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An Assessment of Business Ethics: From the Classroom to the Workplace

Jenna Michelle Azbell
University of Northern Iowa

AN ASSESSMENT OF BUSINESS ETHICS: FROM THE CLASSROOM TO THE WORKPLACE

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Jenna Michelle Azbell

University of Northern Iowa

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I. Introduction

Money is a powerful tool. In a rational sense, it can be used as a medium of exchange to pay for goods and services. It can also be used for the repayment of debt, and it can be stored and saved in hopes of potential future growth. In a personal sense, however, money can change people and impact lives. As one's quality of life becomes more and more influenced by material possessions, money is needed to furnish these desires. Having more money can lead to having more possessions.

Businesses look to expand their resources and power through acquiring and using money as well. In this day and age, when the level of technological influences is growing at an exponential rate, the cost of having these resources is high. Staying ahead of the curve is one of the few ways businesses can be profitable.

Sometimes, however, business managers forget (or choose to forget) the ethical part of many decisions they face as they try to stay ahead of the curve. When they are focused on maximizing profits and making their stockholders happy, they tend to lose track of "doing the right thing" in an ethical sense. Companies have a due diligence not only to their stockholders, but also to their employees, their suppliers, their customers, and the public in general. Without an ethics base integrated into their corporate mission and their operating processes, a company can enter a world where deceit and scandal are common occurrences.

With the recent outbreak of monstrous corporate scandals such as Enron and WorldCom, many people have wondered whether ethics programs in corporations and in colleges are adequate. Some believe we need to add separate ethics courses into a business curriculum or integrate the subject matter throughout the normal curriculum; others believe ethics should be a more prominent part of professional tests such as the CPA exam or the bar exam. Still others believe that one cannot genuinely "learn" ethics; it is a human trait such as compassion or callousness that cannot be taught.

Many questions remain; do people truly make better ethical decisions in the business environment once they have taken ethics classes? What are the arguments for and against business ethics in business curricula? What evidence exists on how and why business ethics is taught? Last, is there a future for business ethics in our money-hungry world?

This thesis will begin with an in-depth look at the major corporate scandals of Enron and WorldCom. After that, the thesis will describe the background history of business ethics in America, looking at how capitalism has evolved and shaped our business environment and sometimes influenced the decisions we make. A description of the legislative history involving business ethics will follow, including explanations of how laws such as Civil Rights Act of 1964 affected business ethics policies and practices in the United States, as well as the expansion of business ethics-related statutes including the recent Sarbanes-Oxley legislation that has changed business reporting and management processes.

After delving into the background of ethics in business, this paper will address the arguments for and against business ethics in schools, including opinions from professors, business deans, students, and professionals in the workplace. In addition, it will explain the different methods teachers use when addressing business ethics in the classroom and why they choose to use these methods over others.

Finally, this thesis will analyze the established research findings and form a conclusion as to whether people truly make better ethical decisions in the business environment once they have taken ethics classes. This analysis will determine whether the future for ethics is bright in terms of corporate social responsibility and accepted ethical decision-making in the workplace.

II. Background

Corporate Scandals

Unethical behavior has been prevalent throughout history. If this type of behavior were not so widespread, stockholders and investors would not need auditors to ensure that a company's financial statements and accounting practices are correct. Our government would also not need regulatory legislation and agency oversight to keep companies in check. Sadly, companies have been known to make corrupt decisions when the stakes are high and the chance to make a lot of money is great. In recent years, numerous corporate scandals broke and many individuals who were directly or indirectly involved with these corporations suffered dire consequences. Although there are relatively few companies who make these unethical decisions compared to the total number of companies in the world, those few bad decisions have led to a lack of trust in all companies. Thus, every stakeholder needs the trust provided by auditors and legislation before making the decision to invest, buy, or go to work.

Sometimes auditors and legislation do not catch unethical decisions until it is too late, or they are somehow involved in the scandal itself. Many corporate scandals erupted in recent years due in large part to the Internet and telecommunications boom and the hype surrounding it. Both the Enron and WorldCom scandals sparked worldwide attention and criticism as the events surrounding the ultimate destruction of these companies were exposed.

Enron

Enron was created in 1985 by a merger between Houston Natural Gas and InterNorth. This merger created the "first nationwide gas pipeline system," with 37,000 miles of pipe (G. Jenkins 4). Enron was soon in the business of transporting and selling natural gas throughout the country. With the CEO, Ken Lay, realizing that Enron needed to evolve from the typical energy company and the idea from an intuitive consultant, Jeff Skilling, that Enron should buy gas from various suppliers and sell gas to interested buyers, Enron began growing exponentially as a "utilities-focused investment company" (G. Jenkins 4).

Jeff Skilling took the position of Chief Operating Officer in 1996, and Enron began growing as it never had before. According to G. Jenkins, "The company evolved from a traditional energy company into a company that not only produced and distributed energy, but also traded commodities such as wood fiber, steel, electricity, natural gas, weather futures, and Internet bandwidth" (5). Revenues soared from approximately 9 billion in 1995 to 101 billion in 2000 (G. Jenkins 4). Enron executives were making millions, and the stock price was soaring at ninety dollars (McClean and Elkind 244).

October 16, 2001 was the first public sign of trouble for Enron when they announced a third-quarter loss of $618 million. The stock price had dropped by 99.69% from September 2000 to November 2001. Once the Securities and Exchange Commission began inquiring into Enron's accounting practices, Enron immediately announced its plans to restate its financial statements from 1997 to the first two quarters of 2001 because "of the required consolidation of certain previously unconsolidated entities" (G. Jenkins 7-8). The expected effects of this restatement would "include a reduction to reported net income of approximately 96 million in 1997, 113 million in 1998, 250 million in 1999, and 132 million in 2000," along with an increase in millions of dollars of debt (G. Jenkins 8). Once these expected effects were announced, Enron decided to file for bankruptcy on December 2, 2001 (G. Jenkins 8).

Many factors could have contributed to the steep decline that took Enron into bankruptcy in late 2001. Jeff Skilling was adamant that he be allowed to use "mark-to-market" accounting, which was approved by Arthur Andersen, their CPA. There were two major differences between using this type of accounting versus the conventional, historical-cost accounting. According to McClean and Elkind:

> Under conventional accounting, the value on your books continues to reflect your initial assumptions over the life of the deal, even if the underlying economics change. Using the concept of marking-to-market, however, you're forced to adjust the values on your balance sheet on a regular basis, to reflect fluctuations in the marketplace or anything else that might change the values. That's the first big difference. Here's the second. When you use conventional accounting, you book the revenues and profits that flow from the contract as they come through the door. But under the mark-to-market method, *you can book the entire estimated value for all ten years on the day you sign the contract.* Changes in that value show up as additional income – or losses – in subsequent periods. (39)

The use of mark-to-market accounting allowed Enron to record profits in their books before the revenues actually came through the business, and in some cases, revenues were booked for projects that never produced any actual revenue.

