

Corporate scandals: It's time for reflection in business
schools

by

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(with help from members of the Critical Management Studies Interest Group)

Accounting firms and their corporate clients have been under severe scrutiny for lapses of personal and professional integrity. The crisis is undermining confidence in capital markets, eroding trust in professional institutions, and casting a shadow over the probity of corporate life and those institutions affiliated with it—including business schools.

The Facts and Their Implications

The facts are clear. Executives have plundered firm assets with stock options, loans, and other forms of compensation (with handsome side-payments to auditor-consultants and banks in the form of fees, interest payments, loans, etc.). Auditors have aided and abetted in the crime by hiding from stockholders and other social constituents the perilous state of their enterprises. Their appetites whetted by a speculative stock market bubble, predatory insiders (executives, auditors, investment bankers, consultants) have betrayed their legal and moral responsibilities. In their pursuit of private gain, they have wreaked social havoc, destroying savings and jobs in monstrous disproportion.

The implications of these facts are less clear. The Critical Management Studies Interest Group of the Academy of Management met to discuss these implications on August 11, 2002 during the Academy meetings in Denver. We formulated an urgent call to our colleagues to engage in a serious dialogue on the underlying reasons for these scandals and what we can do about them.

The Sources of the Scandals

We urge our colleagues and our policymakers to reflect not only on the ethical dimensions of these scandals but also on their structural sources. It is

tempting to see these scandals as the result of the ethical failings of a few "rotten apples," but the number and magnitude of these cases suggest that we need to look deeper—deeper than individual ethics, deeper than the pervasive culture of greed, and indeed deeper than the agency problems of the misalignment of executives' incentives and shareholders' desires. We need to evaluate critically the governance structures of U.S. corporations. To whom should public corporations be accountable? Is their only obligation to shareholders, or do they have equivalent responsibilities to other stakeholders—their employees, communities, and society? Our legal system appears implicated too; white-collar crime is treated far more leniently than "street" crime, even though its economic and social costs are orders of magnitude greater. And we should reflect on the limitations of a political process that has failed to surface and address these problems before.

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Some Questions to Ask

We also urge our colleagues to join us in critical self-reflection, for we believe that these scandals may have something to do with the way our own institutions function. Questions such as these demand our attention:

- What are we doing to ensure that future managers and accounting professionals receive ethical training as rigorous as that which society de-

mands of its professionals in every other field? More fundamentally, what are we doing to ensure that ethical behavior is encouraged rather than discouraged by the structural context within which managers function?

- Are the theories we propagate defensible in light of recent events? Our classes have often taught cynical, truncated theories of motivation that treat economic gain as the only or the highest goal. Too often, we have praised the effectiveness of "high-powered" incentives without recognizing other legitimate motives and aspirations.
- Have our classrooms been pulpits for ideological celebration of the invisible hand of the market and disdain for government? As part of the university, we should foster energetic debate on the appropriate roles of the market and regulation, but in all too many institutions the other side of this debate has progressively disappeared. The participants in our executive education programs often reflect a broader spectrum of political views than our own faculty do! We have thus helped create a generation of managers many of whom see government regulation as an unwelcome—and well nigh illegitimate—intrusion into the world of business.

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- Are we fulfilling our highest mission of helping students acquire the skills needed to participate in ongoing debates about the direction of our society? Many business schools have seen their mission as satisfying their key stakeholders' needs—specifically the needs of business for well-trained managers. But as part of the university, we are accountable to a broader set of stakeholders too. And our students graduate not merely as managers, but as citizens of our polity and as members of our communities.

Some Steps to Take

Some specific ideas on what might help include:

- Restore and strengthen required ethics courses that have been slowly disappearing from many business school programs. Instead of arguing about whether to have a separate ethics course

or to integrate ethics discussions into every course, do both! The current scandals suggest that we also need better ways of teaching ethics. Perhaps alongside classroom discussions we should consider building service-learning requirements into the MBA program. The scandals also suggest that attention to ethics should perhaps focus not only on individual probity but also on how social structures provide incentives and disincentives to ethical and non-ethical behavior.

- Create required courses on the history of business, government, and society—courses that would sensitize students to the range of views and issues involved, to their changes over time, and to the variations across countries. Such courses could help our students acquire the critical thinking skills that their roles as managers and citizens demand.
- Broaden the range of faculty discussion to pull us out of our narrow functional/specialist concerns. As university faculty, we need to become more aware of the reality of government regulation, the real functioning of firms, and the challenges facing not only business but other sectors of society. We should be listening more carefully not only to top executives but also to the leaders of major political organizations, unions, other non-governmental and non-profit organizations, and indeed to rank-and-file citizens and employees.
- Challenge our deans and other academic leaders to take the initiative in ensuring that this broader agenda is integrated with our core focus on management and the firm. This may mean broadening the range of business schools' stakeholders. If our ethics classes aim to encourage students to examine problems from the points of view of multiple stakeholders, the lesson will be lost if, in the reality of the governance of the business school, our attention is exclusively on the needs of the corporations who recruit most of our students and fund much of our research.

The current scandals should prompt serious reflection on both public policy and business school policies. We encourage our colleagues in every business school to seize this opportunity and engage in a serious dialogue.

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