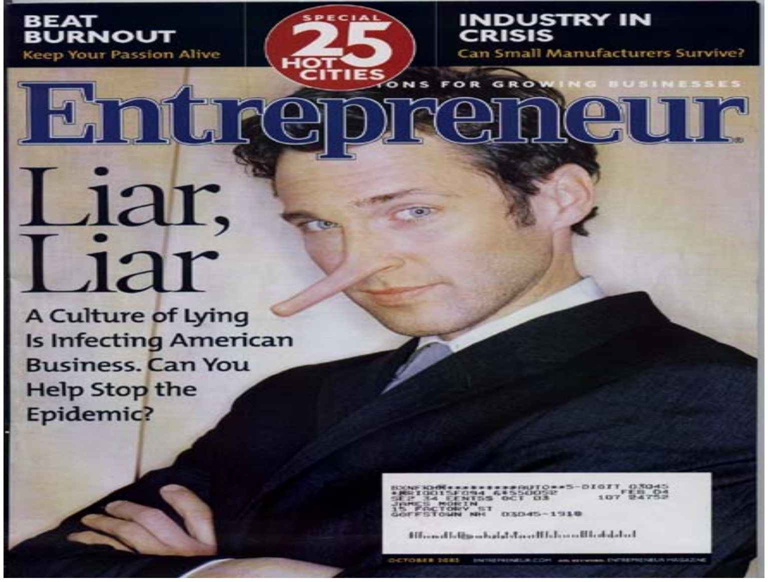

Liar, Liar

In the race to make money, some American businesses have been lying their pants off--but is success at any cost really worth the price?

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By Joshua Kurlantzick

A major U.S. company's chief resigns after authorizing large payments to top executives while negotiating a deal to slash average workers' pay. A multinational with significant business in the United States restates its revenue by nearly $1 billion. A leading American firm based in a southern city is charged with massive financial fraud; its CEO, who had lived an extravagant lifestyle, is indicted. Scenes from scandal-ridden 2002? Nope. All these events--the resignation of American Airlines' chief, the restatement of revenues at food-service giant Ahold, and the charges against HealthSouth and Richard Scrushy--happened this year, just one year after the biggest wave of corporate scandals in decades and after the passage of new legislation to combat corporate malfeasance.

Indeed, businesspeople and ethics specialists say, it's apparent that despite the 2002 scandals and legislation, little has changed in American business culture. Change appears slow in coming because lying and dishonesty simply have become a much more accepted part of business--and of American life. To fight this trend and to inculcate the idea that dishonesty is unacceptable, companies, business schools and corporate leaders will need to undertake massive, systemic reforms

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Nothing Changes, and Why

This year has been a bad rerun. In 2002, Congress passed the Sarbanes-Oxley law, which forces chief executives of publicly traded companies to verify their financial statements, provides some protection for corporate whistle-blowers, and creates a board to oversee accounting at public companies. Meanwhile, New York Attorney General Eliot Spitzer negotiated a settlement with financial institutions that forced them to pay significant fines and further separate their research and investment banking businesses.

Yet in addition to the scandals at Ahold, American Airlines and HealthSouth, ExxonMobil has come under investigation for paying a fixer to funnel bribes to the Kazakhstan government, while the New York Stock Exchange is questioning employees for allegedly illegally profiting from trades, and drug giant Bristol-Myers Squibb has been hit by an FBI fraud investigation. In the most recent survey by the Society for Human Resources Management, an HR trade group, nearly half the respondents said ethical behavior was still not rewarded in the workplace.

"Not much has changed. We're still seeing the same behavior because the whole culture hasn't changed," says Dawn-Marie Driscoll, executive fellow at Bentley College's Center for Business Ethics in Waltham, Massachusetts. The culture in the workplace remains one in which, even with more safeguards against poor ethics, there is no notion that ethical behavior is in itself something to strive for, she says.

Other ethics specialists agree. "Greed still rules the day. A lot of people in the executive suite are thinking the scandals will just blow over," says David Batstone, the author of *Saving the Corporate Soul*. "Executives are focusing on compliance with ethics rules, but they haven't come out and tried to attack the root causes of the problem--the idea that if you're making money, any behavior is acceptable."