In 1999, Tim Belden, the top energy trader and managing director of Enron's west trading division, decided to exploit the new rules of California's deregulated energy market. California had recently passed electricity deregulation in 1996, and his group created a way for too much electricity to flow through the lines, congesting the power lines and causing electricity prices to skyrocket at a tremendous cost to the California people. Tim Belden scheduled 2,900 megawatts of electricity that could only absorb fifteen megawatts at a time. According to McClean and Elkind:

> Because there was not a way for Belden's power to be delivered…the ISO [Independent System Operator], which handled such emergencies, had to hustle to find replacement supplies. Because the agency was forced to buy a substantial amount of power at the last minute, prices in California shot up by more than 70 percent, resulting in a cost of as much as $7 million to users. (268-269)

One strategy, named "Ricochet," exported power out of California until the price of energy skyrocketed, and then they brought it back in. These new strategies hit California hard. Blackouts covered the state through 26,000 miles of power lines. People died of heat exposure, traffic accidents, and other power-failure-related incidents; fires also took out power lines due to the extreme heat plaguing the west. By the time the governor of California declared a state of emergency, the cost of these incidents was a staggering $30 billion (McClean and Elkind 270-278).

If that was not bad enough, other executives of Enron were making unethical decisions in separate parts of the company. Andy Fastow, the organization's Chief Financial Officer, was the mastermind behind the special purpose entities and the "structured financing" Enron embarked upon. He created companies to hide Enron's debt and manipulate its balance sheet to make investors think Enron was performing better than it really was. He also got as many as ninety-six banks to invest as much as $25 million each in so-called special-purpose entities, using Enron's stock as collateral. Special-purpose entities such as these are supposed to be consolidated with the parent company unless an independent faction controls it and outside groups provide at least three percent of its equity. Enron treated each of these entities as meeting this exception - which they did not - and did not consolidate them into their financial statements, although they should have done so (G. Jenkins 16).

McLean and Elkind write that "[There] are only three ways for companies to fund their growth. They can take on debt, issue stock, or draw from their existing cash flow" (McClean and Elkind 150). However, Enron could use none of these strategies because they had committed themselves to Wall Street; if they gathered too much debt, their credit rating would tank and banks would stop lending. They also could not draw from their existing cash flow because they did not really have the cash flow that they booked, thanks to their mark-to-market approach. They could have probably issued more stock, but Jeff Skilling made it clear that he did not want to do this. Thus, Fastow came up with an approach to fund Enron's growth by raising capital off its balance sheet "through the miracle of structured finance" (McClean and Elkind 151).

Andy Fastow wanted to be indispensable to Enron, and he accomplished this. He boasted about how he "'transformed finance' into an internal capital-raising machine" (McClean and Elkind 151). His special-purpose entities "resembled nothing so much as an investment bank, up to and including selling its services to other parts of the company" (McClean and Elkind 151). All of the deals he created were meant to accomplish a few goals: "keep fresh debt off the books, camouflage existing debt, book earnings, and create operating cash flow" (McClean and Elkind 155).

Fastow tried to squeeze everything possible out of the banks to fatten Enron's (and ultimately his) pockets:

> Since Andy Fastow saw himself as running his investment bank within Enron, he wanted to be able to invest in Enron's deals, too. Even though he was making, by the late 1990s, upward of $1 million in salary and bonus annually and had millions more in stock options, he wanted more. More than that, he felt that he *deserved* more. (McClean and Elkind 165)

Fastow convinced Enron to buy Zond, which owned some wind farms, through two special-purpose entities known as the RADRs. According to McClean and Elkind, "The RADRs bought 50 percent of Enron's wind farms for approximately $17 million, 97 percent of it a loan from Enron" (167). Fastow then asked investment bankers to invest in this deal, which was secretly being distributed to his own accounts. These investors paid Michael Kopper, one of Fastow's "disciples," who then secretly transferred the money to Fastow. McClean and Elkind believed that "to the government, these payments were kickbacks, pure and simple. However, to Fastow, who operated within the warped world of Enron, they were just commissions. After all, he'd given others the opportunity to invest, so they owed him" (167).

Over the next three years, the RADRs generated approximately $4.5 million in proceeds, "from which Kopper...paid more than $100,000 back to Fastow and his family in increments that were always no more than $10,000 so that they could be classified as gifts" (McClean and Elkind 167). Fastow continued to profit from these deals, and according to the government, even failed to report any of this money on his tax returns (McClean and Elkind 167).

Enron's failure in corporate governance and practically nonexistent internal controls were highly conducive to these disastrous executive decisions. Where was everybody else to catch these fraudulent acts? Arthur Andersen, the CPA firm that oversaw Enron's business activities, earned approximately one million dollars a week for their work, as did Enron's law firm

(McClean and Elkind 144-148). In March of 2002, after Enron had filed for bankruptcy and multiple executives were facing potential criminal convictions for their decisions, Andersen was indicted for obstruction of justice, stemming from "the alleged destruction of documents related to the Enron audit" (G. Jenkins 19). The firm surrendered its license to practice accounting in the United States, and roughly 85,000 people lost their jobs (McClean and Elkind 406-407). It seems that many companies in relationships with Enron were turning a blind eye to the devious dealings that were taking place within the organization.

Lynn Brewer, a past Enron employee, believes that the fraudulent acts committed by this company may not be as rare as we might think. According to Brewer, "[she still believes] that a majority of us are inherently good, which creates an intrinsic disconnect between those who believe they are doing the right thing and those who can be persuaded to behave in a certain manner that can, absent appropriate controls, ultimately put the company and individual at risk" (27). She believes that "Enron's implosion was caused by two equally destructive forces: contribution to the corruption and a complacency toward the corruption" (Brewer 27). Once Enron filed for bankruptcy in 2001, the Securities and Exchange Commission started receiving "an average of 6,400 reports of securities and financial fraud every month" (Brewer 26). In 2004, that number grew to a staggering forty thousand reports per month (Brewer 26-27).

Many employees of Enron were charged and convicted for their unethical decisions. Jeff Skilling was found guilty on nineteen counts including conspiracy, securities fraud, insider trading, and perjury. He is serving a 24.3 year sentence in a federal prison ("Enron Scorecard – The New York Times") and has recently appealed his conviction to the U.S. Supreme Court on grounds of improper jury selection procedures and certain ambiguities in the law used to convict him (Liptak par 1-5). Andy Fastow faced ninety-eight counts and had to give up $23.8 million;

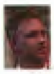
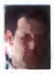
he is serving six years in prison after a plea bargain and two sentence reductions. Ken Lay was convicted on ten counts, but died shortly before sentencing and appeal could take place, and the court subsequently vacated his conviction ("Enron Scorecard – The New York Times").

