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While there is unprecedented interest in integrating the teaching of ethics into the curriculum in business schools, a wide variety of philosophies dictate the content and design of the curriculum, and its delivery as well. Consensus on how to teach ethics or, for that matter, what to teach, remains elusive. One of the major questions is whether ethics should be taught as a separate business course or integrated across the curriculum in all business courses. In this essay, David Krause and Sarah Peck, both of Marquette University, discuss how they address the issues of ethics education in the finance curriculum.

## Teaching Business Ethics: The Departmental Perspective

by David Krause and Sarah Peck, Marquette University



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We attended the AACSB conference "Teaching Business Ethics" in the summer of 2005 and came away with a better understanding of the various issues involved in teaching this material. One of the major questions was whether ethics should be taught as a separate business course or integrated across the curriculum in all business courses. We learned from those attending the conference that there is no agreed upon method. Some schools offer a specific required ethics course; others integrate it into the "Business and Society" course; others attempt to integrate it into all of the business courses taught; and some don't address ethics at all.

Another major question discussed at the conference was whether business ethics courses should be taught by business professors or by professors from Philosophy or Religious Studies. When the course is taught by business professors, most often, it is taught by those in Management. We did not fit into either group. We were part of only a small handful of Finance professors attending the conference, despite the fact that many of the well-known corporate scandals have been finance and accounting related. We were there because we plan to offer a course entitled "Investment Management, Ethics, and Society," a finance business ethics and society

course. In developing this course, we have not been able to find any other school that offers a similar course. Because we are doing something that is innovative, we thought it would be valuable to share what we are doing and why.

### Thinking Beyond the Current Issues—What We Do at Marquette

At Marquette University we take the issue of teaching business ethics seriously. As a Jesuit university, Marquette has a long standing practice of requiring a heavy dose of both theology and ethics of *all* our students, whether in the business school or not. Like many business schools, both Jesuit and non-Jesuit, our students are required to take either a "Business and Society" course or a "Business Ethics" course. We also integrate ethical issues throughout the courses in our curriculum. However, unlike other schools, our students can also take an ethics course that is specific to their major, like the finance course mentioned above. We also offer "Economics and Ethics" and "Marketing and Society." A heavy dose of ethics is incorporated into our "Auditing Principles and Procedures" course for our accounting majors. Besides making us distinctive, we believe that there are sev-

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eral advantages to this approach, the most important being, of course, that we produce students who become managers and who are able to conduct business in an ethical and moral way.

### **Engages Students and Enhances Student Learning**

Teaching ethics at the major level requires that students have advanced knowledge of their field. As a result, the ethical issues that can be addressed are more sophisticated and subtle than those that can be addressed in a more generalized course. Often students *perceive* that what they are taught, for example, in a Business in Society course, is self-evident. “Yes, we already know that it’s bad for corporations to pollute the environment.” If students perceive that they are not learning anything new, then they tend to disengage and thus miss some of the more sticky issues in ethical decision making taught in those courses that *are* of value to them.

Students are also likely to have a heightened interest in the material because it relates to their chosen field. Because students are interested in finance, they are more likely to be interested in ethical issues in the finance industry. Their self-selection into a major that holds interest for them can serve as a vehicle to enhance their interest in the related ethical issues. For example, an on-going problem in the finance industry is *soft dollars*.

The term *soft dollars* refers to an arrangement where a money manager receives research or brokerage services from a broker-dealer in exchange for executing trades through that broker. The practice is classified in Section 28(e) of the Securities Exchange Act. Soft dollars are considered by some to be a hidden cost to individual investors that benefits money managers and their financial advisors. Most commonly, a portion of every commission is retained by the broker as payment for research advice or other services normally paid for by the money manager. Such agreements are called “commission recapture arrangements,” which are basically expenses that can be directed to the money managers’ broker to improve the

fund manager’s bottom line at the expense of their investors. The controversy over whether soft dollar arrangements pose conflicts of interest is a topic that is specific to the finance industry. It is unlikely that a marketing major would be interested in discussing whether soft dollars cause an over-consumption of research and how this influences the decisions of money managers—while a finance major would likely find this ethical discussion very intriguing.

Another example is “market timing.” Market timing, unless specifically stated in a fund’s prospectus that the practice will not be used, is not illegal, but can be unethical. Market timing is an investment technique involving short-term, “in and out” trading of mutual fund shares, which has a detrimental effect on the long-term shareholders for whom mutual fund investors are designed, such as retirees and other “buy and hold” investors. The technique is designed to exploit market inefficiencies when the “net asset value” or “NAV” price of the mutual fund shares—which is set at the 4:00 p.m. market close—does not reflect the current market value of the stocks held by the mutual fund. When a “market timer” buys mutual fund shares at the stale NAV in a rising market, he or she realizes a profit when he or she sells those shares the next trading day or thereafter. That profit dilutes the value of shares held by long-term investors. Understanding market timing requires students to have sufficient understanding about how portfolio values are calculated and specifically how mutual funds are priced. Again, it is unlikely that students in other majors would have either the sufficient background or interest to grasp the ethical issues involved in this trading technique. However, it is critical for students entering the investment business to be familiar with these issues if they are to become ethical money managers.

### **Practical Advice and Learning Outcomes**

In addition to engaging students, taking an ethics course in their major is likely to produce more ethical manag-

ers because the course can focus on issues that are specific to that industry. Thus, students will be better prepared to face issues that they will most likely encounter in their chosen profession and ultimately make the right decision. After all, this is why we have ethics in the curriculum in the first place. While most finance majors will encounter the soft dollar or market timing dilemmas in their careers (75% of Marquette’s finance students enter the investment field), virtually no marketing majors would.