Small companies have hardly been immune to the continuing ethical morass. According to a recent survey of entrepreneurs by The Southern Institute for Business and Professional Ethics, small companies today are less likely to have ethics programs than larger businesses. In a study conducted by Batstone, 53 percent of employees in small and large companies said they would be willing to misrepresent corporate financial information if asked to by a superior.

Indeed, many businesspeople and ethics specialists say dishonesty has become so ingrained in business that regulation or prosecution of a few supposed "bad apples" is unlikely to have a major impact. "You can't legislate morality," says Arthur Brief, director of the Burkenroad Institute for the Study of Ethics and Leadership in Management at Tulane University.

There are several reasons why unethical behavior has become so ingrained--and so hard to combat. Corporate leaders have increasingly become divorced from workers as executive pay has multiplied, a problem at both large and small companies. As a result, Batstone says, many executives seem to have lost touch with bedrock ethical values.

In 2000,
70%
of college freshmen said doing well financially was "very" important"; 30 years earlier, less than half had said so.
Source: American Council of Education

In addition, according to Michael Lissack, director of the Institute for the Study of Coherence and Emergence, an ethics research organization in Naples, Florida, more Americans have come to rely on market forces rather than government to police ethics in recent decades, yet the market is not set up for policing. "When we say the market will handle ethics--the market will punish or not punish ethical problems--we divorce ourselves from responsibility for ethical decisions, and we get rid of government's function of policing ethics," Lissack says.

Meanwhile, business experts say, regulations adopted in the past year are relatively ineffective. According to Eliot Schrage, senior fellow in business and foreign policy at the Council on Foreign Relations, a think tank in New York City, too many of the recent statutes are "command and control type" regulations, which don't change the fundamentals of the problem, rather than incentive-based regulations, which would provide inducements for wholesale change. And some of the regulations have been undermined by a lack of enforcement and by provisions that watered down some of their mandates.

What's more, Lissack notes, in recent years, business schools have paid lip service to ethics training, yet have not focused enough on inculcating honesty. "Business schools are supposed to be training professionals in real-world situations, but they're staffed mostly by academics who haven't spent that much time in the business world and don't know how to confront business ethical situations," Lissack contends. Indeed, in a recent poll of students at 12 top business schools done by the Aspen Institute, a research organization, only about 20 percent of respondents thought their schools were seriously preparing them to deal with fraud and ethical dilemmas.

More broadly, many social scientists believe American culture has actually come to celebrate dishonesty, which encourages lying and cheating in business. During the 1990s and early 2000s, as business leaders were exalted, greed and satisfaction were touted as positive forces in society because they supposedly led to greater returns for businesses and, in public companies, for shareholders. In 1996, a poll by Harris Research Group reported that more than 60 percent of Americans believed Wall Street was "dominated by greed," yet in the same poll, over 70 percent said Wall Street generally benefits America. Also during this time, a culture of charismatic superstar CEOs developed, in which chief executives were lionized for supposedly growing bottom lines, even if they used questionable means to do so.

Outside corporate America, the trend is apparent as well. "Popular culture has, over the past 20 years, had this emerging trend where success is craved at all costs, and even people who do dishonest things to achieve that success are celebrated," says Batstone. Indeed, several ethics specialists say, as American society has become more wealth-oriented and more socially and economically competitive, antiheroes who deliver results but may play fast and loose with the truth have been celebrated.

Other commentators agree. Writing of Stephen Glass, the serial fabricating journalist who attempted a comeback earlier this year with a splashy new novel, critic Lee Siegel of MSN's e-zine, *Slate*, notes: "[Glass] senses that in a commercial society that constantly stimulates the libido and makes satisfaction the highest criterion of success, any shortcut to satisfaction is permissible. Lies become a consumerist tool. Their effectiveness as a tactic earns them the quality of truth. In our moment, the Glass type is becoming more and more common."

Similarly, Philip Kennicott, culture critic for *The Washington Post*, argues that Americans generally "are having one of our perennial flirtations with the idea that all human civilization is built on the most venal of motivations," and that now, more than ever, we allow ourselves to satisfy these motivations. Indeed, Kennicott notes, Americans have become "the most primitive opportunists," abandoning the idea that one man's profit can sometimes be another man's harm.

Few ethics commentators think American society is heading in the right direction. Leaders are "not contrite and simply consider the fines and penalties as a means to make a problem go away," Sen. Richard Shelby (R-AL), who has taken the lead in Congress in handling business ethics problems, recently told a Senate Banking Committee hearing.

