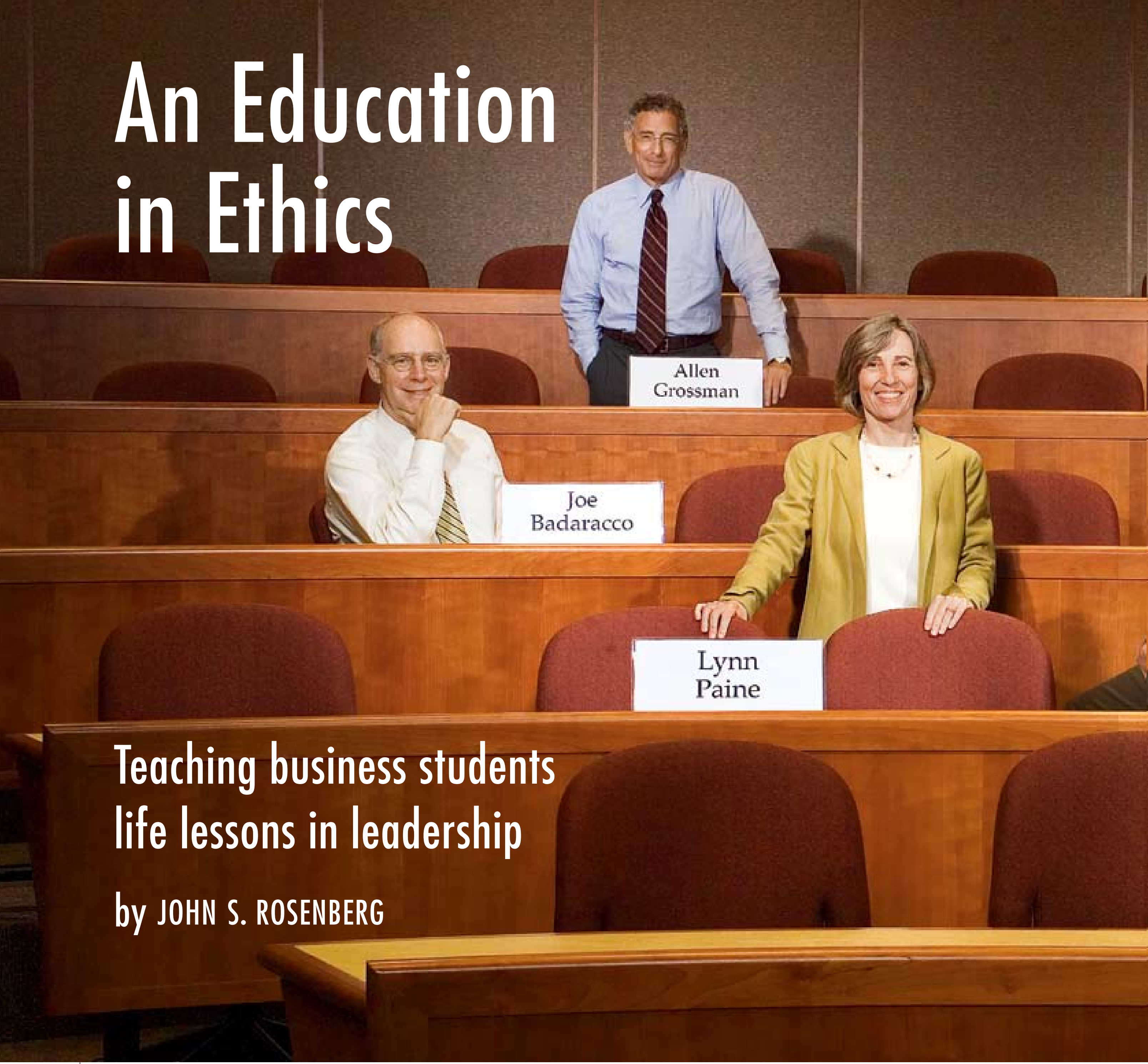
An Education in Ethics

Teaching business students life lessons in leadership

by JOHN S. ROSENBERG



Last January 13, in the amphitheater of Aldrich Hall 107, Henry B. Reiling began taking his students through the quaint details of a real-estate partnership formed in 1902 by Walter J. Salmon, who managed the entity, and Morton H. Meinhard, his co-investor. The partners, who committed $200,000 of capital, agreed to renovate a leased building at the corner of 42nd Street and Fifth Avenue in New York City, and to operate it as office and retail space for 20 years. Each partner made a "rich return." Everything about the arrangement seemed routine—hardly the sort of case to test the analytical prowess of a first-year class beginning their second semester of M.B.A. studies at Harvard Business School (HBS). Why, then, exhume this ordinary partnership? And why was a Baker Foundation professor, a lawyer (as well as an M.B.A.) who specializes in business law and in tax issues, running the class?

