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Edited by
Ruth H. Lytton, Ph.D.
Department of Housing, Interior Design and Resource Management
Virginia Polytechnic Institute and State University
Blacksburg, VA 24061-0424

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ETHICS: WHAT WE DO? WHAT WE TEACH? IMPLICATIONS FOR PROFESSIONALS

Tahira K. Hira Ph.D., CFP., Iowa State University

ABSTRACT

This paper addresses issues central to the discussion of the topic of professional ethics. Kohlberg's stage sequence model of moral development identifies different levels of an individual's cognitive moral development. Rest extends Kohlberg's model by explaining processes underlying an individual's moral behavior. Results of selected empirical studies attempting to develop measures of assessing individual ethical reasoning or moral development are briefly discussed. Implications for professionals in business and finance are developed in the light of theory and research; specific emphasis is on creating an ethical environment in an organization. The role of higher education in teaching ethics is critically evaluated.

Background

Ethics is about how we ought to live. What makes an action the right, rather than wrong, thing to do. What should our goals be? The word ethics itself is sometimes used to refer to a set of rules, principles, or a way of thinking, that claims authority to guide the actions of a particular group. Sometimes it stands for the systematic study of reasoning about how we ought to act. Some writers use the term "morality" for the first descriptive sense and others may use the term "ethics". Both "ethics" and "morality" have their roots in the word "customs", the former being a derivative of the Greek term from which we get "ethos", and the latter from the Latin root that gives us "mores", a word still used sometimes to describe the customs of people (Singer, 1994).

While distinct societies hold different ethical views on many subjects, it is clear that on some important points, almost all societies are in agreement. That does not however, mean of course that we have to accept as right the ethical views on which societies agree. The fact that a practice is universal does not determine whether that practice is right or whether it ought to be discouraged to the maximum possible extent, perhaps even prohibited. Just as understanding the origin of ethics helps us to grasp the nature of the phenomenon with which we are dealing, so too, our understanding is increased by knowledge of the degree of diversity and uniformity in ethical systems between different societies.
Three definitions are central to the issue of ethics. First, a moral issue is present where a person's actions, when freely performed, may harm or benefit others. Decisions frequently have some consequences for others and volition is almost always present, although the costs of certain choices may be high. Second, a moral agent is a person who makes a moral decision, even though he or she may not recognize that moral issues are at stake. A central element of the moral decision making model is recognizing moral issues. Third, an ethical decision is defined as a decision that is both legal and morally acceptable to the larger community. Conversely, an unethical decision is either illegal or morally unacceptable to the larger community. There are many ways in which one could divide the immense amount that has been written in this area, but perhaps the most fundamental division consists of answers to two different questions. The first question is what kinds of things are ultimately good? The second question is how do we decide what actions are right (Singer, 1994)?

There have been attempts to bridge the gap between those who judge right and wrong on the basis of rules, and those who pay attention only to the consequences of actions. Thus, some defenders of an ethics based on rules have acknowledged the need for exceptions when following the rules would lead to catastrophic consequences. Others are prepared to go further still, and regard rules or principles as carrying some weight, but not necessarily an overriding weight, so that consideration of the consequences of acts is always part of the process of forming an ethical judgment (Velasquez & Rostankowski, 1985).

**Theoretical Models**

Moral development theory attempts to explain the cognitive framework underlying individual decision making in the context of an ethical dilemma. The objective of moral development theory is not to classify a behavior as inherently right or wrong, but rather on understanding the cognitive reasoning processes an individual follows in resolving an ethical dilemma. An individual's moral growth results from exposure to more advanced forms of moral reasoning. The ensuing cognitive conflicts or disequalibrium produces tension in the individual attempting to reconcile the contradiction.

Kohlberg's (1969) stage-sequence model of moral development identifies a series of three qualitatively different levels of individual cognitive moral
development. This stage-sequence model defines an hierarchical series of three qualitatively different levels of moral reasoning. The first level is pre-conventional, where the focus is self. The second is the conventional level, where the focus is on relationships. The last level is the post-conventional, or principled reasoning, where the focus is on individually held principles of conscience (see Table 1). The principled level of moral reasoning is characterized by a decreased emphasis on rule-oriented behavior. Each of the three levels of development is comprised of two developmental stages. Implicit in the cognitive development theory is the idea that moral development over time is a monotonically increasing function.

The work of James Rest (1986) is an extension of Kohlberg's cognitive development model of moral reasoning. Rest contends that in order for moral behavior to occur, an individual must have performed at least four basic processes, which he refers to as the "Four-Component Model" (see Figure 1). In the first component an individual becomes aware of the existence of an ethical issue, determines the possible alternative courses of action and the potential consequences of each action in affecting the well-being of the involved parties. The second component occurs when the individual then makes a judgment as to what course of action is morally right. The next step, or third component, is the process whereby the individual decides what he or she actually intends to do by selecting among competing values or goals. The fourth component involves implementing and executing a plan of action. While Kohlberg's primary interest was to devise a theoretical system to represent the logic of moral thinking, Rest was concerned with the development of a valid, reliable measurement instrument that could be used to assess ethical reasoning and to test hypotheses focused on moral reasoning.

