling teams who received the business ethics lecture fully disclosed the memo. When the buying teams were made aware of the existence of the memo during the debriefing session, many of the buyers were angry and felt as if they were placed at a disadvantage. When the selling teams were confronted with this, many of them realized the consequences of their behavior. However the sellers did not admit that their actions were illegal but they felt that their actions were unethical.

CONCLUSIONS

The results of this study found that a classroom lecture had little effect in changing student attitudes when confronted with an ethical dilemma. The issue of what is the most effective pedagogy to teach business ethics will continue to be closely scrutinized and hotly debated in both academic and professional arenas. Possible future research in this area could (1) determine the level of moral development a student may be operating at before and after participating In an ethical simulation; (2) conducting a longitudinal study where students participate in a business ethics course and in the following year(s) students are then tested/confronted on a series of ethical business situations in other business courses; (3) a series of lectures where students are instructed on a process of ethical analysis in resolving ethical conflicts before being situated in an ethical dilemma.

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