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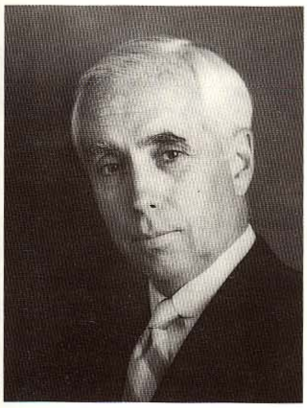
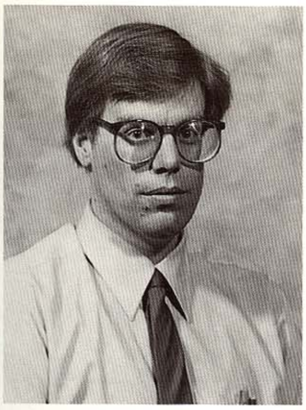
The Lengthening
Shadow of
Business Ethics

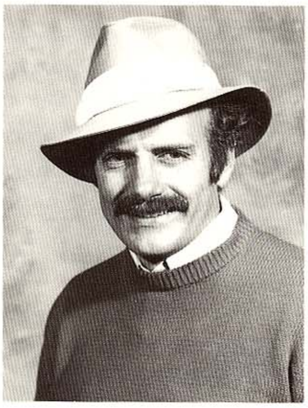
About the Authors



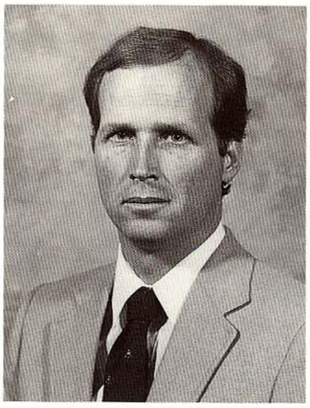
David K. (Kirk) Hart is a faculty member in the Institute of Public Management and first recipient of the J. Fish Smith Professorship in Free Enterprise Studies and Business Ethics. Dr. Hart teaches ethics courses for the Graduate School of Management. He has published four books and has several works in progress. His current research focuses on Adam Smith's moral philosophy, the Scottish Enlightenment, and the foundations of the American republic.



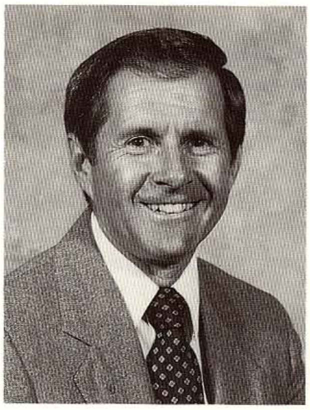
Christopher B. Meek joined the organizational behavior faculty in 1984 after completing a Ph.D. at Cornell University. He is director of the Small Business Development Center at BYU and is one of 45 outstanding American professionals recently named to Group VIII of the W. K. Kellogg Foundation's National Fellowship Program. Dr. Meek has worked closely with bankrupt companies to explore the option of employee ownership.



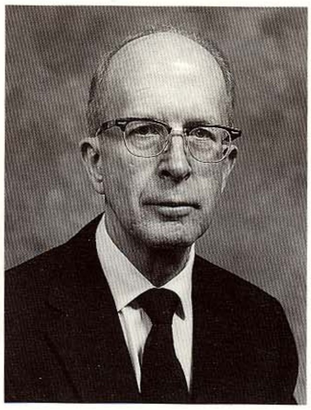
Warner P. Woodworth, a professor in the Organizational Behavior Department, has taught at BYU since 1976. He is former director of the Small Business Development Center at BYU and has done extensive management consulting with major corporations, including General Motors, Westinghouse, PPG, Clark Equipment, and Honeywell. His current research interests include industrial democracy, worker ownership, and ethics.