Moral judgment is a necessary but not sufficient condition for moral behavior such as honesty, altruism, and resistance to temptation. Reinforcement theory posits that individual behavior is a result of its consequences. This approach suggests that an organization can influence the ethical/unethical behavior of its members through specific rewards and punishments for ethical/unethical behavior (Kohlberg & Candee, 1984).

Rest (1984) suggested that personal costs and other pressures will have an impact on individual moral behavior. For example, where the personal costs of moral behavior are high, subjects are more likely to
<table>
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<th>Stage</th>
<th>What is considered to be right</th>
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<tr>
<td><strong>LEVEL ONE - PRECONVENTIONAL</strong></td>
<td>Sticking to rules to avoid physical punishment. Obedience for its own sake.</td>
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<tr>
<td>Stage One - Obedience and punishment orientation</td>
<td>Following rules only when it is in one's immediate interest. Right is an equal exchange, a fair deal.</td>
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<tr>
<td>Stage Two - Instrumental purpose and exchange</td>
<td>Stereotypical &quot;good&quot; behavior. Living up to what is expected by people close to you.</td>
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<tr>
<td><strong>LEVEL TWO - CONVENTIONAL</strong></td>
<td>Fulfilling duties and obligation to which you have agreed. Upholding laws except in extreme cases where they conflict with fixed social duties. Contributing to the society, group.</td>
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<tr>
<td>Stage Three - Interpersonal accord, conformity, mutual expectations</td>
<td>Being aware that people hold a variety of values; that are relative to the group. Upholding rules because they are the social contract. Upholding nonrelative values and rights regardless of majority opinion.</td>
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<tr>
<td>Stage Four - Social accord and system maintenance</td>
<td>Following self-chosen ethical principles. When laws violate these principles, act in accord with principles.</td>
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<tr>
<td><strong>LEVEL THREE - PRINCIPLED</strong></td>
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defensively reappraise the situation. In addition, persons who are under great time pressure are simply less likely to notice the needs of others. These individuals are so engrossed in completing the assigned task that they pay little attention to the need of others.

Dobson (1992) proposes that financial economic theory (FET) discards its scientific detachment, and emphasizes rhetorical and qualitative discourse. FET cannot afford the luxury of choosing whether or not to consider ethics. Its behavioral dimension will always rest on some value system. However, these value systems have to be recognized and evaluated; such recognition requires that FET adopt a philosophical stance that is much broader than previously contemplated. In developing models of financial contracting, behavioral motivations must be weighed that are neither measurable nor rational in an economic sense. No numerical justification can be given for the
behavioral virtues. To ignore them may be to ignore what is ultimately desirable in all human endeavor.

Theory and research related to the situation effects on ethical/unethical behavior offer strong support for situation variables having a profound effect on ethical/unethical behavior in most people. The clear implication is that it is inappropriate for organizations to rely totally on individual integrity to guide behavior (Boling, 1978). Most organizations provide the social context within which behavior takes place. It is unlikely that all adults can be moved to principled stages of moral reasoning where consistency is expected between ethical cognition and actions. Therefore, organizations must provide a context that supports ethical behavior and discourages unethical behavior.

Empirical Studies

The most widely utilized measure of assessing individual ethical reasoning or moral development is Rest's (1979, 1986) "Defining Issues Test" (DIT). The DIT is a structured, self-administered, objectively scored instrument, which assesses a person's ethical reasoning ability from forced-choice responses to moral dilemmas. The DIT does not categorize an individual at a specific developmental stage but assesses the degree to which a given subject uses post conventional reasoning. By focusing on the distribution of a subject's responses, DIT incorporates a quantitative component to the assessment process. The most frequently used score is the p index ("p" for "principled"), which is interpreted as the relative importance the subject attributes to stage 5 and 6 items.

The p score of the DIT correlates only weakly with gender, ethnic background, IQ, and vocation variables. The strongest correlation with moral stage development is years of formal education, particularly with adult subjects (Rest & Thoma, 1985). While years of formal education is the primary antecedent of moral development, Rest (1986) states that "years in school must indirectly represent some psychological process, some conditions of experience that are directly responsible for development" (p. 56). Analysis of additional research studies led Rest to conclude that, "It is not specific moral experiences as much as growing awareness of the social world and one's place in it that seems to foster development in moral judgment" (p. 56). Colby and associates (1983) suggest that moral atmosphere, or the collective values of an organization, serves to limit or to enhance ethical
cognition. Colby's longitudinal research found that some adults continue their cognitive moral development beyond their years in school. It is proposed that work plays a significant role in continued adult moral development. Two characteristics of a job that may contribute to continuing adult moral development are opportunities for role taking and responsibility for the resolution of moral dilemmas (Colby, Kohlberg, Gibbs, & Lieberman, 1983).