The New York Times has updated the list of criminal charges brought on Enron's key players. Thirty-three people faced criminal charges in lieu of the misconduct prevalent in the company. Figure 1 shows the names and criminal sentences or trial statuses of these thirty-three people ("Enron Scorecard – The New York Times").

Figure 1

	Name/Title	Pleaded Guilty	Convicted	Aquitted	Convicted, but overturned	Sentence	Status	Charges
	TOP EXECUTIVES							
	**Kenneth L. Lay** *Chairman and chief executive*		YES, but vacated after he died				Deceased	Conspiracy, Securities fraud, Wire fraud, Bank fraud
	**Jeffrey K. Skilling** *Chief executive*		YES			24.3 years	In prison	Conspiracy, Securities fraud, Insider trading, Perjury/lying to investigators/auditors
	**David W. Delainey** *Chief executive, energy divisions*	YES				2.5 years	Released	Insider trading
	**Andrew S. Fastow** *Chief financial officer*	YES				6 years	In prison	Conspiracy
	**Ben F. Glisan Jr.** *Treasurer*	YES				5 years	Released	Conspiracy
	**Richard A. Causey** *Chief accounting officer*	YES				5.5 years	In prison	Securities fraud
	**Mark E. Koenig** *Director of investor relations*	YES				1.5 years	In prison	Aiding and abetting securities fraud
	**Paula H. Rieker** *Board secretary, manager of investor relations*	YES				2 years probation	On probation	Insider trading

	Name/Title	Pleaded Guilty	Convicted	Aquitted	Convicted, but overturned	Sentence	Status	Charges
	MID-LEVEL EXECUTIVES							
	**Lea Fastow** *Assistant treasurer*	YES				One year	Served sentence, now out	Filing false tax returns
	**Michael J. Kopper** *Vice president*	YES				3 years 1 month	In prison	Conspiracy, Money laundering
	**Timothy Despain** *Assistant treasurer*	YES				4 years probation	On probation	Conspiracy
	**Lawrence M. Lawyer** *Finance executive*	YES				2 years probation	On probation	Filing false tax returns
	Christopher F. Calger *Vice president, energy trading division of Enron North America*	YES, but trying to withdraw it					Charges dismissed	Conspiracy
	BROADBAND							
	**Kenneth D. Rice** *Chief executive, broadband*	YES				2 years 3 months	In prison	Securities fraud
	**Joseph M. Hirko** *Chief executive, broadband*			Acquited of some charges			Awaiting retrial	Conspiracy, Securities fraud, Wire fraud, Insider trading, Money laundering
	**Kevin A. Howard** *Chief financial officer, broadband*				YES			Conspiracy, Wire fraud, perjury/lying to investigators/auditors
	**Kevin P. Hannon** *Chief operating officer, broadband*	YES				2 years	In prison	Conspiracy
	**Rex T. Shelby** *Senior vice president, broadband*			Acquited of some charges			Awaiting retrial	Conspiracy, insider trading
	**F. Scott Yeager** *Senior vice president, broadband*			Acquited of some charges			Awaiting retrial	Conspiracy, Securities fraud, Wire fraud, Insider trading, Money laundering
	**Michael W. Krautz** *Accounting officer, broadband*			Yes (in second trial)			Free and clear	Conspiracy, Wire fraud, perjury/lying to investigators/auditors

	Name/Title	Pleaded Guilty	Convicted	Aquitted	Convicted, but overturned	Sentence	Status	Charges
	ENERGY TRADING							
	**Timothy N. Belden** *Managing director*	YES				2 years probation	On probation	Conspiracy
	Jeffrey S. Richter *Senior trader*	YES				2 years probation	On probation	Conspiracy
	**John M. Forney** *Senior trader*	YES				2 years probation	On probation	Conspiracy
	NIGERIAN BARGE DEAL							
	**Daniel O. Boyle** *Finance Executive, Enron*		YES			3 years, 10 months	In prison	Conspiracy, Wire fraud, perjury/lying to investigators/auditors
	**Sheila K. Kahenek** *Accountant, Enron*			YES			Free and clear	Conspiracy
	**Daniel H. Bayly** *Chief investment banking, Merrill Lynch*				YES	2.5 years	Released from prison; possible retrial	Conspiracy, Wire fraud
	**James A. Brown** *Chief of asset leases, Merrill Lynch*				YES, partially overturned	3 years, 10 months	Released from prison; possible retrial; purjury conviction upheld	Conspiracy, Wire fraud, perjury/lying to investigators/auditors, Obstruction of justice
	**William R. Fuhs** *Vice president, Merrill Lynch*				YES	3 years, 1 month	Released from prison	Conspiracy, Wire fraud
	**Robert S. Furst** *Investment banker, Merrill Lynch*				YES	3 years, 1 month	Released from prison; possible retrial	Conspiracy, Wire fraud
	SOUTHAMPTON DEAL							
	**Gary Mulgrew** *A managing director of NatWest Bank*	YES					Awaiting sentencing	Wire fraud
	**Giles Darby** *A managing director of NatWest Bank*	YES					Awaiting sentencing	Wire fraud
	**David Bermingham** *Finance specialist at NatWest Bank*	YES					Awaiting sentencing	Wire fraud
	AUDITING							
	**David B. Duncan** *Arthur Andersen accountant in charge of Enron audit*	YES, but it was later withdrawn					Free and clear	Obstruction of justice

Source: "Enron Scorecard - New York Times." *The New York Times*. Web. 22 Mar. 2010.

<http://www.nytimes.com/ref/us/20061023_ENRON_GRAPHIC.html>.

WorldCom

WorldCom began as a small telecommunications start-up, named LDDS, in 1983. Bernie Ebbers, the founder and CEO, was a businessman who had brought profits to his multiple motels by keeping his operating costs low. Ebbers decided to invest in an opportunity to generate positive cash flow by entering the emerging telecom market (Cooper 26-36). He soon began building larger customer bases to gain economies of scale and lower the cost of reselling a phone call. He quickly acquired a number of small telecommunications companies and was soon in competition with leading telecom companies such as AT&T, MCI, and Sprint. By 1992, WorldCom (still named LDDS), was generating $948 million in revenues (Cooper 82-84).

Ebbers was keen on growing his company mainly through acquisitions. When AT&T broke up in 1984, there were more publicly traded telecom companies than ever before, including eleven significant U.S. competitors. Wall Street was looking for companies who understood the industry, and Bernie Ebbers seemed like the perfect candidate. WorldCom swooped in and closed a three-way deal, acquiring two other telecom companies. Success followed this opportunity, as WorldCom closed out 1993 with $1.4 billion in revenues (Cooper 86-88).

