

Comparing Financial Scandals as a Tool for Ethics Discussions in a Graduate Finance Course

Steven T. Jones

In recent years, business education has increasingly included a focus on ethical issues in general, and financial integrity in particular. Part of the catalyst for this increased emphasis has been the regrettable availability of a large number of serious, well-publicized instances of actions ranging from questionable to fraudulent.

Fortunately, some of these same episodes provide excellent fodder for careful analysis and thought-provoking classroom discussion of the ethical obligations of financial managers in particular, and indeed of managers in general. This paper discusses the development of a strategy for encouraging students to consider carefully the implications of decisions regarding ethical decision-making. It is hoped that through this process, students will develop a greater appreciation of the need to think critically and independently regarding accusations of impropriety.

INTRODUCTION

While there seems to exist a broad consensus in favor of the notion that business students should be encouraged to think about ethical issues, there is no one, universally recognized way to achieve this objective.

As noted by Rutherford et al. (2012), many schools choose to include a stand-alone business ethics course. Advocacy of such a course can be traced back for several decades, as seen in Duska (1991). Stewart, Felicetti, and Kuehn (1996) found that students tended to endorse the approach of bypassing a separate course, and instead integrating ethical discussions into multiple courses. Kushniroff (2012) agrees with this assessment, contending that a separate ethics course, by itself, is inadequate, and that ethics education should be integrated across the curriculum. However, Baetz and Sharp (2004) argue that in many instances teaching resources for holding these discussions in “core” business classes are lacking. This would seem to imply that to some extent, professors in core courses must find their own ways of incorporating ethical issues into those courses. Slocum, Rohlfer, and Gonzalez-Canton (2014) advocate for the use of “micro-insertions,” in which ethical issues can be strategically integrated into discussions of various topics throughout a course.

These approaches need not be viewed as mutually exclusive. Our own school of business requires a stand-alone course in ethics in both its BSBA and MBA programs. In addition, however, it is a rather common practice in our program for professors to point out ethical issues that arise in case studies or lectures within courses in various functional areas. In our core MBA course in Managerial Finance, I have numerous opportunities to utilize the “micro-insertions” approach referenced above. In addition, however, I have frequently chosen in this course to set aside an entire class session to discuss ethical issues from a financial perspective. What follows is a description of how my use of that class session evolved over a period of several years.

ETHICAL ISSUES IN A GRADUATE COURSE IN FINANCE: BEGINNINGS

It is likely that most business professors, like this author, have found that one can only get a certain amount of mileage out of statements such as “fiduciary duties are paramount” and “you are only as good as your reputation.” Those statements are accurate and important, but can quickly become viewed as truisms or clichés, if students are not exposed to the hard choices that managers must often make.

When we began devoting an entire class session of our graduate finance course to a discussion of ethics, I chose to yield the floor to a guest speaker or speakers, who served as facilitators. Over a period of several years, these speakers included a partner in a nationally known law firm, our own university attorney, and three different individuals who were part of our school of business. All of these individuals did an excellent job. However, over time these discussions gravitated toward episodes such as the Exxon Valdez incident and Johnson & Johnson’s response to the Tylenol poisonings. Many of the topics would have fit at least as well in a marketing or management class as they did in my finance class. So, I eventually concluded that for purposes of an MBA course in Managerial Finance, it would be more helpful to focus on incidents related directly to the financial services industry.

A SPECIFICALLY FINANCIAL FOCUS ON ETHICAL ISSUES

For purposes of the learning experience described below, I have always used both an in-class discussion and a written assignment that is due at the beginning of the class session in which the discussion will take place. Clearly, one could have an in-class discussion without assigning a paper. However, it seems plausible that the requirement of preparing a detailed written analysis for the instructor will, for many students, lead to better preparation for the discussion that takes place in class. That, in turn, seems likely to lead to more meaningful exchange of ideas.

When I moved toward a more finance-specific focus for discussing ethical issues in our core MBA finance class, I initially incorporated a somewhat open-ended approach toward having students prepare for that particular class session. Appendix A displays this assignment in its entirety, but the assignment may be summarized as follows: Students were instructed to do their own research into any number of the various “financial scandals” that had been featured in news stories over the preceding 15 years or so, and then to focus on two of them. In particular, students were requested to find one such episode that involved, in their opinion, ethical breaches more serious than had been suggested by the overall tone of the various news stories regarding those incidents. They also were requested to find one episode that, in their opinion, involved either no actual ethical breach, or an ethical breach that was less serious than had been portrayed in most news accounts.