In January 1922, the students read, a new owner of the building and adjacent lots envisioned much more ambitious renovation of the high-profile corner. Four months before the 1902 partnership's lease ended, Salmon signed an 80-year agreement with the new owner to proceed on the successor project. The new owner knew nothing about Meinhard, who learned about the new lease only after it had been executed. Meinhard then asked Salmon to make it an asset of their expiring venture. Salmon refused. Meinhard sued—and won.

The manner of his winning brought this partnership to the twenty-first-century students' attention. In 1928, the Court of Appeals of New York awarded Meinhard a half interest in the

Photograph by Jim Harrison

Seven members of the 2006 "Leadership and Corporate Accountability" teaching group gather in an Aldrich Hall classroom at Harvard Business School. Course head Lynn Paine, a lawyer who holds a doctoral degree in moral philosophy, studies how businesses meld high ethical standards with strong financial performance. Her colleagues' expertise, described in the text, encompasses work on individual values and leadership, finance, tax and corporate law, marketing, technology and operations management, and organizational behavior, plus senior operating experience in companies and nonprofit enterprises. The two other faculty members appear on pages 45 and 48. (The name cards mimic those that students have in each class, to facilitate discussion.)

new project, in essence extending the terms of the original 20-year agreement. In Chief Justice Benjamin Cardozo's opinion, the "joint adventurers…owe to one another, while the enterprise continues, the duty of the finest loyalty." Thus, behaviors allowed to those who act at arm's length "are forbidden to those bound by fiduciary ties. A trustee is held to something stricter than the morals of the market place. Not honesty alone, but the punctilio of an honor the most sensitive, is then the standard of behavior," a tradition Cardozo called "unbending and inveterate."

In their discussion, a substantial minority of students registered surprise at the court's ruling and rationale. One sensed visceral disbelief that an economically sensible successor arrangement made by Salmon in the final months of a 20-year venture, from which his partner had profited handsomely, could be challenged this way—and that Meinhard could be awarded a *half* interest in the new investment. Nothing in their contract required Salmon to advise Meinhard about the negotiations, one student said. How could one be certain about any project if it turned, as this one did, on a 4-3 court decision long after the fact? The outcome seemed shocking to some students' instincts and inclinations, unfair, and deeply disquieting as it layered ambiguity, complexity, and outside control over what seemed the simplest and most logical of business decisions.

And that is why Reiling and his eight colleagues who teach the multiple sections of this course have made it a foundational case in the first week of class. *Meinhard v. Salmon* has become one of the most frequently cited opinions in American law for its clear expression of the force and reach of fiduciary responsibilities. Now, at Harvard, it has migrated across the Charles River from the law school to the business campus, finding a vivid place in "Leadership and Corporate Accountability" (LCA).

TAUGHT FOR THE THIRD TIME last winter and spring, LCA is a full-semester course required of all M.B.A. students. It thus complements first-semester courses in such expected skills as finance, marketing, and financial reporting and control, and second-term courses in strategy, negotiation, the international economy, and entrepreneurship. Mandating such a course, which few other American business schools do, reflects an ambitious view not only of what management leaders ought to know beyond the economics of their enterprises, but also of the most effective ways to teach this perspective to financially focused young people.

At the most basic level, LCA aims to "give students a deep practical understanding of the *responsibilities* of business leadership," says McLean professor of business administration Lynn S. Paine, who helped design and now heads the course. And because this is education for a profession, the course then challenges students to examine "How do you make good on those responsibilities in a world that is often unclear, constantly changing, and decidedly unforgiving?"

Students found psychologist Stanley Milgram's classic experiment on compliance with authority figures a vivid, unsettling example of the institutional influences on human behavior.

In this large sense, LCA is an important statement about contemporary ethical education. Learning about norms of conduct has long been fundamental for students and practitioners in patient- and client-centered professions such as medicine and law. But in secular liberal-arts settings, the role of such education is far less defined: witness the College's debate about revising undergraduate studies, which might include eliminating the current "moral reasoning" component. The business school's challenge lies between these poles: broadening students' perspectives as they prepare for a career where results are often measured by quarterly earnings, but where practice is guided by informal rules and the varying cultures of individual organizations.

Most students have already "internalized a good, strong sense of positive values" to guide their personal behavior, says professor of management practice Allen S. Grossman, one of the LCA faculty, a past president and chief executive officer of Outward Bound USA who now studies nonprofit organizations. But Grossman says the M.B.A. students, who typically work for a few years before enrolling in HBS, have not yet experienced "an opportunity to *apply* those values—how they integrate in decisionmaking in an *organization*." Thus, individuals who feel confident about dealing fairly with others face to face may feel lost or anguished when they confront decisions about laying off employees en masse or reacting to new competitors. And for all their personal certitude, they may not realize how they are shaped by and react to group pressures, where asymmetrical information and powerful incentives can influence behavior. As Grossman puts it, "They haven't really thought about the power of context." In LCA, he says, "We are giving our students a preemptive advantage when they face the situations they will *inevitably* face."