Cynthia Cooper joined WorldCom as an internal audit manager in early 1994, where she saw a major lack in internal control (Cooper 94). Since WorldCom was acquiring more and more companies, Cooper noticed that the company was far too decentralized so that many redundant operations were taking place and company standards were not being communicated effectively. Regardless, Bernie Ebbers was adamant about acquiring small telecom companies in order to be one of the top competitors in the industry (Cooper 100).

The next few years were spectacular for WorldCom in terms of revenue. As soon as President Bill Clinton signed the Telecom Act of 1996, WorldCom was merging with the largest local telephone companies in the country and becoming part of the S&P 500 (Cooper 124-127). Once they merged with MCI with an offer of $36.5 billion combined cash and stock, WorldCom was undergoing the largest acquisition in corporate history and became the second largest long-distance telecommunications company with twenty-five percent of the market (Cooper 157-159). Although the deregulation that came from the Telecom Act resulted in over three thousand telecommunications companies in the U.S., WorldCom was doing exceedingly well because start-up telecoms were turning to them to lease bandwidth (Cooper 169).

It seemed like WorldCom could do no wrong. Bernie Ebbers felt that the one thing stopping them was their own wireless network; residential customers were migrating to cellular, and WorldCom was lacking in that area. He backed an offer of $127 billion for Sprint, making the MCI purchase seem miniscule (Cooper 171-172). According to Cooper, "there was a lot of ego involved in buying Sprint…Bernie told me, 'this will make us bigger than AT&T'" (173). Fortunately for Sprint, the regulators denied the merger, stating that "the merger threatens to undermine the competitive gains achieved since the Department challenged AT&T's monopoly of the telecommunications industry 25 years ago" (Cooper 189-190). As WorldCom's stock started to drop and margin calls were issued for loans backed by this stock, Ebbers was required to come up with enough cash to pay down enough of the loan and bring the percentage back in line (Cooper 193).

At the start of the new millennium, the dot.com bubble burst and stock prices began dropping in record numbers. WorldCom's stock continued to drop and Bernie Ebbers continued to receive margin calls. The Compensation Committee at WorldCom agreed to loan Ebbers fifty million dollars to meet these margin calls; this loan was given very quickly without researching his financial standing, obtaining collateral, or even setting an interest rate (Cooper 193). Once those funds dried up, Ebbers continued to borrow through additional loans, forward sales, and pleas to banks for relief (Cooper 195-198).

Meanwhile, Cynthia Cooper was struggling as the Vice-President of Internal Audit at WorldCom. She continued to relay to executives that the company was merely "a patchwork of companies piled one on top of another. The result [was] an environment that [was] never stable and a quagmire of duplicate systems and processes" (Cooper 191). Since Bernie Ebbers had a passion for expansion as opposed to combining and managing the current operations, little had been done to account for the growing problem (Cooper 191).

Finally, in 2002, Bernie Ebbers left the company. He was barely clinging to financial stability and was moving closer to personal bankruptcy. Since starting the company, Ebbers had accumulated over $900 million in borrowings from seven separate banks (Cooper 217). His separation agreement provided him with $1.5 million in annual compensation for the rest of his life (Cooper 218). After Ebbers' departure, WorldCom announced their plan to strengthen their cash position, simplify their corporate structure, and improve their profitability (Cooper 220).

Cynthia Cooper decided to begin auditing capital expenditures for the company in the middle of 2002. She started running into problems when several capital-spending schedules differed from their auditing conclusions by an amount classified as "prepaid capacity." Numerous inquiries to employees revealed little information; these employees seemed to be recording these transactions without knowing what they were for (Cooper 223-226). Cooper's team tried relentlessly to trace the account, but it kept "jumping all over the place, from account to account" (Cooper 226). It appeared to be moving from the income statement to the balance sheet: $743 million in the third quarter of 2001, $941 million in the fourth quarter of 2001, and $100 million in the first quarter of 2002 (Cooper 233).

Cooper finally decided to ask Scott Sullivan, the Chief Financial Officer at WorldCom, about these mysterious accounts. According to Cooper:

> [Scott said] the amounts represent costs related to the company's leased fiber lines that have little or no customer usage due to the implosion of telecom. The company continues to pay to lease them, but they bring in little revenue. However, instead of expensing the lease costs as they are incurred, the company is reclassifying the amounts as capital assets, which means it can expense them over longer periods. This allows the company to stretch out this deduction to company earnings, buying time for revenue to catch up. (236)

Sullivan continued to pressure Cooper to postpone the audit until the next quarter because the problem would be fixed soon. However, Cooper took initiative and researched these transactions further (Cooper 237-238).

Roughly forty-nine entries totaling $3.8 billion were recorded over 2001 and the first quarter of 2002. Although their movement changed from one quarter to the next, their overall impact on the financial statements remained the same (Cooper 259). Multiple employees who knew about this cover-up tried desperately to prevent Cooper and her team as well as their external auditors from finding these fraudulent entries. In the end, Cooper became a whistle-blower for the company and WorldCom had to restate its financials by $9 billion, the largest fraud in corporate history (Cooper 299).

On July 21, 2002, WorldCom filed the largest bankruptcy in corporate history. Scott Sullivan was charged with seven fraud-related counts and sentenced to five years in prison.

Other employees who knew the transactions were inconclusive but did not question it were also charged (Cooper 296-299). Bernie Ebbers was charged with "one count of conspiracy, one count of securities fraud, and seven counts of filing false statements with the SEC – one for each quarter's financial statements during the time the government alleges fraud" (Cooper 326). Ebbers was sentenced to twenty-five years in prison (Cooper 356).

Lessons Learned?

With the latest wave of corporate scandals finally behind us, many wonder if we have learned anything from these unethical behaviors that can be effectively applied to current situations in order to prevent anything like Enron or WorldCom from happening again.

Every year, PriceWaterhouseCoopers releases a "global economic crime survey" which focuses on the trend of perceptions and incidents of economic crime in recent years. The 2009 survey was released in the midst of an economic recession, which brought an increase in the level of fraud reported. According to the survey, "As U.S. executives reported sharp cutbacks in resources committed to fraud detection and prevention controls, so fraud has risen during the downturn" (PricewaterhouseCoopers 3).

