

Colleges and Universities Must Be Ethical

The actions of colleges and universities provide examples to their students of how to act with—or without—a high level of ethical standards. From grading practices to sustainability, these institutions need to be cognizant of the message they send about the types of behavior that are appropriate or not.

As molders of tomorrow's leaders, academia must maintain a high ethical and sustainable performance. It is in the best interests of all management accountants that superiors, coworkers, and subordinates have the educational foundation to drive their personal, business, industrial, and governmental endeavors in an appropriate and ethical manner. By example and in classrooms, higher education must function as an important determinant of the ethical culture of tomorrow.

In perhaps the most glaring example of setting a poor ethical example, *Inside Higher Ed (IHE)* reported in June 2010 that Loyola Law School in Los Angeles arbitrarily raised the grade of every student by one level—retroactively! Loyola's excuse was that it wanted to make its students more competitive in a tight job market, saying that it was just reacting to easi-

er grading standards elsewhere.

The 2009 Batch (graduating class) of Harvard Business School made headlines when it created the MBA Oath, a voluntary pledge to “create value responsibly and ethically.” The oath includes “Wherever I face a choice between my self-interest and the interests of the wider world, I pledge to act in the interests of the wider world.” This isn't the “greater greed” philosophy so often linked to many MBAs.

In 2009, about 400 of the 889 business grads from Harvard took the oath. Grads from other business schools also took a pledge to act ethically. Perhaps understandably, the reaction from the public has been disbelief and even ridicule. The disconnect between the ethically high-sounding phrases of the oath and actual behavior of many in business and government reported almost daily in the media was just too great. Like most New Year's resolutions, a promise that is too ambitious is very likely to be broken. Taking an oath isn't enough when most MBA students have never experienced anywhere near the pressures to conform that are put upon them after graduation.

Environmental sustainability is an important demonstration of

the strength of a university's ethical culture that is passed to graduates. The most comprehensive study of sustainability performance in large colleges and universities in the U.S. and Canada was reported in *College Sustainability Report Card 2010*. Included in the research were the 300 schools having the largest endowments plus 22 others that asked to be surveyed. This fourth annual study of environmental sustainability was performed by the Sustainable Endowments Institute (SEI), a nonprofit special project of the Rockefeller Philanthropy Advisors. The study grades university performance using publicly available information, conducting surveys of appropriate school officials, and administering a 120-item questionnaire.

The overall letter grade of a college or university is based on nine components: Administration, Climate Change & Energy, Food & Recycling, Green Building, Transportation, Student Involvement, Endowment Transparency, Shareholder Engagement, and Investment Priorities. Schools received points representing their level of activity in each of 48 indicator areas. Highly innovative efforts allowed some schools to receive



extra-credit points in some indicator areas. For each category, point totals were used to determine the grade. The nine category scores were weighted equally in calculating the school's GPA on a 4.0 scale and then converted into the overall letter grade.

The Administrative area probes sustainability policies and implementation aspects, such as staff dedicated to sustainability efforts and the presence of an advisory council to motivate student participation. Climate Change & Energy measures eight environmental factors, including conservation, efficiency, and emission reduction. Food & Recycling asks about the use of local and organic foods as well as methods of recycling and composting. Surveyed aspects of Green Building involve efforts to obtain LEED (Leadership in Energy and Environmental Design) certification. Transportation includes stimulation of carpooling and public transportation, and Student Involvement questions the existence of a student sustainability organization and also the presence of student internships and other methods to emphasize the importance of sustainability.

The remaining three categories involve the college or university's investments in endowment funds. Whether and how the contents of the endowment investment portfolio are publicized and how proxies voted are measured in Endowment Transparency, the influence of environmental issues is graded in Investment Priorities, and the breadth of participation in decisions about proxy voting and new investments is in Shareholder Engagement.

Twenty-six colleges and universities received the highest overall grade of A- and were named "Overall College Sustainability Leaders" for 2010. This compares to only 15 named last year. Since three of the 2009 group slipped down in overall grade, there were 14 newcomers to the 2010 honor list. Four Ivy League schools were recognized as leaders in 2010: Brown, Harvard, Penn, and Yale.

