A Question of Ethics

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Ethics, the Top Job, and the Bottom Line

"The measure of a man's character is what he would do if he knew he never would be found out."
—**Baron Thomas Babington Macauley,** early 19th-century English historian

Enron. Arthur Andersen. WorldCom. Adelphia. Tyco. Qwest. The rogues' gallery of organizations embroiled in scandal continues to grow. Appalling ethical breaches have been revealed at the highest levels of these firms, which have been making headlines not for technological innovations, rapid growth, or excellent customer service, but rather for "creative" accounting practices and falsified financial statements. In its efforts to cauterize the effects of such scandals, the Justice Department led Adelphia's founder out in handcuffs. And interestingly enough, on that day, the Dow Jones Industrial Average went up nearly 500 points.

Unethical Executives Exposed

Perhaps the proverbial chickens are coming home to roost. The individuals responsible for unethical—even criminal—corporate behavior are being exposed. Federal Reserve Chairman Alan Greenspan has gone so far as to say that, "Manifestations of lax corporate governance, in my judgment, are largely a symptom of a failed CEO." And in the case of chief executives, there is no honor among thieves. According to a Christian & Timbers survey, three out of four executives believe that the leaders of other organizations have deceived stockholders. But while the 1990s were characterized by what many considered to be outrageous top-level salaries, perks, and stock options, it appears the focus in the new millennium might shift in favor of doing the right thing. Betsy Bernard, CEO of AT&T's consumer business, says, "At the end of the day, ethics trump rhetoric. The pendulum is in the process of swinging as we speak."

Accountability for irresponsible use of corporate funds (Adelphia), duplicitously inflated profits (Enron and WorldCom), and other abuses is being assigned to the leaders of the companies in question—rightly so, given the arguments these same executives made for their own very generous compensation packages. Having lobbied for themselves by citing staggering responsibility for the actions of thousands of employees and the production of billions of dollars' worth of products and services, it seems more than a bit disingenuous for CEOs to now claim ignorance of the efforts of their underlings. Some of the accused may spend time in prison. Some will undoubtedly "rat out" their peers. Some may take matters into their own hands, like former Enron vice chairman Clifford Baxter, who committed suicide. But the Nuremberg argument ("I was just following orders . . . ") simply does not work if you are the person in charge.

How Did It Come to This?

It has long seemed that a myopic focus on short-term profits, and the justification of obtaining that profit by any means necessary, was not a trend that would result in long-term growth, stability, or innovation. Even as investors, small and large, were gorging on what we believed were amazing increases in shareholder wealth, we began asking each other how long this could last. Financial advisors began warning that a "correction" was forthcoming. Unfortunately, it seems not enough of us considered a simple, time-honored maxim—if it seems too good to be true, it probably is.

There is, of course, no short answer to explain either the movements of the market or the behavior of human beings, but a number of factors were influential insofar as these recent corporate scandals are concerned. Among those factors are avarice, elitism, and corruption. Certainly, the fundamental purpose of any corporation is to make a profit, and profits can be made honorably and ethically. During the past decade, however, what Greenspan has described as "an infectious greed" has surfaced. Drawing on his many years of experience serving on corporate boards, the Fed chairman has said that, "There are cultural changes that have been going on," which have made unethical behavior commonplace, and the scandals have "clearly undercut . . . the ethical base of the capitalist system."

Because so many of us, on both the institutional and individual levels, are now shareholders, we cannot absolve ourselves of guilt entirely—nearly everyone who owns stock has profited over the last 10 years, or at least had opportunities to profit. According to a study by the Brookings Institute, almost 50 percent of U.S. households own stock, up from 37 percent in 1992 and 19 percent in 1962. There have been similar increases in investment in mutual funds. The percentage of retirement funds invested in mutual funds has increased from 5 percent in 1990 to 21 percent in 2001, and during the same period, the percentage of 401(k) assets in mutual funds increased from 9 percent to 44 percent. How many of us were delighted to rip open 401(k) statements showing fantastic increases in our personal wealth? Most of us. How many of us stopped to ask whence these increases came, and whither? Clearly not enough of us. We were content to imagine early and comfortable retirements, and we didn't look the gift horse in the mouth.

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Unethical Behavior Has a Price

The price of this barrage of unethical behavior is high. The Brookings study compared mid-year market projections made before and after the scandals broke and found that, even using conservative estimates, the cost to the U.S. economy will be between $37 and $42 billion in the first year. The study suggested that the effects will be prolonged by damaged investor confidence—speculation that is supported by the results of a Gallup poll that found suspect accounting to be the leading cause of concern for investors. The Brookings study cites unemployment, inflation, and reduced foreign investments in the United States as other aspects of the economy likely to be affected.

All of this illustrates that perhaps the traditional wisdom about the role and importance of ethics in business have been underrated. While as a nation we were tacitly complicit with the “greed is good” mentality, it seems that it’s gone too far, and its implications are too potentially devastating for us to allow it to continue. Contrary to what had been popular belief, it appears that the following statement, cited in a previous article, is *not* true: “the value of ethics is not clear—it’s not information you can make attractive to clients.” And perhaps most importantly, these scandals, their far-reaching effects, and the indictments of CEOs demonstrate that we are, in fact, personally responsible for our own ethical behavior and that of our colleagues, and that failure to behave ethically has real, bottom-line consequences. As Henry Paulson Jr., chairman and CEO of The Goldman Sachs Group, has said, “Our economy is not full of Enrons. But the Enron debacle and subsequent revelations have revealed major shortcomings in the way some U.S. companies and those charged with their oversight have gone about their business. And it has, without a doubt, eroded public trust.”

It’s Time To Do the *Right* Thing

It may be that it is high time to restore some semblance of honor to the title “professional,” for chief executives of multinational communications conglomerates and underwriters of regional insurance companies, alike. The challenge, then, for professionals in general and insurance professionals in particular, is to demonstrate by example that “business ethics” is not an oxymoron. Praise your peers and colleagues when they do the right thing, especially when the right thing is not the same as the easy thing. When a situation is ethically ambiguous, put forth the time and effort required to clarify it. And when you see someone doing the wrong thing, by all means speak up. Abraham Lincoln once said, “To sin by silence when they should protest makes cowards of men.” There must be numbers of former Enron, Arthur Andersen, WorldCom, and Adelphia employees who wish they had had the courage.

Suggested Reading and References:

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