Since this assignment was first made during the Fall 2012 and Spring 2013 semesters, students were asked to make a point of avoiding any stories that had become an issue during the presidential election campaign of 2012 (e.g., Bain Capital or Solyndra). It was felt that discussion of any of those stories, during or immediately after the campaign, would lead to an early hardening of positions that might interfere with critical thinking about the broader issue of ethical decision-making in business.

After a couple of iterations of this assignment, I concluded that I needed to narrow the range of the episodes from which students were allowed to select their topics. I reached this conclusion because I had come to realize that at any given point in the class session, we would be discussing an episode that a majority of the students in the class had not researched, and in some cases had no familiarity with at all. While there was likely some value in exposing students to incidents that had previously escaped their attention, I concluded that the discussions as I had structured them lacked sufficient focus.

So, in the interest of facilitating a more in-depth discussion, I changed the assignment by narrowing the list of choices to four: the LIBOR-fixing scandal, the London Whale episode at J.P. Morgan Chase, the Bernie Madoff “Ponzi scheme,” and the MF Global affair. (As described in more detail below, two of those events had been frequent choices of students when they were given free rein regarding which incidents they wished to research.) Students were still asked to choose one occurrence that they believed to be worse than generally reported, and one that they believed to be less serious than generally reported.

As noted by an anonymous reviewer, this change was not costless. First, suppose that a given student considers all four of the events listed above as being especially egregious scandals that were under-reported by the media, or as having been minor incidents that were over-reported. In that situation, a student would be forced to classify one of the four episodes in a manner that does not line up with the student’s actual opinion. And, in fact, I can recall one instance in which a student indicated that he had found himself in that exact situation.

Second, unlike the open-ended version of the assignment that I had initially used, an assignment that lists specific options is likely to require periodic updating if the assignment is to remain timely.

That having been said, I did find that on balance it was helpful to specify a set of options from which the students were required to select, for two reasons. First, for each of the four episodes that we discussed in class, on average one-half of the students would have prepared a written report on that particular scandal, and presumably would be highly familiar with the topic. Second, in many instances even those students who had not chosen to write about a particular occurrence had performed at least a cursory review of that incident before eliminating it from consideration. As a result, there were sometimes students who had not written about a given episode, who were nonetheless willing and able to offer informed opinions regarding the relative seriousness of the behavior involved.

CLASSROOM EXPERIENCE

Students have consistently arrived well prepared for this discussion, and I frequently have found that individuals who have been somewhat reticent in other class meetings are willing to share what they have learned in their investigations of various financial scandals. Below, I detail some of the methods I have employed in this class session.

Facilitating Student Discussion

The manner in which I chose to organize the students’ discussion of these issues varied as I moved from a more open-ended assignment to one in which students were expected to select from a menu of specific financial scandals.

My own preparations for the in-class discussion of the original, open-ended version of the assignment were aided by my requesting that students email me the weekend before the assignment was due. In the email, they were asked to designate which incident they intended to discuss as an example of each of the two aforementioned scenarios. I then prepared a spreadsheet summarizing which incidents the students planned to discuss, and the category in which they were placing a given episode. My knowing in advance which topics were going to be addressed by multiple students, and what subset of those topics had generated significant differences of opinion, allowed me to facilitate a discussion that went much more smoothly, and hopefully was a better learning experience, than would have taken place in the absence of that advance notice.

For instance, during one semester four students informed me that they were going to be discussing the aforementioned LIBOR scandal as an example of something that they believed was worse than had generally been portrayed. No students indicated that they intended to take the opposite side on that issue. This suggested to me that I might wish to prepare to challenge that viewpoint by noting arguments that could be made for the position that the LIBOR scandal was not as serious as it had been portrayed. At the same time, I wanted to be careful not to create a reluctance on the part of these individuals to articulate their opinions. So, I began the

discussion of that issue by noting the fact that everyone who had expressed an opinion had come down on the same side, and requested that the students who had written on that topic argue their case. After they had finished doing so, I described some of the more prominent arguments for the other side of the debate.

That same semester, I learned that among those students who had chosen to write about the “London Whale” episode involving J.P. Morgan, opinion was not unanimous. This alerted me to an opportunity to encourage debate, without my having to create that debate by pushing either side. All that was necessary was for me to point out that a difference of opinion existed regarding this issue, and to request that the individuals on each side of the issue explain their opinions to their classmates.

Discussion of the various issues that had attracted the attention of multiple students consumed much, but far from all, of the time available. So, after we had concluded our discussion of those issues, I would request that students who had written on a topic other than those already discussed provide the class with a description of the episodes that they had researched, and the conclusions they had reached. While cold-calling was always an option for this portion of the discussion, most of the remaining time was easily filled by students who were willing to volunteer the results of their investigations.

