EDITORIAL

Should Finance and Ethics be taught as an *elective* course in the Finance Department of a Business School? The answer is a resolute yes, and all objections to the contrary are easily rebuttable. That is, the arguments for teaching Finance and Ethics as an elective (not even a requirement) are compelling, and there are no persuasive counters to them.

Indeed, after the 2008 financial crisis and the resulting near economic disaster, the proposition ought to be non-controversial. At worst, the most diehard quantitative-oriented finance professor, for whom the Chicago School approach has been the basis for his publications that won him tenure, would say, "Sure, why not?" After all, unless that approach has become blinding ideology, he would see that from the 2008 crisis and its aftermath, the following lesson may be inferred: the greatest risk to the international financial system is not a quantitative mistake, not a defective hedging strategy, and not lax regulation. Rather it is ethical failure. Certainly, regular folk seem to think the proposition accords with common sense. They appreciate ethical lapses are the rot in global finance. So, undergraduate finance majors and MBAs concentrating in finance may benefit from the study of Finance and Ethics.

Remarkably, some finance academics respond negatively. Their rejection – and for some, outright, visceral hostility – is all the more remarkable, because of the crisis at MBA programs. In recent years, the applicant pools and rankings of many programs have plummeted. Many would-be MBA students have lost faith in Business Education. They see it as an expensive proposition with unsatisfying intellectual and practical returns.

Surely in response, a new approach would be embraced with entrepreneurial zeal? Not so. With a Masters-of-the-Universe mentality, the professoriate (many of whom happen to be male) in Finance Departments cling to a business-as-usual approach. Their solution to the crisis in global finance? More required courses in quantitative methods! Their solution to the rankings debacle? More courses in quantitative methods! Their solution to attracting more students into the MBA program? More courses in quantitative methods! So much for innovation, much less an open-minded spirit of intellectual inquiry.

The point, of course, is not about academic personalities at any one Business School, nor even about one particular School. The point is both systemic and fundamental. It is to evaluate the opening proposition: ought Finance and Ethics to be taught as an elective in the Finance Department of a Business School?

What are the key substantive arguments against teaching a finance and ethics elective, and what are the winning rebuttals?

Objection # 1: *Business Ethics already is a general requirement for all MBA students. In Business Ethics, the main ethical theories are taught, so why would students need to learn ethics again in a Finance and Ethics course?*

Rebuttal: First, what is wrong with, and what is the grievous downside of, giving business students the opportunity for rigorous exposure to ethics instruction? Do Business Schools not want to instill a sense of the importance of ethical behavior in all business endeavors? According to surveys, these students have the highest rate of cheating in exams among their university peers. Why this dismal fact? Perhaps students think the unquestioned purpose of business is profit and not service. Perhaps this attitude is made worse by an institutional indifference to ethics instruction. A solution is for Business Schools to promote a culture of ethics among its students. Schools can offer a plethora of courses in ethics such as: Marketing and Ethics, Supply Chain and Ethics, Accounting and Ethics, Management Systems and Ethics, and so on. In so doing, schools signal to students this message, "Hey, we believe ethics is essential in all fields of business and we are not paying lip-service to its study and practice."

Secondly, ethical theories and concepts are not easy to grasp in just a handful of hour-long classes. Ethics is moral philosophy. The canon of moral philosophy is vast and deep, stretching back at least 2,500 years, when Socrates asked, "How shall we live?" Thus, began the great discourse on human values whose worthy contributors include, Plato, Aristotle, Immanuel Kant, David Hume, Baruch Spinoza, Adam Smith, Friedrich Nietzsche, and John Rawls. There is a lot to learn in ethics and at great depth, and then *apply* it. Hence, to say that just a part of one course is more than enough ethics instruction is wrongheaded.