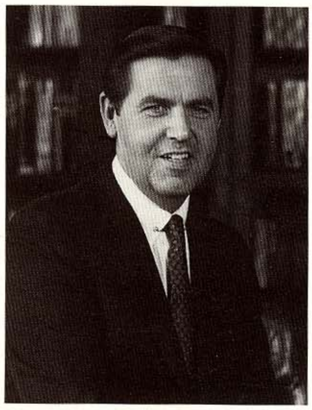
W. Gibb Dyer, Jr., has been an assistant professor of organizational behavior at Brigham Young University since 1984. His research interests involve family-owned businesses, entrepreneurship, and organizational culture. He has also been studying the process of technical innovation in high-tech companies. Dr. Dyer served as 1987 program chairman for BYU's National Conference on Family Firms.



Max L. Waters is a professor of information management and director of the graduate business communication program. He has taught for 30 years in the BYU School of Management. Current areas of professional research and writing include international communication and ethical issues in communication. He is also involved in business consulting.



Clinton L. Oaks is a professor of business management. Before coming to Brigham Young University in 1957 he was a faculty member at the University of Utah, the University of Washington, and Stanford University. He has served on several university committees and has long been interested in problems involving business ethics.



Jeffrey R. Holland is the ninth president of Brigham Young University. For four years he served as Commissioner of Education for the worldwide Latter-day Saint educational program. Prior to that he served as dean of religious instruction at Brigham Young University. President Holland has had one book and more than 70 articles and addresses published in both LDS and professional journals, including *Vital Speeches of the Day*.

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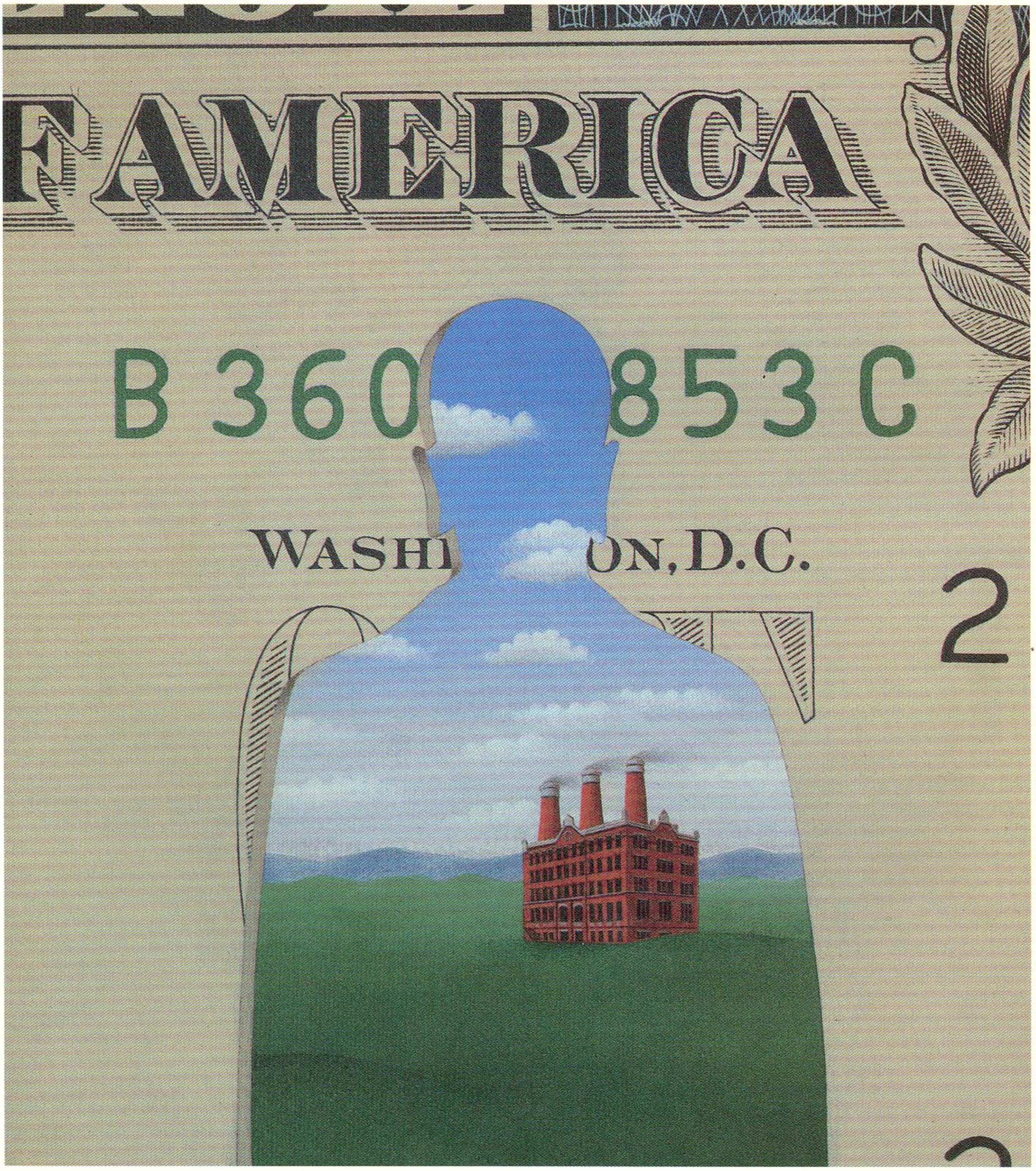
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PAPER ENTREPRENEURS AND ABSENTEE OWNERS