Teaching students about *current* ethical dilemmas in their chosen career will also provide them with better tools to address *new* ethical dilemmas that will come across their paths in the future. Most of the ethical issues in investments revolve around the use and disclosure of information, the timing of trades, and the pricing of securities. For example, a detailed discussion of issues such as soft dollars and market timing will increase the student’s grasp of these issues. As managers, these students will be in a stronger position to identify and nullify potential ethical violations associated with more complicated and new types of financial transactions that emerge in the future. Turning out students who become proactive managers who prevent ethical violations is certainly an important learning outcome.

Ethics courses that are specific to a major can also provide more practical advice. Most professions have a code of conduct that is specific to a profession. For example, in finance there are professional designations, Charter Financial Analyst and Certified Financial Planner. Not only should students know what these codes are for these designations, but they should also be able to ethically evaluate these codes of conduct. They should also understand the distinction between legal, ethical, and moral conduct for their profession. This provides practical advice for students starting their careers. What are the specific dilemmas that they are likely to encounter? What are the industry standards that guide this behavior? What

are their values? Who do they go to? Their boss? The SEC?

## Meaningful Integration

AACSB and many other teaching professionals advocate an integrated approach to curriculum design. A common integrated approach is to discuss ethics in all courses. However, because no substantial amount of time is devoted to ethics in any one course, the treatment of ethics tends to be both superficial and repetitive. For example, insider trading is often used as an example of unethical behavior in finance. It's easy and quick and gets covered in almost all courses. Most students know about insider trading already and their eyes glaze over after they've heard it for the umpteenth time. When that happens, they are not learning about ethical decision making.

Teaching ethics at the major level allows more time for students both to go into more depth on any one issue, as well as to cover issues that are less transparent or well known. While many students know about insider trading, they are less likely to be familiar with soft dollars. New material is likely to capture students' attention and result in greater learning. Issues that are more complex and problematic force students to be more engaged in thinking through the ethical issues.

Teaching ethics at the major level also forces integration of course material that is traditionally taught across departments. Socially responsible investing provides an example of how material in a "Business and Society" course taught by the Management department can be integrated into a finance course. Identifying companies that are socially responsible requires an understanding of the topics covered in a traditional "Business and Society" course: stakeholder theory, and its attendant issues of employee relations, environmental concerns, etc. However, evaluating the stock price performance of socially responsible companies requires an understanding of risk adjusted returns, portfolio theory, and benchmarking. As a practical issue, students can also learn about various rat-

ing agencies and mutual funds that claim to follow a practice of socially responsible investing (SRI). Thus, an investment ethics course is able to integrate material from two separate courses, "Investments" and "Business and Society," into one course that is likely to have more meaning for a finance major as well as provide more practical advice.

Another benefit of an integrated approach is that it allows another opportunity to teach major material. Understanding issues in finance such as soft dollars, market timing, and SRI requires a solid understanding of how financial markets work and securities are priced. A discussion of the ethical and moral issues surrounding these topics requires visiting these basic concepts in finance once again. Student learning is often enhanced when students see important concepts re-visited repeatedly but in different contexts.

## Practical Issues: Teaching, Scheduling, Faculty Buy-In

Even if you buy into the pedagogical reasons for offering a major ethics course, there are always resource implications. First, administrators must find someone who can teach such a course. Hopefully, there are faculty in the department that have either a teaching or research interest in developing such a course. Deans need to provide support for the development of the course material, such as ours did by sending us to the conference (it also helped that we have research interests in corporate governance, the financial costs of Sarbanes Oxley, socially responsible investing, etc.). If not, business professionals are often a possible resource. Unfortunately, there are many who have had experiences with unethical business behavior in their specific professions.

Administrators also have to think about whether a major ethics course offered as a major elective can substitute for a "Business and Society" or "Business Ethics" course and whether the major ethics course is required for all majors. The former requires sufficient

sections to be offered each semester so that students can fulfill course requirements and graduate on time; the latter requires only that the course be offered with the same frequency as other electives in the major. The first approach requires more teaching resources be devoted to teaching business ethics. Which of the two approaches administrators take will depend on the resources available at their institutions, as well as on each department's commitment to teaching ethics.

Finally, and most importantly, faculty must "buy in" to such an approach for it to be successful. At Marquette, in developing our curriculum, we focus on learning outcomes rather than requiring specific courses. First, a committee with representatives across departments identified the learning outcomes for the ethics component of our curriculum. These learning outcomes were then approved by the entire faculty. Subsequently, courses can be submitted for approval as one that satisfies the learning outcomes in a particular area, i.e., ethics. If the undergraduate committee determines that a proposed course fulfills the learning outcomes, then it is approved. This approach takes the emphasis off department "ownership" of courses and places it on student learning. It also allows for more innovation and new course development.

## Students Who Become Ethical Managers

The bottom line is that we believe that offering ethics at the major level ultimately produces students who are both more proficient and more ethical managers. Ethical dilemmas presented in the context of the student's chosen career provide more practical advice, more effective tools for ethical management, greater student engagement and learning, and another opportunity for students to learn important concepts in their major. If deans are willing to reallocate resources to such an approach, we can think of no costs in terms of the learning outcome—producing ethical managers—that underlies the rationale for teaching ethics in the first place. ■