Eleven New England-based colleges and universities (including two Ivies) were named to the prestigious list, not surprising in view of the emphasis on sustainability in those states. These included such well-known and well-endowed schools as Amherst, Middlebury, Smith, Wesleyan, and Williams. Overall 2010 honorees from the Pacific Ten conference were Arizona State, Stanford, and Washington, whereas the Big Ten's only representative was Minnesota.

Two of the 26 overall champions were among the 25 having the largest student enrollment: Arizona State and Minnesota. In terms of endowment size, five of the 26 top sustainability institutions are among the largest 25: Harvard, North Carolina at Chapel Hill, Pennsylvania, Stanford, and Yale.

On the other side of the ledger, 25 colleges and universities received overall grades of either D or D- in 2010. This is an improvement from last year, when 32 institutions received near-failing grades. The list for 2010 includes institutions such as Abilene Christian, Alabama-Birmingham, Brigham Young, The Citadel, Hillsdale, Howard, Seton Hall, Virginia Military Institute, and Wichita State.

The study also reports high achievers receiving A- grades or higher in the two subsets of categories—Campus Sustainability and Endowment Sustainability. Eighty schools, or about 25% of the total, were designated "Campus Sustainability Leaders" in 2010 for their performance on the six campus sustainability indicators. Last year, only 43 institutions received this honor. Twelve colleges and universities received A- grades in 2010 on the three endowment sustainability categories and were named "Endowment Sustainability Leaders." In 2009, 14 institutions received this honor.

The major objective of the annual *College Sustainability Report Card* study should be to motivate improved performance by colleges and universities on their overall sustainability. Since one-third of the total grade is determined by endowment sustainability performance, it could be argued that this overweights the importance of this aspect. Particularly, the strong emphasis on proxy voting does seem too heavy. To illustrate, 30% of the Endowment Transparency grade is based on proxy voting record availability, and another 30% of that category is on how the school provides the information. Sixty percent of the Shareholder Engagement grade is based on how proxy votes are determined and whether they reflect sustainable causes.

This emphasis on proxy voting and other matters of endowment has significant adverse effects on the overall grade of colleges and universities that have otherwise good records. For example, Georgia Tech was pulled down a full

letter grade, from A to B, because of failing marks for proxy voting and other indicators for investments. Duke would have received an A instead of the B+ it received except for the three lower grades on proxy voting and other endowment indicators. These two examples are indicative of many others. Future publicity efforts by study sponsor SEI should focus greater attention on the good works many colleges and universities are achieving in the six areas of campus sustainability.

IHE reported that last fall the Association for the Advancement of Sustainability in Higher Education introduced the Sustainability Tracking and Rating System (STARS). According to *IHE*, many university sustainability officials have since expressed their preference for this assessment technique. The report card issued by SEI is an

external assessment with which institutions may choose not to cooperate and whose scoring formula isn't fully disclosed. STARS is a voluntary self-assessment without external attestation and describes clear instructions as to how certain questions are weighted in generating the final score. This can lead to gaming the process.

In July 2010, *IHE* published an open letter to sustainability evaluation organizations from sustainability officers in 24 colleges and universities, including several named 2010 "Overall College Sustainability Leaders." The letter lists eight fundamental principles of good research that the group believes will improve the grading process. It remains to be seen whether evaluators will adopt these principles.

Management accountants should support colleges and uni-

versities as they strive to improve all aspects of their environmental sustainability and ethical decision making. Further, it's imperative that effective coverage of environmental, ethical, and societal impacts be included in the syllabuses of all courses, particularly those in business schools. **SF**

Curtis C. Verschoor, CMA, is the Emeritus Ledger & Quill Research Professor at the School of Accountancy and MIS and an honorary Senior Wicklander Research Fellow in the Institute for Business and Professional Ethics, both at DePaul University, Chicago. He is also a Research Scholar in the Center for Business Ethics at Bentley University, Waltham, Mass., and an IMA member. John Wiley & Sons has published his latest book, Audit Committee Essentials. His e-mail address is curtisverschoor@sbcglobal.net.