A Conversation with
Christopher Meek, Warner Woodworth
W. Gibb Dyer, Jr.

These three members of the organizational behavior faculty have recently published a book entitled Managing by the Numbers: Absentee Ownership and the Decline of American Industry. *This interview investigates the ethical questions uncovered by their research and introduces some of the issues discussed in their new book.*

Ralph Nader, who reviewed their manuscript, made the following comment: "Among all the books recently criticizing American management, none hit the nerve as Managing by the Numbers *does; because the other volumes do not want to focus on the excessive concentration and abstraction of corporate activity in the hands of remote managers working for absentee owners, neither of whom know the specific business at hand. A searing, empirical book that exposes the perches of corporate power [and] how big business specialized in destroying smaller businesses after buying them, and drove the U.S. economy to its perilous precipice of rich managers and poor communities."*

EXCHANGE: *Managing by the Numbers: Absentee Ownership and the Decline of American Industry*? What does that title mean?

CHRIS: Well, we spent some time talking about what the title ought to be, and as we thought about the things we had to say in the book it seemed that *Managing by the Numbers* was probably the most accurate title we could come up with. The term "absentee ownership" is central to the book, and what we see in our studies is that company owners are becoming more and more distant from the day-to-day operations, the strategies, and the essential features of their businesses. Tied to this increasing distance is the emergence of a creature we call the "professional manager." By professional manager, we mean those individuals who have probably been trained in an MBA program somewhere or taken undergraduate training in business. These individuals really have little or no technical understanding of the businesses they manage, but have essentially mastered only the field of finance. Therefore, they set about managing these corporations "by the numbers"—by watching financial figures and not really understanding or dealing with the nuts and bolts of the business. Before the crash last October, we saw the Dow Jones rising to previously unimagined heights and ever more speculative involvement in the stock market with venture capitalists, institutional investors, corporate raiders, and risk arbitrageurs basically

ILLUSTRATION BY RICHARD MANTEL

driving the economy by trying to make quick wealth through financial manipulations. In our view, the decline of American industry can in great part be seen as a result of the combination of these two factors—professional management and an increasingly distant or absent ownership.

EXCHANGE: What will someone learn from reading your book?
WARNER: We raise a series of questions that challenge traditional economic and business thinking. The reader will see in this book a criticism of the current dominant paradigm which says that more is better, big is beautiful, and therefore gargantuan is gorgeous. We challenge the assumption that simply creating a decent balance sheet for the quarter is good management. What we need to look at are ways of developing new products in this country instead of simply trying to buy into new markets. We point to ways in which companies and managers can begin to add value to their customers, to the society as a whole, and to their employees.

We suggest some fundamental strategies to reverse what *Business Week* calls the "hollow corporation" and what we have described as the disintegration of the American industrial community. We argue that there is a need to manage in very different ways: by looking at the long term, learning the product, working with people, and creating new ownership structures and forms of labor relations. We advocate a kind of blue collar entrepreneurship rather than simply managerial entrepreneurship. Robert Reich of Harvard criticizes today's "paper entrepreneurs" who simply know how to manage numbers and play financial games, but fail to do anything in terms of basic technology. We try to articulate some solutions, which include retaining the vision of the founder, using employee ownership to prevent absentee ownership, and implementing a more participative management style that allows everyone to have a piece of the action and responsibility for the company's future.

