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The effect of ethics on labor market success: Evidence from MBAs

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ABSTRACT

This paper empirically investigates the link between ethics, earnings and gender. Using a self-reported measure from a longitudinal survey of registrants for the Graduate Management Admission Test, we find that ethical character is negatively associated with males' wages. For females, however, this relationship does not hold. In addition, using measures of the degree to which ethics is emphasized in business school curricula as an indicator for enhancement of individual ethical standards of graduates, we investigate variation in the returns to an MBA degree. We find that the larger the degree to which males report that business education enhanced their ethical character, the lower their wages, holding other aspects of their education constant. For females, however, enhanced ethics through business school is *positively* and significantly associated with returns to the MBA degree. More objective measures of ethics emphasis in business school curricula provide further support of these findings.

1. Introduction

A considerable number of studies in the social sciences have focused on identifying differences in behavior and attitudes between men and women. Ethical behavior and reasoning is one area in which substantial differences have been found. In particular, many studies have pointed towards the conclusion that men are more selfish than women, who are relatively more socially conscious in their thinking and decision making. For example, women have been shown to take stronger ethical stances (Glover et al., 1997; Reiss and Mitra, 1998), score higher on 'integrity tests' (Ones and Viswesvaran, 1998) and make more ethical decisions in business (Loe et al., 2000). They have also been shown to be more prone to helping others (Eagly and Crowley, 1986), to vote based on social issues (Goertzel, 1983), and their representation in government has been linked to lower levels of corruption (Dollar et al., 2001).

In addition, gender has been shown to have an important effect on behavior and payoffs in several different experimental economic settings related to selfish versus selfless decision making.[1] In ultimatum games, for example, women tend to be more cooperative, making more generous proposals and more likely accepting an offer of a given amount (Eckel and Grossman, 2001). Women also have a higher probability of cooperating in prisoner's dilemma games (Frank et al., 1993), and tend to be more generous and have an affinity towards fairness in dictator games (Eckel and Grossman, 1996, 1998; Andreoni and Vesterlund, 2001). Women are also more cooperative in public goods games (Nowell and Tinkler, 1994; Seguino

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[1] See Croson and Gneezy (2009) for a recent review of the literature on gender differences in economic experiments.

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et al., 1996), and are less trusting but more trustworthy than men in investment games (Buchan et al., 2004).[2] Of course, differences in behavior in these games normally translate into differences in individual payoffs. Depending on the structure of the game and the composition and behavior of other participants, more socially minded behavior may be associated with higher or lower individual payoffs. Specifically, one's payoff in such games appears to not only be due to one's behavior, but also a function of perceptions or stereotypes of gender groups (Eckel, 2008). To the extent that more ethical behavior may imply increased cooperation, coordination or altruism, and to the extent that women (relative to men) are expected to exhibit these behaviors, they may receive a penalty for deviating from them. On the other hand, if engaging in non-socially efficient behavior is more acceptable for men, they may be more likely to engage in lucrative self-promoting behaviors.

A primary goal of our study is to see whether these differences in attitudes, behavior and performance in experimental settings are borne out in differences in success in real-world labor market data. Specifically, we ask the questions: how do individuals' ethical standards influence their earnings? And, does the magnitude or direction of the effect vary by gender? To our knowledge, no previous research has addressed these questions. Nonetheless, there exist reasons to believe that ethics related behavior could affect one's earnings (either positively or negatively) on the job. First, as mentioned above, experimental evidence directly links socially minded behavior to earnings, and suggests likely differences in the reward or punishment of ethical behavior across gender. Second, over the last few decades, firms have devoted increasing attention to ethical practices. Even prior to the 1980s, many businesses and corporations began to adopt codes of ethics (White and Montgomery, 1980). Government agencies have done the same (Hays and Gleissner, 1981). In addition, some professional associations have their own codes, such as the American Institute of Certified Public Accountant's (AICPA) Code of Professional Conduct.[3] In accordance with this emphasis at the firm level, one might expect that employers who behave ethically will be rewarded for doing so. On the other hand, any emphasis a firm places on business ethics may just be "window-dressing", and firms may actually reward unethical behavior, either directly or indirectly (White and Montgomery, 1980). Indeed, empirical studies of the effects of ethics codes on ethical behavior or unethical incidents provide mixed results (see Loe et al., 2000, for a review). Further, even if firms do desire ethical behavior, monitoring the ethical decisions of employees may be difficult. If only outcomes are observed, individual employees may find it optimal to engage in unethical activity on the job if employers indirectly reward such activity with increased likelihood of promotion or higher pay.

A likely reason for the dearth of empirical studies addressing these questions is that characterizing the true ethical standards of individuals, or observing their relevant behavior in the workplace, is a difficult or impossible task. Further, the problem of confounding factors affecting earnings is likely to bias the estimates of interest. Ideally, after determining a specific definition of what constitutes ethical versus unethical behavior, we would observe specific incidents of socially commendable behavior or ethical misconduct on the job. Rather, in this paper, we use unique survey data and attempt to identify several different variables which likely serve as a proxy for an individual's commitment to ethics in the workplace. By including a wealth of control variables and in some cases individual fixed effects, our hope is to minimize any resulting bias that may come from the use of imperfect proxies or the endogeneity of survey responses used in this study.

While the effect of ethics on individual earnings has not been investigated previously, there is a large body of literature pertaining to the effect of firm-level ethical character on performance. The most common approach has been to analyze the relationship between some general measure or non-quantitative rating of "social performance" (such as monetary contributions to the community, charities, and companies singled out in the press) on financial performance (usually measured by changes in stock price, return on equity, or return on assets). This research has not reached any convincing conclusion regarding even the direction of the effect, although many studies do find that firms that are more socially responsible perform as well as, or even better than, firms that are less socially responsible (see Griffin and Mahon, 1997; Roman et al., 1999 for reviews, and Orlitzky et al., 2003 for a meta-analysis). Our paper can be seen as a complementary, individual-level analog of this body of research.

We utilize panel data from surveys of individuals who registered to take the Graduate Management Admission Test (GMAT), an exam required by most MBA programs for admission. Individuals were subsequently surveyed in four waves over a span of about eight years, whether or not they ultimately obtained an MBA. There are several reasons why MBAs are a particularly appealing group for use in a study of business ethics. This group of people is most likely to consist of future business leaders, the people for which it is very important to maintain high ethical standards. Indeed, the ethical behavior of employees is often modeled after the behavior of managers (Stead et al., 1990). Furthermore, as the sample includes only those who have demonstrated some degree of interest in obtaining an MBA, it represents a relatively homogeneous group of men and women in terms of prior accumulated human capital and commitment to their careers. More importantly, the survey data include individual earnings, work experience, and information regarding self-reported ethical character, as well as self-perceived gains in ethical character through business school, allowing us to empirically investigate the relationship between earnings and ethical character. By linking this individual-level data to information regarding characteristics of business schools, we are also able to investigate the effect on earnings of MBA attainment from programs differing in their emphasis on ethics. Finally, a further advantage of analyzing the returns to an MBA is that it allows us to exploit the fact that

[2] A physiological basis for gender differences in trust and responses to distrust has also been found in the context of such games (see Zak et al., 2005).

[3] There may be a theoretical justification for the existence of such codes of ethics within private business beyond a mere sense of social responsibility or other non-profit maximizing objectives of the firm. First, they may limit the occurrence of uncooperative (and unproductive) employee behavior. Second, ethical firms may benefit in the long-run from trust and commitment on the part of customers (Arrow, 1979; Akerlof, 1980; Noe and Rebello, 1994).