The course does so through two sequences of case studies drawn from practice (in the HBS manner) and subjected to vigorous classroom discussion under faculty guidance. The first set of cases addresses the corporation and its responsibilities: fiduciary concepts of loyalty, candor, and care; obligations to shareholders and creditors; the duties related to consumer product and service safety, authenticity, and integrity; the terms and conditions of employment; and public issues of privacy, the environment, health, and social expectations of business. The second set examines governance: from the law, regulation, and boards of directors to the internal design of compensation incentives, compliance systems, and organizational values and codes of conduct. The cases involve seasoned CEOs and people just starting their careers, domestic and foreign firms, industries ranging from medicine to meatpacking, and contexts as mature as the American market or as freewheeling (and frightening) as developing economies where bribery and favoritism are routine.

Throughout, students are challenged to analyze business problems from three overlapping perspectives—economic, legal, and ethical—and to recognize that enterprises can be sustained only when they are aligned with all three criteria. That triple-lens framework is perhaps LCA's defining intellectual feature. It brings together elements that students might encounter separately in courses on finance, values, and law, but which are not otherwise combined in a dynamic way, readily applicable to the challenges business leaders regularly confront. LCA faculty members hope the framework informs the students' subsequent decisionmaking in business; in evaluations, students have often cited the three lenses as an essential takeaway from the course.

One early class focused on Aaron Feuerstein, the businessman who became a national hero in late 1995: when a fire gutted his family's Malden Mills textile plant in Lawrence, Massachusetts, Feuerstein announced on the spot that he would rebuild the complex, retain every employee, and continue their pay and benefits in the interim. The first students to comment acknowledged Feuerstein's idealistic intentions and long adherence to his personal standards (he had not moved production offshore, for instance). But they immediately critiqued his deafness to contrary advice from his own company experts and his lack of strategic discipline. Feuerstein's plan depended on rosy economic forecasts with little room for error—and ultimately bankrupted the reemerging company, jeopardizing the livelihoods of virtually all of the workers and their surrounding community. Other students argued that, given the traumatic fire, Feuerstein's instinct to be reassuring and to stay the course was not only humane but indispensible. Putting his employees' interests first—risking his own and his family's wealth—was understandable. And they maintained that his vision could be adapted to work.

But was it "ethical" in the familiar sense? Baker Foundation professor Thomas R. Piper asked the section to consider whether Feuerstein's strengths—his admirable immediate reactions—were also larger weaknesses, given the shaky finances of his enterprise. If students emerged dissatisfied—torn between their emotional sympathies with the person and their analytical criticisms of his performance as CEO—Piper seemed to imply that made the class a good day's work.


Thomas R. Piper

LCA IS FULL of such vignettes. But even though most of the course is based on actual business cases—it is *not* a liberal-arts immersion in moral philosophy—the faculty has designed several classes around materials atypical of the HBS curriculum. In addition to *Meinhard v. Salmon*, students encounter *Grutter v. Bollinger* (one of the recent University of Michigan affirmative-action cases) as part of a package of readings on employment—including the unusual freedom given companies to shed workers under the American doctrine of "employment at will." There are background readings on insider trading, the ethics of bluffing, divergent views of the corporate purpose (Milton Friedman versus Charles Handy), and on Albert O. Hirschman's *Exit, Voice, and Loyalty*—a classic consideration of the individual's options when an organization is out of alignment with one's standards or values. The final reading is "Letter from Birmingham Jail," Martin Luther King Jr.'s searing 1963 statement of moral responsibility in face of organizational resistance from fellow religious leaders.

One of LCA's most vivid learning moments comes from the most unusual teaching material used in the course. After probing discussions of Enron and WorldCom—whose directors appeared to the students as particularly passive and feckless—the class read a "Note on Human Behavior: Character and Situation," written by Chapman professor of business administration Nitin Nohria, of HBS's organizational-behavior unit. But that analysis of "unreflective obedience" and "emotional contagion" hardly prepared anyone for the experience of watching a film on the famous experiment by psychologist Stanley Milgram, Ph.D. '60, in which two-thirds of subjects instructed by a white-coated authority figure agreed to administer seemingly painful, even dangerous, electric shocks to another person under the guise of scientific research.

The nervous laughter in Lynn Paine's section during the film, and the subdued discussion after, suggested that a door had opened on disturbing truths. One student wondered how people had slipped into roles that made it easy to "just follow orders," and found the deference to authority "scary." Another worried about how readily people crossed the threshold of conceding their judgment to others. Several commented on how authority figures could elicit trust from others and then use it to their own ends. A torrent of real-world examples spilled out, from a student who saw quality-control standards short-circuited to meet monthly shipping goals, to another whose cash-strapped company repeatedly strung out its suppliers ("It got easier," he said).

Paine guided the conversation toward ways students could manage through such situations. The discussion focused on preparing themselves in advance, so that, knowing their own

Students have a "strong sense of positive values," but have not yet had "an opportunity to *apply* those values" in an organization.