After I changed the assignment to require students to choose two episodes from a predetermined set of options, the manner in which I facilitated the class discussions changed only slightly. I would begin class by projecting an Excel workbook that displayed the four episodes from the menu, and the two options available for each episode. I would then begin with one of the four episodes, and request a show of hands as to how many people had placed that episode into each of the two categories. I would enter the results into the spreadsheet, which would immediately display for the students what the percentage breakdown had been. For instance, if 15 students had selected the Madoff episode, and if 9 of those students had concluded that this episode was worse than generally portrayed, then the workbook would reflect a 60-40 breakdown on that issue. Otherwise, the discussion proceeded much as it had during previous semesters, with my asking the people on each side to explain their views, and the students then engaging in debate as various points were raised.

Instructor Follow-Up: What Does This Imply for Managers?

As an afterword or epilogue to this classroom exercise, I have found it useful to take a step back and discuss with the students the potential implications of our discussion for decisions that they are likely to face as managers.

First, as trite as the phrase may sound, it is worth reminding students of the importance of “tone at the top.” Consciously or unconsciously, people working for a company tend to adopt the culture and values of that firm. Thus, those who find themselves in positions of leadership have a particular responsibility to engender a strong set of ethical values within the firm.

Second, in addition to behaving in an ethical manner and setting clear expectations, a good manager must be willing to act decisively, when and if employees act in an unethical manner.

Third, however, this assignment hopefully brings home the point that not everything that looks like a scandal actually is a scandal. The example that I provide at this point in the discussion is not from a news story, but rather is a slightly disguised rendition of an incident of which I have only indirect knowledge. In my telling of this incident, the CEO of a small, closely-knit organization received information that led him to believe that an employee had acted inappropriately. The CEO summarily dismissed the employee, only to learn shortly thereafter that the employee was in fact innocent of wrongdoing. The CEO rescinded the termination, but the employee chose not to remain with the organization. In this instance, one must consider the possibility that in his zeal for “sending a message,” the CEO acted in haste, and in the process likely did lasting damage to the organization. The lesson here is that there will be occasions when a good manager must be willing to take the heat for seeming to tolerate unethical or otherwise inappropriate behavior, in order to avoid acting in a precipitous and unfair manner.

CONCLUSIONS

As noted in the instructions for the assignment itself, there may be a tendency over time for people to become inured to stories about various actual or alleged cases of unethical behavior, to the point where they unconsciously assume that all such cases are equally serious in nature. This may lead to overly generous assessments of truly egregious actions, overly harsh assessments of less serious actions, or both. Not only as citizens and as consumers of news, but also as managers making decisions regarding the appropriate response to accusations of unethical actions by employees, it is critical that our students develop the critical thinking skills to assess allegations regarding inappropriate conduct.

I also concluded early on that it was critical to communicate to students that they were not expected to try to guess what my own reactions were to any of these particular episodes, and then provide responses that would most likely meet with my approval. Indeed, knowing that the student grapevine is alive and well, when returning the written assignments I have tried to make a point of noting that some of the highest grades have gone to people whose opinions differed from mine.

Ultimately, the key benefits of this type of class discussion would seem to be two-fold. First, these discussions direct student attention toward the importance of the ethical decisions that they will face as managers. Second, structuring the assignment and discussion in this manner arguably aids in the development of critical thinking and decision-making skills more generally. The hope is that future managers who have devoted serious thought to the topic of ethical issues are more likely to notice, and respond to, the ethical components of the issues that they face.

REFERENCES

- Baetz, Mark C., and David J. Sharp. April 2004. "Integrating Ethics Content into the Core Business Curriculum: Do Core Teaching Materials Do the Job?" *Journal of Business Ethics* 51(1): 53-62.
- Duska, Ronald F. October 1991. "What's the Point of a Business Ethics Course?" *Business Ethics Quarterly* 1(4): 335-354.
- Kushniroff, Melinda. March 2012. "Accounting Ethics: How to Stop the Scandals." *International Journal of Business, Humanities and Technology* 2(2): 40-47.
- Rutherford, Matthew A., Laura Parks, David E. Cavazos, and Charles D. White. June 2012. "Business Ethics as a Required Course: Investigating the Factors Impacting the Decision to Require Ethics in the Undergraduate Business Core Curriculum." *Academy of Management Learning and Education* 11(2): 174-186.
- Slocum, Alesia, Sylvia Rohlfer, and Cesar Gonzalez-Canton. November 2014. "Teaching Business Ethics Through Strategically Integrated Micro-Insertions." *Journal of Business Ethics* 125(1): 45-58.
- Stewart, Karen, Linda Felicetti, and Scott Kuehn. August 1996. "The Attitudes of Business Majors Toward the Teaching of Business Ethics." *Journal of Business Ethics* 15(8): 913-918.