According to Figure 2, asset misappropriation is the most prevalent type of fraud reported by United States companies as well as globally, although United States companies have a significantly higher level of incidents compared to global companies. Offsetting these high amounts of asset misappropriation are the low levels of accounting fraud and bribery and corruption in the United States compared to global companies (PricewaterhouseCoopers 8-9)

Figure 3 shows the trend of economic crimes between 2009 and 2007. The levels of asset misappropriation, accounting fraud, and bribery and corruption remained constant between 2007 and 2009, but data theft and intellectual property (IP) infringement reached record levels in 2007:

> High-profile incidents of data theft, including personal and corporate information, marked 2007 and 2008. These highly public security breaches resulted in both actual monetary losses and reputational damage to the compromised companies, prompting new disclosure requirements regarding data loss and spurring companies to establish more sophisticated security measures to protect against the fraudsters. (PricewaterhouseCoopers 9)

Figure 2

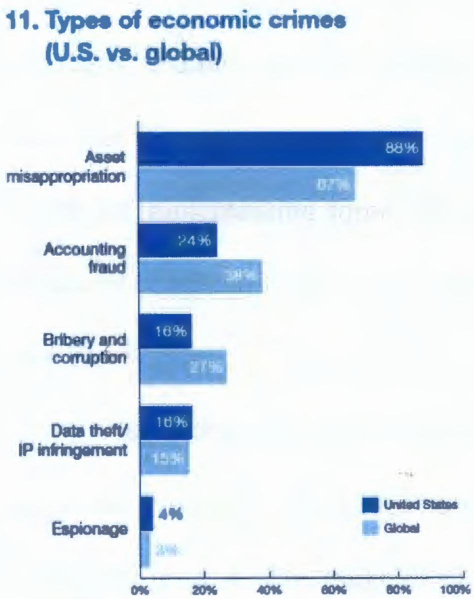
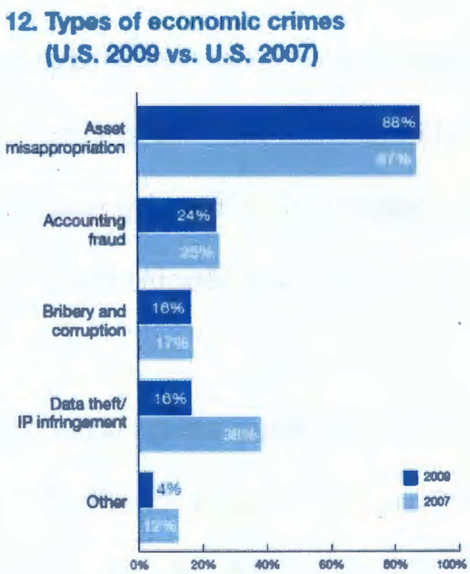


Figure 3



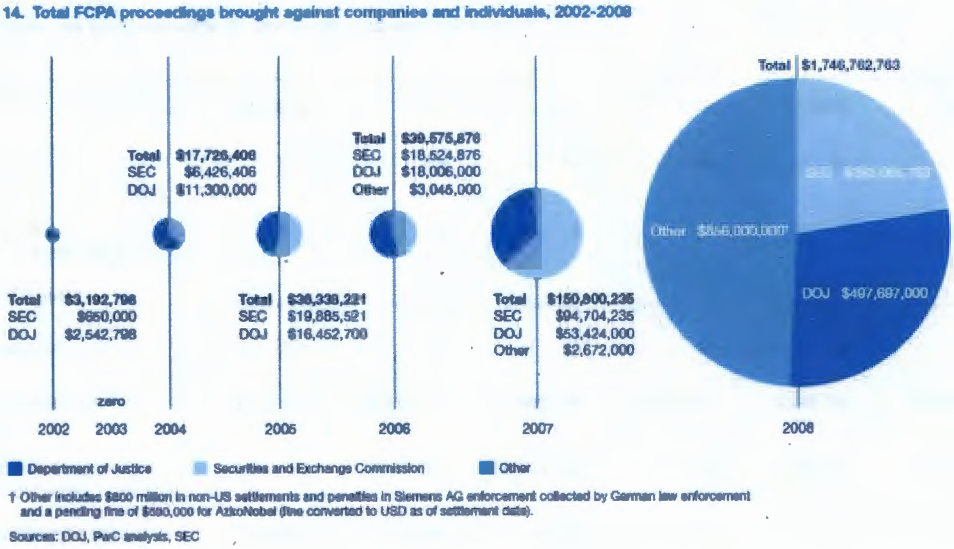
Source: PricewaterhouseCoopers, comp. *Economic Crime in a Downturn: The 5th Global Economic Crime Survey*. Rep. PricewaterhouseCoopers, Nov. 2009. Web. Spring 2010.

Asset misappropriation is most likely driven by desire for personal financial gain, so it is not surprising that asset misappropriation tops the list in a declining economy. Even though this type of fraud has a high level of incidents, there is usually low financial impact to the company. This reason, as well as the fact that it is very difficult to design controls against asset misappropriation, leads many companies to be unwilling to spend money to completely eliminate this type of fraud. Other types of crimes such as bribery, corruption, and accounting fraud, can have a higher financial impact on a company, so many have focused their attention to resolving these issues instead (PricewaterhouseCoopers 9).

Data theft was rather prominent in 2007 and 2008. For example, in 2007, TJX Company, the parent company of TJ Maxx and a number of other retailers, had more than forty-five million credit and debit card numbers stolen from its IT systems. Some of this stolen data ended up at Wal-Mart stores in Florida, where the thieves used the TJX customer data to purchase Wal-Mart gift cards, and then used those gift cards to steal over eight million dollars in merchandise from the stores (Greenemeier par 1-4). According to Larry Greenemeier, "the company [TJX] has a history of implementing some measures to protect customer information, but it didn't apply these measures consistently or firmly enough to withstand the sophisticated attack against its systems" (par 7).

As another example, the costs of proceedings brought against companies and individuals due to the Foreign Corrupt Practices Act have grown significantly between 2002 and 2008, as shown in Figure 4. The range of costs between 2002 and 2008 was a little over three million dollars in 2002 to almost two billion dollars in 2008. According to the survey, "2009 is on the pace to report mammoth FCPA [Foreign Corrupt Practices Act] settlement amounts, with approximately $435 million in DOJ [Department of Justice] penalties and $210 in SEC [Securities and Exchange Commission] penalties already assessed" (PricewaterhouseCoopers 10).

Figure 4



Source: PricewaterhouseCoopers, comp. *Economic Crime in a Downturn: The 5th Global Economic Crime Survey*. Rep. PricewaterhouseCoopers, Nov. 2009. Web. Spring 2010.

The number of "accounting-related securities class action litigation cases" has declined in 2007 and 2008 (PricewaterhouseCoopers 11). These cases are useful in determining the trend of accounting fraud because they relate to accusations such as "improper financial estimates, internal controls, overstatement of assets or understatement of liabilities, or improper revenue recognition" (PricewaterhouseCoopers 11). Figure 5 shows the settlements of accounting cases between 1996 and 2008.