Photograph by Stu Rosner

JOHN SWART/ASSOCIATED PRESS

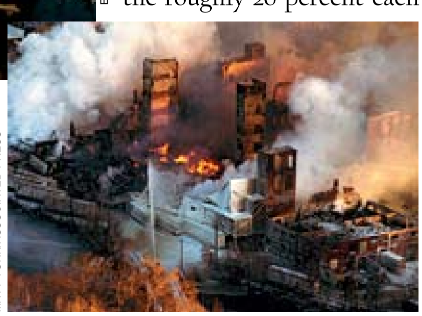
TOM COSTELLO/ASSOCIATED PRESS

Testing Tylenol for cyanide in 1982, after tampering led to a poisoning. Following a recurrence in 1986, despite the use of tamper-resistant packaging, Johnson & Johnson's James E. Burke announces Tylenol caplets as a replacement for capsules.

principles, they could work in, and ultimately lead, organizations without compromising their basic values. (A subsequent case, on how James E. Burke, M.B.A. '49, LL.D. '93, navigated Johnson & Johnson through the two crises of Tylenol tampering and poisonings, linked his reactions and decisions to his own immersion in the company's credo, which specifies norms of behavior.) In closing, Paine commented on the pervasive but naive belief that "It's all about character"—that good people do good things. Complementing Allen Grossman's comments on LCA overall, she suggested that the Milgram experiment shows that character is malleable: behavior is affected by the culture and context an organization creates. By implication, that culture and context, like a company's profitability or growth, are the responsibilities of its leaders.

Three of the faculty members who taught LCA last term have direct experience in exercising those responsibilities, and so enrich the course through exchanges with their fellow professors (see "Team Teaching," at right) and in the classroom. The trio are Grossman; senior lecturer Sandra J. Sucher, a veteran of Federated Department Stores and Fidelity Investments; and professor of management practice William W. George, from 1991 to 2001 CEO of Medtronic, the medical-devices manufacturer, and now a director of ExxonMobil, Goldman Sachs, Novartis, and other organizations.

ELISE AMENDOLA/ASSOCIATED PRESS



MATT YORK/ASSOCIATED PRESS

After fire destroyed much of Malden Mills in 1995, Aaron Feuerstein became a folk hero for pledging to rebuild and support his employees. But the company's finances were not sound.

During a teacher-preparation meeting before the first class sessions, George expressed concern about the students whom their peers call "gunners"—a subset of the roughly 20 percent each year who are focused on financial analysis as a fast track to highly paid work in hedge funds or private-equity firms, and who may regard LCA more as an obligation en route to the M.B.A. than as an opportunity to learn about management (and themselves) generally. In a separate conversation, he criticized the "shareholder-value mantra," driven by Wall Street expectations, that narrows many more students' view of the role of businesses and the work of executives. LCA, he said, "opens them up to a much broader way of thinking."

That broader perspective was very much the subject on February 16, as George's section grappled with the issues confronting Royal Dutch/Shell's Nigerian oil operations in 1995. Facing civil protests by the Ogoni people, whose Niger delta farmlands and fisheries are at the center of oil production and bear the brunt of frequent oil spills, the government of military dictator Sani Abacha arrested the activist leaders and rushed toward finding them guilty of capital crimes. Worldwide protests aimed at the government and at Shell, who were partners in the oil business, demanded justice for Ken Saro-Wiwa, the most visible of the Ogoni activists, and commitments from Shell to improve its environmental performance and to invest in local economic development. Corporate policy directed the company to "avoid involvement in politics."

The students divided sharply on almost every aspect of the situation. A private company shouldn't be involved in politics, one

Team Teaching

Teaching matters at Harvard Business School (HBS)—faculty members spend as much time preparing for each class as they do conducting the actual discussion sections. Those traits are especially apparent in a course like "Leadership and Corporate Accountability" (LCA), which melds diverse disciplines, and where the reciprocal effects on faculty members' research and on their teaching in their specialized fields are also pronounced.

First-year HBS courses are divided into sections of about 90 students, who take all of their classes together. The nine LCA faculty members met before the 80-minute classes to review their "teaching plan" for each case, from framing the major questions to detailing how they would use the Aldrich Hall blackboards and audiovisual facilities to direct discussion.

During one meeting, the faculty group wrestled with a complex case involving Xerox Corporation's fall into financial crisis in 2000. One option facing the company and its new chief operating officer, Anne Mulcahy, was bankruptcy: staving off creditors, but wiping out the careers, benefits, and retirement savings of tens of thousands of employees. Because LCA students would already have encountered aspects of bankruptcy in earlier cases (as Aaron Feuerstein fought to rebuild Malden Mills after a fire, and as Marriott Corporation engineered a recapitalization), William W. George posed the question of how to lead the class through the use of bankruptcy and its effects on stockholders, lenders, employees, and customers—all constituents pertinent to the course. The teaching challenge was to focus in a realistic way on the dilemma facing management, without bogging students down in financial or legal minutiae.

said, although Shell could invest more in community development. Another argued that the company was inevitably involved, and had no choice but to work with other oil producers to curb pollution, address local socioeconomic problems, and even engage third parties to change the government. But how could one reform a corrupt dictatorship? a third asked. And if Shell met these demands, would it not edge toward becoming a shadow government? Shell's economic leverage was limited, another said: if it left, Nigeria would simply pick another partner eager for access to crude. One student recommended that Shell stay on the job even if the national government conducted a pogrom against the Ogoni, unless its own employees were thereby put at risk.