EXCHANGE: What are the ethical issues raised in the book, and how do they relate to those things that you have discussed so far? Are you saying that the actions of these professional managers and absentee owners are unethical, or at least counterproductive to the well-being of the companies or the economy as a whole?
GIBB: What we describe in the book are individuals who are out for personal aggrandizement at the expense of others in the corporation and at the expense of others in the industry. We see the corporate raiders of the world making millions of dollars literally overnight, and as a result thousands of people experiencing the very negative, damaging effects of being laid off or terminated. The question is, who has the right to deprive someone of a livelihood, of a job?

Now, we're not saying that we shouldn't try to improve the effective functioning of certain companies that have not performed well in the past, but the get-rich-quick schemes of corporate raiders and of managers who don't seem to have any long-term commitment to their companies tend to affect society adversely.
CHRIS: A related issue is the question, "Who owns the company?" We argue that commitment and loyalty to a long-term view tends to occur under the founders, who establish and build a business, because it means far more to them than just a means of increasing their personal wealth. To a founder the company is often an extension of his or her values, beliefs, and family. Thus, many founders instill a sense of ownership throughout the company that is sustained until they leave the business because of death or retirement, and then that sense of ownership begins to dramatically decline. And the greater the distance between the new owners and the employees, the more dramatic will be the decline in this sense of ownership.

One of the reasons we address the issue of ownership is that ethics can't be completely separated from the structure of the corporation. Company founders tend to feel a very deep sense of obligation to their customers and their employees. So we suggest that founders consider trying to continue that sense of concern and obligation through either family or employee ownership. We don't think that you can just have great training sessions for managers and teach them to be ethical in a structure or a system of ownership that encourages short-sighted and unethical behavior.

EXCHANGE: What would be an example of unethical behavior, as you see it?
WARNER: One illustration from our book is the graphic example of the steel industry. What you see is a distant corporate headquarters announcing that it is going to shut down a mill because of "financial need." In many cases it is not so much a question of need as of corporate greed, and that is the ethical issue. Why can't the company manage its resources to ensure long-term viability? Steel executives lobbied for tax breaks in Washington under the guise of an intention to then reinvest and modernize. Instead, the money saved was used to acquire other businesses totally unrelated to the steel industry.

Is such action moral, or is it duplicitous? What can be done to counter the kind of push-button decisions made by remote control out of Pittsburgh, or New York, or Chicago, that often result in massive layoffs and the disruption of communities. Why should Utah County, in the case of USX, find itself now with 20 percent of the population living below federal poverty lines? Because of so many plant closings, the state has suffered a record increase in taxes. Property values are declining. The ripple effect of managing by the numbers and long-distance decision making has been the failure of dozens of other businesses. These are the sorts of questions I struggle with.
CHRIS: Our concept of absentee ownership puts a novel twist on the whole question of business ethics. In the book we discuss four dimensions of "absenteeness," which we call psychological distance, social distance, technical distance, and geographical distance. We point out that the greater the distance between a company's owners and managers and its employees—along any of these dimensions—the more likely it is that the decisions of owners and managers will not consider the long-term welfare of the firm and its workers. Thus, the greater the distance, the less ethical owner and manager decisions are likely to be.

A very simple thing such as geographical distance illustrates this point. One can observe that professional managers tend to create geographical distance between themselves and their employees, which in turn creates great social distance. For example, if a manager is transferred to a plant in Tooele, Utah, or a subsidiary in a small town in Nebraska, it is very likely that he or she will purposely live somewhere far away—and sometimes even move the offices to another city—so that the manager can enjoy a more cosmopolitan life-style. By such actions managers not only create physical distance between themselves and their employees, which restricts communication, but they also tend to denigrate or even ridicule the people they manage. That seems to me to be an ethical issue.