Business ethics, especially in the area of finance, is not an empirically based area of research. Ethics measures that exist involve personality and values tests. Results of such measures give no insight into how a person may react in certain specific situations or the gray areas of ethical behavior. There is no guarantee that a response to a hypothetical ethics question in a test accurately reflects behavior in a real world setting (Norton, 1989).

Role taking is defined as taking account of the perspective of others. The centrality of the individual to the communications and decision making of the group increases role-taking opportunities. It is speculated that individuals whose work either allows or requires them to engage in complex role taking are more likely to continue to advance in the cognitive moral development stage. These might be the individuals placed in democratic (rather than autocratic) leadership positions. Democratic leadership roles require role taking via sensitivity to group members' attitudes and group communication (Kohlberg, 1969). It is further speculated that individuals whose work holds them responsible for the frequent resolution of moral conflict are more likely to continue to advance in the cognitive moral development stage.

Jones (1991) argues moral intensity is intended to play a major role in the recognition of moral issues, and hence, in the actual engagement of moral decision-making processes instead of, or in addition to, other decision-making schemata. Simply stated, the details of moral decision-making and behavior processes become irrelevant if the person does not recognize that he or she is dealing with a moral issue.

In a critical review of the moral cognition/moral action empirical literature, Blasi (1980) concluded that (a) considerable support exists for a statistical relationship between moral reasoning and moral action; (b) moral reasoning is important but does not totally explain delinquent behavior; (c) higher moral stage individuals are more likely to resist the pressure of conforming to the judgments of others; (d) weaker
support exists for the hypothesis that higher stage individuals are more honest and altruistic; and (e) less support exists for the hypothesis that post-conventional level individuals are more likely to resist social pressure to conform in moral action.

Cahan (1992) examined whether managers in the failing Savings and Loans (S&L) industry were less ethical in their financial disclosures than managers in healthier S&Ls. This question was empirically tested by examining whether S&Ls voluntarily disclosed the reconciliation of the Regulatory Accounting Practices (RAP) and the Generally Accepted Accounting Practices (GAAP) net worths in 1988. Because this information is useful, non-proprietary, and essentially costless to provide, it is argued that S&Ls should have provided this disclosure. Results of this study provided support for the view that managers in filing thrifts were less forthright or less ethical in their financial disclosures than managers in other S&Ls.

Organizations attempt to guide members' ethical behavior by developing a formal code of ethical conduct. Research is inconclusive regarding the effectiveness of the formal code of ethics in changing attitudes or behavior. It suggests that codes of ethics must be consistent with the organizational culture and must be enforced in order to be effective. Tervino (1986) argues that codes of ethics are effective in guiding behavior. It is likely that codes of ethics are a reflection and manifestation of the existing organizational culture. They are not only distributed, but enforced. Ineffective organizational codes are more likely to serve as "window dressing". In these situations, the codes may not even be distributed and are counteracted by other organizational pressures toward unethical behavior, such as financial gain. Hence, code of ethics will affect ethical/nonethical behavior only if they are consistent with the organizational culture and are enforced.

Implications for Professionals in Business and Finance

Horrigan (1987) examined the normative ideas flowing from the contemporary theories in finance. These theories include the irrelevance theorem, efficient market hypothesis, capital asset pricing model, options pricing model, and agency theory. He determines the ethical implications of behavioral consequences that would ensue if every one took the normative precepts of these financial theories. He concludes that the corporate world is a place where the firm can select any operating and financial strategies that it wishes, and the investors will respond immediately through a
combination of homemade portfolio diversification, clever opinion positions, and carefully constructed agency relationships, all of which results in a pervasive nihilism.

Horragan (1987) recommends that we recognize that much of the super structure of the finance is built up in equilibrium models; and we should explore the process by which the grand equilibrium is achieved. We ought to consider demoting market returns to a lower status as an objective (for example, survival of the firm vs. ecological harmony as a financial objective). We should return to a greater emphasis on the financial aspects of "real" problems, i.e., we should give more attention to the financing needs growing out of investment and production decisions. In effect, it is time to return to the working of the firm rather than the working of the financial markets. We ought to consider emphasizing different human qualities in finance such as some of the older virtues like pride of ownership, stewardship, and ethical concerns. He asks do we want to optimize risk and return subject to the constraint of morality, or do we want to maximize virtue subject to the constraints of satisfactory risks and return positions?