In the "B" case then distributed to class, the students learned that after the guilty verdicts on October 31, 1995, the company issued a statement acknowledging "demands that Shell should intervene, and use its perceived 'influence' to have the judgment overturned. This would be dangerous and wrong" because a "commercial organisation like Shell cannot and must never interfere with the legal processes of any sovereign state." Ten days later, Saro-Wiwa was put to death on the gallows.

Were Shell's hands clean or bloody? George asked. Again, the students disagreed. There are political killings the world over, one maintained: would the United States suspend trade with China? Another said her firm decided not to invest in West African oil because of the political situation—but doubted companies would forgo drilling in Texas because of the state's prac-

MARK ALLEN JOHNSON/ZUMA/CORBIS

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An oil spill in Nigeria in 2004-2005, an Ogoni demonstration in 1993, and an uncontained oil fire in the Niger delta in 2001. The protests over environmental degradation, economic development, and political power that shook the oil industry in the 1990s remain unresolved today, even as Nigeria becomes a more important source of crude for multinational oil companies.

Thomas R. Piper, whose scholarly expertise is in financial reporting and controls, had reconstructed the financial statements, aiming to provide the data necessary to understand Xerox's condition. Mulcahy—new to her position, with a sales and marketing background—confronted poor results and pressure to make gut-wrenching decisions in face of investigations into the accuracy of Xerox's financial reports. Would Piper's data make the case more vivid, or muddy the discussion?

George suggested the essence of the case was what Mulcahy should do in the face of excruciating uncertainty. Sandra J. Sucher suggested focusing on the alternative choices students would make when information could be relied on, and when it could not. In the end, after thorough vetting of several different teaching strategies, the classes focused principally on management's decisions, as Mulcahy opted for a long-term recovery, not bankruptcy, but at a cost of 20,000 jobs.

In such discussions, professors Lynn S. Paine and Joseph L. Badaracco Jr. brought to the table their research in organizational and individual ethics and values. Paine and Henry B. Reiling, a member of the school's finance unit, contributed perspective from legal practice. Kresge professor of marketing Rohit Deshpandé injected a customer outlook, frequently reminding colleagues of constituents outside the boardroom (people considering a long-term contract with Xerox, for example), and drew on his research in developing markets. Allen S. Grossman, William George, and Sandra Sucher brought management experience to the mix. Many of the comments aimed at helping prepare Joshua D. Margolis, Murphy associate professor of business administration, to teach LCA for the first time. The goal was to blend this expertise into a stimulating class for students from multiple nations and even more diverse professional backgrounds, whose comments and questions might spark vigorous debate in a dozen directions.

Deshpandé called the result "the most wonderful assignment that I've ever had" in more than a quarter-century of teaching. The students were "fascinated and fearful" as they encountered the course. In turn, he said, his exposure to the material had led him to consider marketing cases—on selling shaving products in Muslim countries, for example—in new ways. He, Margolis, and Paine had begun collaborative research on global business standards: how companies act as they operate around the world. Looking ahead, he said, "We have to work at taking these learnings back into our individual areas, and in some sense to broaden the diagnostic lenses of the entire faculty."

Margolis, who studies "necessary evils" (laying people off, for example) and the connection between corporations' social and financial performance, found his LCA students had "a *thirst* for these kinds of discussions: how should people in business manage the tensions among the multiple responsibilities they have?" The course had an almost existential quality, helping the M.B.A.s-to-be determine "who they want to be as managers."

If true, no one would be more gratified than Lynn Paine, whose own professional experience seems to have led to LCA, the course she helped create and now directs. In farewell remarks to her class, Paine said she hoped the students had begun "a lifelong process of challenging your own thinking, of challenging the thinking of your colleagues" about difficult business decisions, even in face of "assaults on reason from every direction." Departing the classroom, she said, "I'm really looking forward to seeing how your careers unfold."

Quantitative professors worried that studying ethics was "just philanthropy and foolishness," while ethicists feared their subject would be diluted.

tice of capital punishment. A third said oil comes from "lots of lousy governments," citing conditions in Saudi Arabia. Others pointed to Shell's close relationship with the Nigerian state; given the moral taint and the severe terms of its contract with the government, they thought Shell should get out of the country. Doing nothing was not an answer, one said; should a company wink at the Holocaust?