We can see similar consequences in any of these dimensions of distance. Is it ethical for a person to manage a business if he or she really does not understand the technical realities of the operations? We seriously question whether today's all-purpose general manager, who doesn't understand the details of a business, can really manage a firm effectively over the long-term simply through managing by the numbers.

EXCHANGE: What significance does your research have in management education?

WARNER: Part of what we are calling for is a more congruent managerial approach in which ethics and effectiveness go together. We're not just talking about a Sunday School lesson or a philosophical perspective. We're not just saying "Ethics is important as a value for society," although we do feel this. We are also reporting a considerable amount of data which show that being ethical can lead to organizational health, can lead to better efficiencies, and can lead to long-term success. Our data on Lincoln Electric, as a case in point, are very consistent with this argument.

Society needs alternatives articulated, examples and models beyond the "quick fix," beyond the numbers game. We must move beyond the level of an Ivan Boesky, who gets up at a business school conference at Berkeley and says, "Greed is all right, greed in business is healthy," and then ends up a couple of years later in flames. We need other models in our society. We have intimated in our discussion what ought to be done in the corporate suite. But one of our major concerns and criticisms has to do with the training of MBAs and the role that business schools play in exacerbating the problems of unethical behavior in management. The questions we raise are: What can we do to alter this situation—not only at our business school at BYU, but across the country? How should the training of managers change in order to address some of these ethical issues more carefully?

GIBB: We have to teach our students that knowing the numbers—whether statistics, economics, or other financial data—is only a part of being a manager. In our courses we need to teach students about the importance of offering value to the customer. That's what a business education should be about. Corporations exist to add value to the economy and to the customers they serve. If students do not understand this, their decisions and performance as managers and employees will prevent the companies they work for from succeeding in this endeavor. All too often we find U.S. managers consumed by self-interest and not interested in what they can do to benefit the broader interests of society. Unfortunately, greed is an inherent part of American business, and we find people and corporations engaging in unethical, illegal, and immoral behavior for the almighty dollar.

The Apostle Paul tells us that the love of money is the root of all evil. As faculty we must not give students the impression that their ultimate goal should be to make a lot of money. In too many cases the end seems to justify any means. Hard work, commitment, and charity are values that are now seen as archaic.

WARNER: That's a good point. We need a higher management ethic than the current money ethic.

GIBB: Karl G. Maeser said that you shouldn't even teach the times tables without the Spirit of the Lord, and I think one of the points he was making is that there has to be a discussion of values and ethics relating to our teaching. The ethics course in the MBA program is very helpful, but I think all professors in the School of Management ought to be addressing ethical issues in one form or another. If students graduate not knowing that the professors at this university stand for a high code of ethics, I don't think we are making the kind of contribution we should be making. At this university, of all places, we need to take a stand on ethical issues.

WARNER: Our recommendation would be that business schools everywhere have courses on ethics, courses that articulate more clearly the interdependence and the relationship between business decisions and the larger society. We should try to teach managers not only how to get a good bottom line, but to think about what kind of society they would like to live in, and to consider ways in which business can build that better society. If we do that, my assumption is that we might have less conflict of interest between a manager's own fast-buck tendencies and the good of the company. We would have less discrimination on the basis of race or gender. We would see fewer corporations taking products off the market in the U.S.—because the FDA has ruled them dangerous to human beings—and then turning around and dumping them in third-world countries. We would see fewer bribes and less manipulation to obtain business through unethical means. In essence, we would hope to see business helping to create a more just society.

CHRIS: We need to emphasize the ethics of building healthy and vigorous enterprises that excel in their industries. A manager who leaves a corporation should leave it healthier than when he or she arrived. And this means healthier in the long-term, not healthy in the sense of current stock price. Our students need to be interested in those areas of management that involve building or adding value, and until we begin to emphasize this viewpoint we are going to have problems. I don't think it is possible to separate ethics from these matters in our teaching.

WARNER: I guess the final point we might make is that we see too many students concerned with what kind of career they are going to have, whether it is in finance or marketing or whatever. I wish they would spend less time talking about the kind of career they're going to have and more time considering the kind of people they are going to be. What kind of values are really important? The central question we ought to ask is: "How can I be a Christian and work for today's corporation?"