"There's been almost no general social change," says Lissack. Without this change, he says, specific regulations won't affect society, and people will continue to believe they should do whatever is necessary to succeed and concentrate simply on avoiding being caught.

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Breaching and Repairing Trust

This engrained tolerance of lying and bad behavior has seriously damaged trust in American business. In recent *USA Today* polls, nearly 70 percent of respondents now say they distrust business executives. Large institutional investors, such as pension funds CalPERS and TIAA-CREF, have started voting against management decisions in publicly traded companies.

Ultimately, experts say, changing the ethical climate must be led by businesspeople themselves. "What Sarbanes-Oxley mandates, directors of companies and entrepreneurs could already have been doing. Corporate best-practices cases that follow Sarbanes-Oxley were already out there to be studied," says Driscoll. To make wholesale changes to the ethical climate, Driscoll says, businesses have to drastically change their internal systems of governance, creating truly independent internal monitors of behavior; offering stronger protections to whistle-blowers; putting systems in place that can anticipate ethics problems; and having corporate leaders not only talk about ethical behavior, but also set out specific changes that will be instituted to improve ethical standards.

But for the ethical climate to truly change, society as a whole must change. Batstone contends the general public needs to embrace the idea that the process is as important as the result, and that material success is not the ultimate determinant of self-worth and status. He argues that leaders in society need to show their organizations--and the general public--that they are contributing to society in ways other than providing a product, a good or another material item. Meanwhile, Batstone says, leaders have to shed the idea that material success equals entitlement, including entitlement to take whatever actions--ethical or not--are required to achieve success.

For his part, überinvestor Warren Buffett has argued that one way to force society, and leaders in particular, to focus more on ethics is to limit the compensation paid to leaders in all fields, forcing them to focus less on material wealth. In fact, Buffett has urged shareholders to protest executives who receive extravagant salaries.

Even as lying has become more common, significant evidence shows that Americans increasingly say they favor organizations--corporations, nonprofits, political groups--that embrace ethical practices and ideas. According to Business for Social Responsibility, a nonprofit advocacy group, in a 2002 study by DePaul University in Chicago, the overall financial performance of companies rated highly in *Business Ethics* magazine was better than the performance of firms that received a lower rating.

As John Brennan, chairman and CEO of investment management firm The Vanguard Group, told Bentley College's Center for Business Ethics, "Companies that mislead or lie always pay a price eventually." Maybe. But for now, old habits still have a strong pull.

Teaching By Example

To reduce unethical business behavior, the hardest change of all may be transforming American popular culture's attitude toward honesty, money and easy satisfaction. Many ethicists suggest that grade schools, elementary schools, universities and graduate schools need to make character education a larger part of their curricula.

To some extent, this has already begun. Junior Achievement Inc., an organization with headquarters in Colorado Springs, Colorado, that teaches children about entrepreneurship, has planned a program called "Excellence Through Ethics," designed to incorporate ethics into the classroom in elementary and secondary schools. Meanwhile, the Markkula Center for Applied Ethics at Santa Clara University in Santa Clara, California, has launched an ethics camp for California elementary and middle school teachers.

But to change the culture, business schools have to respond to the ethics crisis as well. In the past, too many have compartmentalized ethics, offering one class on the subject rather than making it a focus of each course. "Most business school courses on ethics are about complying with rules rather than about broader issues of the social impact of business," says David Batstone, the author of *Saving the Corporate Soul* (Jossey-Bass). "Who wants to take a course on filling the regulations of Sarbanes-Oxley?"

"Business schools tend to be hard to change because they are rigid. We've been through past crises without much change in business education," says Arthur Brief, director of the Burkenroad Institute for the Study of Ethics and Leadership in Management at Tulane University. Schools must give business ethics a full department so it has prestige and is seen as worthy of attention by students, expand the number of ethics-related courses in their core curricula, and encourage more interactions between students and businesspeople who are focused on ethical practices, he says.

Some business schools are already following Brief's advice. In addition, several schools, including Wharton, have actually raised the ethics bar even before classes start, by checking applicants' resumes and personal statements more closely for fabrications (a practice few schools had followed in the past) and by including more questions about ethics when interviewing potential incoming students.

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