Dobson (1992) argues that theory of finance and the practice of finance are inseparable, thus for ethics to be accepted among the financial community requires first and foremost that a justification for ethical behavior be clearly and unambiguously delineated within financial theory. Second, theoretical finance and ethical theory are inseparable. In essence, since it involves assumptions about human motivations and behavior, a financial contracting model can never be morally neutral. He suggests that business ethics must shift emphasis away from action/rule based moral philosophy, and toward that based on agent/objective. Philosophical and opinionated rhetoric should become as much a part of the finance disclosure as it is currently a part of the business ethics discourse thus balancing finance economics' mathematical bias, and enabling such concepts as internal utility to be considered both conceptually and mathematically.

Creating an Ethical Environment

The application of the virtue ethics to specific financial decisions within the firm begins with the development and implementation of some corporate ethos consistent with the classical concept of excellence through exercise of the virtues. For individuals within the firm, the attainment of excellence through exemplary performance requires the exercise of these
virtues. The central feature of this system, therefore, is that ethics becomes an objective rather than a constraint. The implementation of this ethos must begin at the top since, a corporation's top management sets the ethical tone for its employees. It is from observation of how these individuals handle ethically charged decisions that other members of the organization learn practical ethics.

A corporate ethos based on virtue ethics, therefore, requires a broad-brush approach rather than an enumeration of specific rules for each possible contingency. In essence, such an ethos places virtue above material gain. No specific moral guidelines are given for individual financial, marketing, or other decisions. What is enumerated is a value system predicated on the classical virtues of honesty, integrity, courage, justice, and a respect for human life and dignity over and above the need to return stockholders their "fair return."

The platonic virtue of wisdom is thus exploited in implementing the corporate ethos. The contents of ethos as identified by Dean (1992) are:

- Exercise due Care
- Confidentiality
- Fidelity of Special Responsibility
- Avoidance of the Appearance of a Conflict of Interest
- Willing Compliance with the Law
- Acting in Good Faith in Negotiations
- Respect for Human Well-Being
- Respect for the Liberty and Constitutional rights of others.

Three learning goals that progress logically from a broad recognition of the value of ethics, to specific application of ethical precepts in financial decisions include:

1. To increase recognition of ethical dimensions in management decisions.
2. To acquire concepts and methods for analysis of ethical issues.
3. To strengthen the capacity for practical resolution of ethical issues.

In this construct, the sacrifice of honesty or virtue for material gain makes no sense; whereas the sacrifice of material gain for honesty makes perfect sense. Managers are made aware of the fact that there are no simple solutions to ethically charged decisions. They
realize that practically every decision they make has an ethical dimension. Indeed, it is the virtues that provide the foundation from which the managers order and analyze business decisions. Rion (1982) identified these virtues as (a) promise keeping; (b) truth-telling; (c) reparation (compensating for previous wrongful acts); (d) gratitude; (e) justice; (f) beneficience (doing good, preventing evil); (g) nonmaleficence (refraining from doing evil); and (h) morally virtuous self-development.

Role of Higher Education in Teaching Ethics

Universities should be among the first to reaffirm the importance of basic values, such as honesty, promise keeping, free expression, and nonviolence, for these are not only principles essential to civilized society, they are values on which all learning and discovery ultimately depend. Until this century, educators throughout history not only sought to build the character of their students, they made this task as their central responsibility. As Plato observed, "If you ask what is the good of education, the answer is easy—that education makes good men, and that good men act nobly" (Bok, 1988).

Some efforts are being made at many campuses. More often, however, and especially in large universities, the subject is not treated as a serious responsibility worthy of sustained discussion and determined action by the faculty and administration. In professional schools particularly, there is little talk of ethical issues outside the classroom except with close friends. Only rarely is instruction in ethics made a part of the required curriculum, instead, courses in applied ethics, if they exist at all, are elective and taken by only a minority of the student body (Bok, 1988).

A more troublesome problem, however, is the dearth of well-trained faculty to offer instruction, especially in professional schools. Courses in professional ethics are difficult to teach, because they call for preparation in two entirely different subjects: moral philosophy (or a related discipline) and some area of practical application, such as government, law, business, or medicine. The key question is how to combine education in moral reasoning with a broader effort to teach by habit, example, and exhortation. The ability to reason is essential to help us make our way through all the confusing dilemmas and conflicting arguments that abound in an era when society's consensus on issues of value has disintegrated under the weight of cultural diversity, self-serving
rationalization, technological change, and other complexities of modern life.

Advanced knowledge and specialized skills are important in many ways. Yet they are not the only ends of education. As Montaigne observed: "To compose our character is our duty, not to compose books, and to win, not battles and provinces, but order and tranquillity in our own conduct. Our great and glorious masterpiece is to live appropriately" (Bok, 1988, p. 50).

References