Figure 5

15. Settlements (in thousands $): accounting cases, 1996–2008†

Year settled	1996–2002	2003	2004	2005	2006	2007	2008
Number of settled cases	314	83	89	89	88	82	68
Zero-dollar ($0)/ undisclosed settlements	2	2	3	–	1	2	5
Number of outliers	1	–	1	2	–	1	–
Net settlements‡	311	81	85	87	87	79	63
Total settlement value	9,213,400	2,236,000	5,496,700	18,384,300	6,049,000	5,958,200	3,258,100
Total settlement value excluding outliers‡	6,048,400	2,236,000	2,921,700	7,689,800	6,049,000	2,758,200	3,258,100
Average settlement value	19,400	27,600	34,400	88,400	69,500	34,900	51,700
Median settlement value	7,000	7,000	7,300	13,300	7,000	8,100	8,000
Average settlement value for cases settled for $1 mil. or more, up to $50 mil.	11,000	10,800	10,600	12,200	10,000	9,300	10,700

† Year of settlement is determined based on the primary settlement pronouncement. Any subsequent settlement amounts are attributed to the primary announcement year. Settlement information reflects only those cases filed and settled after passage of the PSLRA (12/22/1995).
‡ Amount used to calculate average and median settlement values.

Source: PricewaterhouseCoopers, comp. *Economic Crime in a Downturn: The 5th Global Economic Crime Survey*. Rep. PricewaterhouseCoopers, Nov. 2009. Web. Spring 2010.

The apparent outbreak of fraud in recent years has led some to believe that fraud has increased substantially in comparison to the past. Media outlets have increased their coverage on the latest corporate scandals, and the public is wondering what has caused corporations and their employees to suddenly behave unethically. This is simply not the case; fraudulent behavior has been around throughout history and by comparing the trends of fraud over periods of time, one can find that the "outbreak" of fraudulent behavior today is merely a cycle. According to Kalbers:

> While all of these well-known cases [e.g., Enron and WorldCom] exhibited at least some of the attributes identified by research as being associated with higher probabilities of fraud, the vast majority of prior frauds took place is smaller companies, where perhaps the consequences were not sufficiently suffered by major investors and analysts, or they were not large enough to catch the attention of the media. (203-204)

In 1987, two events foreshadowed subsequent decades of unethical behavior, scandals, and reform in ethics of corporations: the plunge of 22.6% of the Dow Jones Industrial Average value in one day (October 19, 1987) and the issuance of the Report of the National Commission on Fraudulent Financial Reporting by the Treadway Commission. The 1980s was a decade filled with the savings and loan crises; various legislative reforms were taking place to address these scandals. The work of the Treadway Commission included "recommendations for public companies, independent public accountants, the Securities and Exchange Commission (SEC), regulators and educators" (Kalbers 188). According to Kalbers:

> For public companies, recommendations emphasized the appropriate "tone at the top" and the overall control environment, improvements in corporate governance, stronger internal controls, the development and enforcement of written codes of conduct, and an enhanced role of audit committees of the board of directors. Recommendations for independent public accountants included increased responsibility for the detection of fraudulent financial reporting, a call for the inclusion of an evaluation of internal control in the standard audit report, and other policies and procedures to enhance independence and audit quality. For the SEC and other regulators, the Treadway Commission recommended improved regulation and enforcement, more severe penalties, and increased criminal prosecution. (188-189)

The Commission's report shed some light on fraudulent financial reporting, its causes, and its remedies. Many companies became more aware of the aspects pertaining to unethical behavior, but few of the recommendations outlined by the Treadway Commission were adopted at that time. It was not until the dot.com bubble burst and the following corporate scandals that many of these recommendations were implemented (Kalbers 189-190).

The 1990s showed a steady increase in the stock markets and optimism among businesses as many continued to innovate and gain market share. The Internet brought substantial profits for companies and an environment of growth and optimism was coupled with little support for regulation and oversight, and the corporate troubles of the new millennium loomed. The Treadway Commission recommendations were not only ignored, but in some cases were even opposed. The accounting profession was started to expand into consulting, leading many to wonder about their independence. The Private Securities Litigation Reform Act was passed in 1995, which "reduced potential liability and raised the bar for responsibility for accounting firms" (Kalbers 189).

According to Kalbers, "The bubble that grew from these excesses and the lack of oversight in the 1990s culminated when reality burst the technology bubble in 2000, followed shortly thereafter by additional business and accounting failures symbolized by the likes of Enron and WorldCom" (189-190). The bubble burst and the collapse of Enron in 2001 and WorldCom in 2002 brought extreme scrutiny to the credibility of financial reporting. Shortly thereafter, the Sarbanes-Oxley Act of 2002 was passed by Congress (Kalbers 190).

The Treadway Commission's report tried to reform financial reporting and auditing in United States businesses; however, legislators and companies did not act on this reform until several more significant events took place. Fraudulent financial reporting seems to increase during periods of strong economic activity followed by recession. Kalbers believes "there is general evidence that earnings management and fraudulent financial reporting increase during economic booms as managers attempt to match the accomplishments of other firms and as the bubble begins to become unsustainable" (202).

There is also evidence that industry traits play a role in fraudulent financial reporting. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) released a study called "Fraudulent Financial Reporting: 1987–1997, An Analysis of U.S. Public Companies" (Beasley et al. 442). This study found that the technology, health-care, and financial-service industries account for approximately forty percent of the fraud cases evaluated by COSO (Beasley et al 442). Financial-service industries have come under the spotlight in recent years with the discovery of Ponzi schemes by men such as Bernie Madoff and Robert Allen Stanford as well as the questionable and sometimes illegal activities of brokerages, investment banks, mortgage lenders, and insurance companies that led to the financial crisis of 2008-2010 (and perhaps beyond).

Bernie Madoff will be known as one of the biggest Ponzi schemers in history. He defrauded thousands of investors since the early 1990s out of approximately $65 billion. Although the details of this scheme have yet to be uncovered, Madoff's eleven charges include "four counts of fraud [and] three counts of money laundering, making false statements, perjury, making a false filing to the US financial watchdog, and theft from an employee benefit plan" ("Madoff Admits…" par 20). Madoff pleaded guilty and is serving a 150-year federal prison sentence. The estimate of actual losses is still accumulating; as of March 2010, the estimate was near $65 billion (Ritholtz par 3).

Robert Allen Stanford, CEO of Stanford Financial Group, collaborated with two other colleagues to offer "too good to be true" investment opportunities (Krauss, Zweig, and Creswell par 6). They promised investors highly profitable returns on certificates of deposit, most often more than twice the rate offered by regular banks. According to Krauss, Zweig, and Creswell, "a substantial portion of the bank's portfolio was in very illiquid real estate and private equity investments…[Regulators] claim Stanford Group lulled investors into believing the C.D. purchases were safe by advertising investments in 'liquid' securities that could be bought and sold easily" (par 7-8). As much as eight billion dollars in certificates of deposit were used in this scheme, and the SEC accused Stanford of "misrepresenting the safety and liquidity of the C.D.'s" (Krauss, Zweig, and Creswell par 15). This fraud pales in comparison to Bernie Madoff's $65 billion scheme, but it adds to the erosion of confidence in investment advisors.