Having listened to all opinions, George then shed the role of case-method instructor and offered a personal perspective (a step some students later said they welcomed). One week after the executions, he said, Shell approved a multibillion-dollar liquified natural gas project in Nigeria. That was not the inevitable result of some corporate capital-budgeting process, he said, but a discretionary statement of Shell's commitment to its Nigeria operations and its government partners. Turning to information in the case materials, he pointed out that Royal Dutch/Shell's complicated structure—with two boards, a CEO with limited authority, and dozens of foreign operating subsidiaries—was tailor-made for minimizing central responsibility and oversight. Estimates of oil reserves, prepared by the subsidiaries, may have been influenced by local management's relationship with the government, and environmental standards were a matter of local discretion. The whole system left responsibility to Shell's Nigeria manager, sheltering senior officers from the dirty details of keeping the oil flowing.

William W. George

But the CEO was inevitably accountable, no matter how he tried to avoid involvement. Were he running Shell, George said, he would have reconsidered its position in Nigeria. And that might well have been the right decision: even as the LCA students discussed the case, protests resumed (kidnappings and sabotage of production facilities roiled an already fragile world oil market), suggesting the long-term nature and depth of Shell's problems.

The contemporary relevance of cases involving business leaders and corporate accountability—the renewed violence in the Niger delta; the Texas trial of Enron CEOs Kenneth L. Lay and Jeffrey K. Skilling, M.B.A. '79, which overlapped the two classes devoted to that corporate collapse—might make the course seem a quick response to current events. In fact, it has evolved from nearly two decades of research, experiments with pedagogy, faculty recruiting, and assessments of how best to prepare students for a changing business world.

During the 1980s, Thomas Piper recently recalled, the junk-bond-propelled boom in corporate takeovers and the abuses of inside information by investment bankers and traders, including at least one HBS alumnus, prompted overdue reflection on business education. Although individual faculty members at HBS and elsewhere had worked on issues of managers' conduct and business ethics, the field was in the wilderness intellectually. Just when "the corporation's role is increasingly recognized to be more complex than that of a profit-maximizing agent for its shareholders," Piper wrote in an essay in *Can Ethics Be Taught?* (1993), "consideration of professional ideals has given way in the M.B.A. curriculum to emphasis on quantification, formal models, and formulas, all of which minimize the application of judgment and the debate about values." Because the latter subjects figured little in the curriculum, students assumed they didn't matter.

In 1987, John S. R. Shad, M.B.A. '49, then chairman of the U.S. Securities and Exchange Commission, pledged a large gift to support work at HBS on ethics and leadership. He

Photograph by Layne Kennedy

The Students Speak

Harvard business school (HBS) maintains the confidentiality of students' classroom comments, but several members of the M.B.A. class of 2007 shared their impressions of "Leadership and Corporate Accountability" (LCA) after the course ended last spring.

Nikki Baker, a Minnesota native who came to HBS after two years in marketing at PepsiCo, put LCA in the context of the school's "holistic look at the leader." Given the potential to abuse business skills, she said—to hide data in accounting reports, to use marketing tools to trick consumers—it would be irresponsibile not to put those disciplines into their legal and ethical context. The course cases prompted wide discussion among her peers, as you "explore for yourself how you would feel if you made the decision one way or another." In choosing where to work, she said, LCA "really reinforced the importance of picking cultures carefully"—of conducting due diligence on a prospective employer. She said the course's three-lens framework (economics, ethics, and law) would help her identify issues of concern and be prepared to decide how to react.

Amir Yoffe, who was born in Israel but raised in the United States from early childhood, has worked in mergers and acquisitions on Wall Street and in a Texas private-equity firm. He characterized LCA as not an ethics course, per se, but rather general-management instruction, particularly "how to manage in tough times." (Insofar as LCA's creators hoped students would broadly apply its lenses of economics, ethics, and law to decisionmaking, that is promising.) In discussing ethical dilemmas, he said, it is easy for students to "get caught up in what you perceive the 'right' answer to be." To overcome such social pressure, he said, faculty members had to push hard to get each point of view across, and ultimately did so. He suggested incorporating simulations, with students arguing each side of a difficult decision, and bringing the actual protagonists, including the "bad guys," into the classroom, in person or on film.

David J. Anderson would go even further in that direction: students, he said, "don't hear much from community advocates, fired workers, people displaced by eminent domain." Anderson, who has worked in consulting, said he'd been skeptical about LCA's focus on "commonsensical matters—don't lie, cheat, or steal," but found that the class "grappled with a lot of really contentious issues" effectively, and covered important "new news": business law, fiduciary obligations, and the terms of employment. In all, he valued the "practice in using your judgment in situations you many not face for another 25 years."

Georgiana Mirea, a Romanian who trained to teach mathematics, had found herself in a business career after the liberalization of her country. "I had no idea" about abuses such as insider information, she said—nor had she ever heard the eminently practical "Don't do anything you wouldn't want to see on the front page of the next day's newspaper." In future situations involving "gray areas," not clearly within or beyond the law, she said, "Now I will feel much more sense of myself."