Modern finance, in contrast, has sixty(ish) years' worth of a canon. Yet, never is there dissension about teaching a course in investments, portfolio management, or valuations, followed by more such courses. Why, then, opposition to teaching a basic Business Ethics to all MBAs, and then a more in depth, Finance and Ethics course, to students focusing on Finance?

Objection #2: *The courses offered in a technical finance program are specialist courses. Finance and Ethics does not qualify as a specialist course.*

Rebuttal: Observe the logical inconsistency: objection #1 above implies a Finance and Ethics course is too *narrow* and specialist to be taught in finance programs. Objection #2 says Finance and Ethics is too *broad* to be taught in a finance program. Both cannot be true simultaneously, which leads to a second observation: academics who offer both objections are blinded by their quantitative ideology about finance to their own cognitive dissonance. In any case, the second part of the previous rebuttal also refutes objection #2. Moreover, ethical reasoning and its application to finance through the use of case studies require considerable sophistication. To synthesize two disciplines demands both critical and lateral cognitive sophistication.

Objection #3: *Employers will think it strange that a graduate took technical finance courses and, also had a Finance and Ethics course.*

Rebuttal: This objection surely is a red herring. Employers will think it GREAT an applicant has a Finance and Ethics course under her belt. Financial institutions now clamor to show regulators and the public they are serious about inculcating an ethical culture subsequent to the LIBOR scandal. Barclays Bank repeats *ad nauseum* that it intends an ethical transformation. Surely, hiring applicants who have studied and know the importance of ethics can only help achieve this noble goal.

Ethics instruction makes graduates better finance professionals. They are more capable in issue spotting, *i.e*. recognizing ethical issues in their daily work. Ethics training enables these professionals to find the correct solutions to the issues by applying ethical frameworks such as utilitarianism or principles based systems. These skills can be learnt and are paramount if an organization wishes to avoid being the adverse subject of front-page news in the *Wall Street Journal* or the *Financial Times*.

Given these rebuttals, ideologically driven Finance professors who oppose the proposition are on the wrong side of the curriculum. As an astute observer said to *Moral Cents*, the teaching of ethics in the business academy is only going to increase, albeit slowly. Innovative schools will lead the way. Other schools will follow, but not in time to arrest their decline in rankings or applications.

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The reader will discern a couple of themes in an entertaining mixture of articles in this issue of *Moral Cents.* They are, corporate social responsibility (CSR) and real estate markets. The CSR term is brandished too glibly and is at risk of losing its significance. Nevertheless, the CSR movement is growing as more corporations in the U.S. and abroad sign up to the philosophy of doing good while doing well. Anna Kimbrell writes about a new type of legal business form called Benefit Corporations, which are for businesses motivated to create social and environmental benefits as well as profits. Biyan Tang reports on CSR in China with an interview with Mr. Li Weiyang of the State Grid Corporation of

China. Mr. Li is deeply involved with CSR in China and gives a State Owned Enterprise's view of the movement.

The previous issue of *Moral Cents* had an article analyzing executive compensation in the U.S. Discussion of the vexed subject continues in this issue with an article on cross-cultural comparisons of executive compensation. The author Ji Soo Yim, investigates executive compensation in the U.S., the United Kingdom, and South Korea.

Dr. Olivier Mesly gives an account of financial predation from a neuroscience perspective. This unique and multidisciplinary paper examines the neurobiological mechanisms supporting the Mesly model, which states that perceived predation influences trust and cooperation between a financial predator and his clients.

Finally, the other theme in this issue of *Moral Cents* is real estate. Peter Tilley's paper tackles the issue of the proper role and responsibilities of the Mortgage Electronic Registration Systems, Inc. (MERS), a neglected area in the post-crisis chaos of mortgage refinancing and foreclosure. Jane Li writes on property rights and economic justice on the other side of the world. Her article highlights the peculiar structure of the property market in the Hong Kong Special Administrative Region (SAR). She chose to title her paper, "Hong Kong's Housing Game: Four Giants and Seven Million Commons".

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