According to Willoughby, "Stanford and Madoff share one trait: the promise of unrealistic and consistent double-digit returns over long spans" (par 5). These schemers used the gullibility of investors in a time of economic turmoil to defraud and deceive thousands of people out of billions of dollars. By taking advantage of the weak corporation controls and regulatory failures that have marked the beginning of the 21st century, the greed of Robert Allen Stanford, Bernie Madoff, Jeff Skilling and Ken Lay of Enron, and Bernie Ebbers of WorldCom prevailed over the good decisions and values that make a corporation ethical.

Influence of Capitalism

The ancient Greeks thought of work and commerce as shameful to a citizen. According to Gerald Cavanagh, "Plato speaks of work as if it were a temptation to be avoided because it hinders a person's ability to live and to contemplate" (30). In The Laws of Plato, he says, "If a native stray from the pursuit of goodness into some trade or craft, they shall correct him by reproach and degradation until he be brought back again into the straight course" (qtd. in Cavanagh 31).

Philosophy is also regarded as providing support for ethical conduct in business. For example, Aristotle explicitly writes about justice as "giving each his due, treating equals equally, and trading equals for equals or 'having an equal amount both before and after the transaction'" (De George par 4). As Plato's pupil, Aristotle also found trade and business harmful to one's health and well-being. Much of the work done at this time was in unhealthy surroundings and conditions, so the industrial life was thought to be "robbing the body of its health and to end by degrading the character" (Cavanagh 31). Aristotle believed in two types of business activities: the "careful management of goods" and the "merely selfish profit orientation" (Cavanagh 32). He approved of the first, which included intelligent use of one's property and resources. He disapproved of the second, which is the use of skill and goods to achieve a profit. These types of traders were often involved in deceptive practices, and it seemed to Aristotle that these practices contributed nothing to society (Cavanagh 32).

One of the most primal pieces of literature on ethics is the Ten Commandments in the Bible. The admiration of truthfulness and honesty in relation to the disapproval of theft and envy can be correlated with ethical standards that we use in business environments in the present day. Other religions have comparable literature that has guided people's ethical actions throughout history, and most are still used as a guide as well. Many people who are influenced by their religious beliefs on ethical norms apply these beliefs to their business activities (De George par 3).

Unlike the Greeks, who had slaves, the ancient Hebrews viewed work as an integral part of their lives because they could not remain separated from work like the Greeks did. They saw work as necessary but also as difficult. Christianity was built on the Hebraic tradition in regards to work. According to Cavanagh:

> The new religion itself had working class origins. Jesus was a carpenter and Paul, a tentmaker. The Apostles, all working men, were mostly fishermen. The Gospels caution against an excessive and exclusive concern with work and the things of this world, but they also make clear that work is a serious responsibility for the Christian. (32)

Adam Smith, the father of modern economics and a defender of laissez-faire economics, also was a moral philosopher who believed in the blending of morals with business. He was the first to emphasize free exchange and to present economics as an independent branch of business knowledge. He believed that a capitalist economy was the best way to use a society's resources and could generate the greatest good for the greatest number of people. He was called the "father of capitalism," and his many literary works show evidence that he in no way supported "uncontrolled greed" (Wood 17).

Karl Marx was one of the biggest critics of capitalism as it was developing in the nineteenth century. Marx claimed that capitalism was rooted in the exploitation of labor; human labor, he claimed, was the only product not sold at real value. The difference between the value of work employees produce and the amount they are paid is profit for the employer. Friedrich Engels, Marx's collaborator, saw the world as divided into those who believed in Marx's views and those who were rooted in religion; there could not be a comingling of these views because they were such opposites (De George par 8).

In 1976, Professor Milton Friedman won the Nobel Prize in Economics and became an important influence in the dialogue on corporate social responsibility and ethics. He believed that executives should not be allowed to spend corporate money however they wished (even if they gave it away to charities), because their primary duty was to the stockholders. According to his book, *Capitalism and Freedom,* simply serving their shareholders was the sole social responsibility of corporate executives: "there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it says within the rules of the game, which is to say, engages in open and free competition without deception or fraud" (qtd. in Wood 14). Friedman also disagreed with government interference in markets because, he said, it "distorted the ability of price competition to maximize efficient use of resources" (Wood 14). He did not believe in corporate social responsibility or in governmental regulation of businesses (Wood 14-15).

In the 1960s, as new laws and regulations were passed that shielded people from discrimination, hazardous work environments, and unsafe products, Friedman and his colleagues created what is now called the Chicago School of Economics (a stream of research and theory) at the University of Chicago, which helped to spread libertarian philosophies and approaches to business practice. In the 1970s, the Chicago School began to have a profound influence on U.S. public policy as deregulation and "regulatory reform" took hold. Although many argue that without regulation stakeholders cannot rely on corporations to be ethical, "free-marketeeres" such as Friedman believe that in the long run, corporations have to stop unethical behavior because it becomes too expensive to continue (Wood 15).

Even though Freidman is often perceived as "advocating uncontrolled greed," his opinion does incorporate ethics (Wood 17). He indicated in the *New York Times Magazine* that "the basic rules of society, both those embodied in law and those embodied in ethical custom" were appropriate limitations on businesses (qtd. in Wood 17). However, Friedman will be known throughout history as believing that the duties to stockholders should prevail above all other responsibilities of a corporation. This perspective has dominated business school education for many years and is a primary reason why ethics education seems to many to be inappropriate for business students.

There are two main features that make up today's capitalist economy: production for a profit and wage labor. Most production of goods and services is assumed by companies in hopes of producing and selling their output for an amount greater than the costs incurred. Most of the work in this type of economy is also done by someone other than the owner in exchange for a money wage or a salary. These two features create relationships that shape the overall essence of capitalism (Stanford 34).

Any economy driven by these two features create the same trends and patterns repeatedly: fierce competition, innovation, growth, inequality, conflict, and cycles. Fierce competition arises between companies as they try to sell their product for the most profit. Innovation also takes place, as companies constantly experiment with new ideas in hopes to succeed under that fierce competition. A natural desire for growth is also prevalent, as companies strive to make more and more money. Deep inequality arises between those who have successful companies and those who do not. A conflict of interest also arises between those who work for wages and those who hire them. Lastly, economic cycles, with periods of strong growth followed by periods of depression can form and produce lasting effects on companies and society (Stanford 34-35).