Students' willingness to probe their fears and concerns made LCA "real life to me," said Marissa Horne, a Texan who has worked in information technology at Morgan Stanley. Although she had planned to return to systems management (and worked for Microsoft in Bangalore this past summer), Horne said she was so taken aback by some peers' identification with Royal Dutch/Shell in the Nigerian oil case (see page 46) and their views in other cases that the class "really made me question my career goals." She is now examining nonprofit and social enterprises.

Students reported that their antennae have become more finely tuned to their surroundings. Francine Chew, a native of Jamaica who expects to combine investment banking with nonprofit work, said she emerged from LCA conscious that "I have to be aware of circumstances, because I can walk through a situation blindly without recognizing that I actually have a choice."

Others put LCA into a longer-term perspective. For instance, Suzanne Nutter, who arrived at HBS after seven years at Eli Lilly and Company—which, like Johnson & Johnson, has an explicit statement of corporate values and conduct—said she came away with the sense that managers can "create organizations that are agile enough to respond appropriately to crises, and that are open enough to raise questions about issues in ways that are productive."

Christensen professor of business administration David A. Garvin made the same point in an especially vivid way. He will teach the course in 2007, so last spring he sat in on most of the classes, among the students. He views LCA, he said, as planting "tiny time pills" set to go off later in the students' careers. He imagines an HBS graduate sitting on a board of directors and being shocked at the "absence of discussion and dissent," or as a member of an audit committee presented with a "67-item agenda for a two-hour meeting" who has the courage to object to being railroaded by management. "If that happens," Garvin said, "the course is a stunning success."

was motivated, then dean John H. McArthur later wrote, by the "sad examples of excess, greed, and cynicism," frequently involving the "graduates of some of our finest business and law schools," in cases being brought before the commission.

Piper promptly asked McArthur if he could help shape the initiative. Although his interest may have been personal—he recalled a "very intensive tug of war" between his studies of economics and of religion at Williams College—his involvement proved institutionally and intellectually important. A member of HBS's finance and accounting units who had published on subjects such as bank acquisitions, Piper was embedded in central disciplines. As senior associate dean for educational programs, he had access to the faculty, their research, and teaching. He was familiar with alternating models of instruction in ethics, either as a stand-alone course or integrated into other classes, neither of which had had staying power. Two kinds of skepticism, he realized, stalemated a new approach. Quantitative specialists had "real doubts about whether this was just philanthropy and foolishness," while ethicists became "troubled when economics was introduced into the conversation," seeming to dilute the subject.

In 1988, McArthur backed the creation of a required noncredit, nine-session introduction to decision- *(please turn to page 102)*

(continued from page 49)

making and ethical values, preceding first-year classes—a strong signal that the subjects were significant. Relying on business cases, this orientation class outlined corporate responsibilities, put them in their market and legal contexts, and then raised the role of business leaders in bridging individual and organizational values. The basic take-aways, Piper said, were that a business needed to recognize its ethical responsibilities, not merely to avoid "pathologies," if a firm were to be "truly outstanding," and that doing so created the conditions of trust that enabled people to work together successfully. An important side effect of introducing the module was engaging faculty members from diverse disciplines to run the classes, exposing the professoriate to these issues, as well.

DAVID J. PHILLIPE/ASSOCIATED PRESS

After turning himself in to the FBI in February 2004, former Enron CEO Jeffrey K. Skilling, in handcuffs, is taken to the federal courthouse in Houston.

LCA gradually evolved from that modest beginning. Research and case-writing in the field were bolstered by new appointments. One notable hire was Lynn Paine, who brought a doctorate in moral philosophy from Oxford, a Harvard Law degree, and prior legal and academic experience to bear on examining organizational values and performance. Joseph L. Badaracco Jr., now Shad professor of business ethics, who studies leadership, business ethics, and individual decisionmaking (see "Questions of Character," July-August, page 12), also joined the effort. They and others deepened understanding of the field at HBS, and pursued contacts with other Harvard faculties, the University's nascent Center for Ethics and the Professions, and scholars at other institutions.

Simultaneously, researcher Sharon Daloz Parks examined the worldview of young adults beginning professional education and careers. Her work, reported in *Can Ethics Be Taught?*, described a population carried along in a "flow of success," who had "less occasion for critical reflection on self and world" than peers who had encountered adversity or "cross-cultural cognitive dissonance." As a result, M.B.A. candidates at the elite schools she studied were "more vulnerable than might be presumed to the unexamined assumptions of conventional thought and circumstance"—a real worry if they were to become effective business leaders. She described "the mind-set articulated by one student who advised his classmates that they should do business during the week and 'wait to save the whales on the weekend,'" somehow separating commerce from the ethics-laden choices businesses make every day.

During the 1990s, Paine said, the original module and new ones raised awareness of "the ethics of decisionmaking," but without providing a framework for action. And the need for informed action became more acute as greater use of technology and globalization of business raised more complex issues of law, divergent cultural norms, privacy, and other challenges. In 1998, she, Henry Reiling, and other faculty members examined the need to teach more about business law. Two years later, then HBS dean Kim B. Clark convened a task force on values and learning, chaired by Reiling. In 2001, the task force recommended a new required course that would integrate teaching about ethics, law, economics, organization, and leadership; that November, just as Enron's troubles were emerging, a proposed plan for the course was circulated. Faculty approval followed in 2002, and during 2003, a dozen professors (subsequently joined by William George) led by Paine, Piper, and Nitin Nohria created the syllabus.