APPENDIX A: WRITING ASSIGNMENT ON FINANCIAL SCANDALS

FINC 521: MANAGERIAL FINANCE INDEPENDENT WRITING ASSIGNMENT; FALL 2012

TOPIC:

A critical component of financial management, and indeed of management in general, is the upholding of the highest standards of ethical behavior. In addition, a good manager must have good judgment, which includes the ability to look with a critical eye at both allegations of unethical behavior, and the defenses that are offered in response to those allegations.

With troubling regularity, we read and see stories in the news regarding actual and alleged ethical lapses in the business world in particular, and regarding corporate financial scandals in particular. Curiously, however, it often seems that these stories are all treated as equally serious (or equally trivial). To use an analogy regarding personal conduct, it is as though first an instance of murder, and then an instance of shoplifting, were treated as being equivalent to an instance of embezzling several hundred thousand dollars.

With those thoughts in mind, please go back and review several of the "financial scandal" stories that have received attention in the general media and/or the business media over the past 15 years, and then do the following:

(1) Provide an analysis of an actual financial scandal that was, based on your analysis, significantly more serious than it was generally portrayed.

(2) Provide an analysis of an actual or alleged financial scandal that was, based on your analysis, significantly less serious than it was generally portrayed.

The only restriction is that you are not to include as either or both of your examples any of the stories that are directly related to the current political campaign. So, for instance, I do not want to read any analyses regarding Bain Capital, Solyndra, etc.

There are two extremes that you should avoid in writing this paper. First, I am not looking for pure editorializing, without adequate factual information to back it up. (Said another way, I am not looking for a "rant.") Second, however, simply describing the allegations and/or the defense in a given situation, without some sort of cogent analysis, will not address the questions being asked in this assignment. So, the best grades will be reserved for papers that combine thorough research with thoughtful commentary.

FORMAT:

Unlike the written case analyses for this course, this paper should not be written in the form of a memo. Rather, you should simply write it as a standard report.

The body of your analysis should run approximately six or seven double-spaced pages. In comparing the amount of information that you include to the length of the paper, use common sense and good judgment. I want the paper to be both reasonably complete and reasonably concise, and those two issues matter more than the exact word count.

Please use "standard" margins (top and bottom margins of 1 inch; left and right margins of 1.00 to 1.25 inches). Please number pages. Please use full-justified text (i.e., text should be flush against both the left and right margins). Please do not use an unusually large font size to "stretch" the length of your paper, or an unusually small font size to shorten it.

After the body of the paper, please provide a list of references. (Please be advised that I do pay attention to the number and quality of your references.) I am not particularly concerned with the specific citation style – e.g., APA, Chicago, etc. All I ask here is that you be both thorough in your citations, and consistent in your citation style.

While we are on the topic of proper citation: it is critical that you cite each of the sources that provided you with any of the information and/or analysis that you used in writing your paper. **FAILURE TO DO THIS CONSTITUTES PLAGIARISM, REGARDLESS OF INTENT.**

Also, if at any point you choose to quote directly from a source, you must use quotation marks and cite the quotation! Sometimes I will see a paper in which, rather than using

quotation marks, someone has essentially quoted a sentence or even an entire paragraph, and has substituted synonyms for a few of the specific words. **AGAIN, THAT IS PLAGIARISM, REGARDLESS OF INTENT.** Stay clear of this – it is likely to save you significant grief in both your academic career and your business career!

Your paper should be carefully edited. Please pay attention to those pesky little details like spelling, punctuation, and sentence structure! I probably will not have time to mark individual writing mistakes in grading this particular assignment; but, I do notice them, and they will affect your grade on the paper.

Please be reminded that, as noted on the syllabus, the paper will be due at the beginning of class on Wednesday, October 24.

Finally, one more reminder: this has been designated as an INDEPENDENT writing assignment. You are expected to do this paper by yourself. Violation of this rule will be considered a violation of academic integrity.

Feel free to email me with any questions. Procrastination is a poor strategy, and you will find me to be much more responsive to questions sent on or before Saturday, October 13. (That statement includes ALL questions, regardless of whether they deal with content, style, format, or anything else.)

Steven T. Jones is a Professor of Finance at Samford University.

CALL FOR PAPERS

Academy of Economics and Finance

February 12-15, 2020

Atlanta, Georgia

The Academy of Economics and Finance invites paper submissions for presentation at the 57th annual meeting in Atlanta, Georgia in February 2020. The Academy publishes the Journal of Economics and Finance, the Academy of Economics and Finance Journal, and the Journal of Economics and Finance Education. Papers presented at the conference may also be submitted for publication in each year's Proceedings.

Please join us in Atlanta in February!

Additional information about the AEF and about the 2020 conference is available at

www.economics-finance.org