Compared to their peers in the 1980s, Piper said, he has sensed a "remarkable" change in what students today seek from this part of their education. Where once they focused on the consequences of wrongdoing, they are now more likely to ask, "How does business contribute to the well-being of society, and what are the conditions of doing so?" According to Badaracco, the intersection of such questions with a practical framework for analyzing options and evolving markets means that contemporary students "don't view this as something purely academic." If nothing else, he said, in the wake of Enron, they are at pains to "avoid these kinds of calamities."

Given LCA's objectives, it seems impossible to imagine a more perfect counterexample than Enron.

Allen Grossman had no difficulty engaging students in the case when he began class on March 7: Andrew S. Fastow, the company's former chief financial officer, was just about to testify for the prosecution in the trial of Kenneth Lay and Jeffrey Skilling. Grossman did review the atmosphere in 2001, when Enron's stock was trading at Internet-bubble valuations and Harvard M.B.A.s, lured by the company's glowing reputation, rapid promotions, and rich bonuses, turned down Goldman Sachs and McKinsey to work there. A video of Skilling talking to a packed house at HBS's Burden Auditorium revealed his serene confidence in Enron's new paradigm—slicing apart integrated businesses and handling their production, logistics, and marketing through "virtual integration" and electronic trading—as it had so successfully done for the stodgy natural-gas business.

Before long, the students were slicing apart the assumptions behind Skilling's vision, using skills they had acquired in their finance, accounting, and strategy courses. As it diversified, Enron entered markets it knew nothing about. When it expanded abroad—supplying electricity in India, for instance—its "asset-light," trading-oriented strategy suddenly required billions of dollars of capital investment that it could not finance. Its novel accounting showed burgeoning revenues—in some cases, for energy trading in states where the market had not yet been deregulated to permit such activity—but those results ran far ahead of the cash and real earnings the business produced. Internal incentives yielded huge rewards for closing deals that then were prematurely recorded as revenue; and to keep the revenue flowing, traders helped grade the performance of the risk managers who nominally sat in judgment of their proposed transactions.

In the second Enron class, William George guided the students in linking these practices to the company's internal governance and to its unusual immunity from effective external oversight. The Skilling of 2002, shown testifying before Congress, and by then shorn of his confidence, was by his account uninformed about any of the pertinent details of the "complex" partnerships that shored up Enron's balance sheet—a victim who had relied on the representations of accountants and other experts.

With that, the real questions of interest in LCA were ripe for discussion. As George framed the issue, was Enron management clueless, corrupt, or incompetent? Why was it that among internal risk managers, auditors, lawyers, their external counterparts, the board of directors and its audit committee, commercial and investment bankers, stock analysts, and even credit-rating firms, no one stepped up to deflate Enron's homegrown bubble? The students probed the passive behavior of board members—distracted by financial details, highly compensated for their service, unwilling to seem ignorant or ill-informed by asking questions. They considered the pressures on accountants and legal counsel, all receiving multimillion-dollar fees from Enron, and management's ability to dazzle or bulldoze the press and securities analysts. Anticipating the classes to come on human behavior and deference to others, they painted a picture of the perfect bubble, where every player, one student said, became "caught up in it."

As the formal discussion ended, George made time for students to engage that morning's guest: Lloyd C. Blankfein '75, J.D. '78, then president (now chairman and CEO) of Goldman Sachs. A student asked how a company could create an environment where auditors give trustworthy—even when discomfiting—advice. Without hesitating, Blankfein replied, "Culture matters a *lot*. Culture is *fate* in this business." His answer may have surprised the "gunners," but it was a clear affirmation of LCA's recurrent themes about human behavior, organizational incentives, and the management challenge of reconciling the two. "Culture matters, and culture isn't random," Blankfein emphasized. What of new, post-Enron laws and reporting standards? a student wondered. Blankfein was emphatic: "You can't legislate culture."

Although the students have examined their values, "Frailty is part of the human condition."

Having come this far in their understanding of individual motivation, group dynamics, and the perverse incentives that can arise in businesses, would these students make the same mistakes of leadership and corporate accountability? George, in a later conversation, was hopeful. The greatest danger facing HBS graduates, he said, was their assumption that they were the smartest people in any room, that there was a right answer to a given business problem, and that they knew it. LCA, he thought, could help "disabuse" them of these conceits.

Piper, the senior member of this generation of HBS faculty members who have struggled to bring such concerns into the classroom, professed encouragement about the gains made in "helping young people examine what's often unexamined about their worldview and sense of purpose" as aspiring executives. But as a student of human nature, he sees the work as unending. "Frailty," he said, "is part of the human condition."

John S. Rosenberg is editor of this magazine.