Competition is a crucial feature of capitalism. It can create many opportunities for companies; they can increase profits and expand their share of sales from competitors. However, competition can pose new challenges as well, since many other companies are trying to do the exact same thing – expand their market share at the expense of their competitors. According to Stanford:

> It's not just greed that motivates company efforts to minimize costs and maximize profits; with competition, it's also fear. If a company can't stand up to the competition, it's not just that they won't make quite as much profit as other companies. Far worse, eventually they will be destroyed by these competing firms producing better products at lower cost. (129)

There are numerous positive effects to competition in a capitalist economy. Innovation and quality continues to provide more efficient and better products for consumers. Customers also have a choice; they can go to a competing firm if they are not satisfied with a product or service of the original company. However, there are quite a few negative effects of competition as well. Firms will try to cut costs at every chance they get in order to maximize profits; this can be done by cutting wages and benefits, intensifying work, or imposing costs on their workers in damaging ways. Stanford claims "they may even try to shift their costs onto others, through a phenomenon called externalities: if they can find ways (often underhanded or even illegal) to impose costs of their operations on innocent parties, then their own bottom line is strengthened" (137).

Firms may also try to trick their customers in order to differentiate their products from that of their competitors, such as excess packaging. Firms may also be unwilling to invest in innovation or higher-skilled workers for fear that their competitors will copy. When companies fail, not only do owners lose their capital, but workers lose their jobs, investors lose money, and even communities lose potential earnings. According to Stanford, "competition is not, therefore, 'free.' It constantly imposes real and substantial costs on the economy, which must always be evaluated against its much-heralded benefits" (138).

Legislative History

The two major corporate scandals involving Enron and WorldCom raised many disturbing questions related to unethical decisions in the corporate environment. Regulators and lawmakers had to come up with a law that attempted to eliminate these fraudulent actions as these threats continue to persist.

This was not the first time that the government has had to step in to regulate businesses in order to minimize bad business behavior. The U.S. Civil Rights Act of 1964 was one of the first pieces of legislation to initiate the business ethics movement. According to Richard T. De George, "business ethics as a movement refers to the development of structures internal to the corporation that help it and its employees act ethically, as opposed to structures that provide incentives to act unethically" (par 34). This Act prohibited employment discrimination against anybody on the basis of race, color, religion, sex, or national origin. Not only were people disallowed from discriminating under the Act's conditions, but corporations could not discriminate either. Thus, many organizations had to establish equal opportunity standards within their human resources departments in order to comply with these new regulations. These standards led to more respect of workers' rights in America (De George par 34).

In 1977, the United States government passed the Foreign Corrupt Practices Act. This Act was meant to prohibit U.S. companies from paying foreign governmental officials large amounts of money for special treatment. Although some believed this gave the United States an unfair disadvantage since other countries were allowed to pay bribes to foreign officials, the U.S. government upheld its ethical integrity and asked U.S. corporations to do the same. Today, many countries have followed suit and adopted similar legislation (De George par 35).

By the 1980s, many companies were incorporating ethics codes and ethics training in their establishment. As more and more ethics scandals broke and caused worldwide attention, the attention required on ethics education began to spread across industries. In 1986, the Defense Industry Initiative (DII) on Business Ethics and Conduct was signed by fifty major defense contractors "in response to a series of reported irregularities in defense contracts" (De George par 38). There were many complaints that the defense industry's "rampant fraud" was contributing to huge overbilling charges (Kurland par 1). As a result, President Reagan created the Packard Commission, which recommended that the defense industry implement ethics programs. As stated by Kurland, "The DII's principles were intended (1) to promote sound management practices, (2) to ensure that companies were in compliance with complex regulations, and (3) to restore public confidence" (par 1).

According to De George, "the DII became the model for what has been the most significant governmental impetus to the business ethics movement, namely, the 1991 U.S. Federal Sentencing Guidelines for Corporations" (par 39). These guidelines made judges consider whether "effective compliance programs" were established prior to violation of the federal law (Izraeli and Schwartz par 2). Very large fines could ensue if a corporation were to be found guilty of unscrupulous behavior. To determine the amount of the fine, courts determine an "offense level." A higher offense level is designated when the crime is more serious, the amount of loss suffered by victims is higher, and there is a high amount of planning for this behavior.

Crimes at level six or lower involve a base fine of $5,000; offense levels of thirty-eight or higher involve a base fine of $72.5 million (Dalton, Metzger, and Hill 316-317).

After an offense level is determined, the court must determine the "culpability score," which could potentially multiply the base fine. Factors such as employing more than five thousand people, having high-level personnel involved in or tolerating the criminal activity, or having a prior history of criminal misconduct could increase the multiplier by as much as four times the base fine. However, if an organization has taken steps to prevent or detect criminal conduct within their company, such as the existence of an effective compliance program or cooperation and acceptance of wrongful misconduct, they could decrease the multiplier (Dalton, Metzger, and Hill 317). For example, if a company has a compliance program in place at the time of the criminal misconduct, the company can "reduce its exposure from up to 200 percent to a low of 40 percent" (Adams 56). Thus, if a company could show that appropriate measures were taken to substantially minimize illegal behavior in the workplace, its sentence could be reduced considerably (Dalton, Metzger, and Hill 317).

Prior to the Sentencing Guidelines, judges were having a difficult time sentencing for corporate crime because there was not a clear policy to follow. When the Guidelines finally provided a "manual" for judges to use when sentencing corporations for criminal misconduct, hundreds of corporations were prosecuted and suffered fines of up to hundreds of millions of dollars. According to the Sentencing Guidelines, an "effective compliance program" consists of seven elements:

> (1) compliance standards and procedures; (2) oversight by high-level personnel; (3) due care when delegating authority; (4) effective communication of standards and procedures; (5) auditing/monitoring systems and reporting mechanisms; (6) enforcement of

disciplinary mechanisms; and (7) appropriate response after detection. (Izraeli and Schwartz par 9)

As a result of this enactment, many companies began incorporating the required compliance and control structures into their business environment.

The most recent piece of legislation that was introduced as a consequence of the multiple corporate scandals of Enron, WorldCom, and Arthur Andersen, was the Sarbanes-Oxley Act of 2002. This Act requires the certification of fairness and accuracy by executives and auditors in order to reestablish investor confidence in corporations.

The Sarbanes-Oxley Act of 2002 consists of increased internal monitoring requirements, increased auditor and attorney regulations, a great deal more public disclosure, the regulation of insider misconduct, and the regulation of securities analysts. Internal control of corporations must be directed by the Board of Directors' Audit Committee, which consists of individuals otherwise independent of the corporation. Executives must certify that the financial reports are correct, with criminal penalties if they are not. The independent Public Company Accounting Oversight Board was also established to oversee the auditors of public companies as they prepare fair and independent audit reports (Butler and Ribstein 21-22).

The Sarbanes-Oxley Act (SOX) is divided into sections, even though it was meant to be taken as a complete set of regulations. However, there are many important sections that have caused a lot of attention that have a direct impact on the compliance expectations of public companies. SOX Section 103 relates to CPAs and the reports they issue on public companies. According to Anand, "this section of the Act strives to ensure that accurate records are maintained in the years following the audit" (41). As in the case with Arthur Andersen and

Enron, the purpose of this section is to protect the audit's findings in case there needs to be authentication at a later date (Anand 42).

Section 201 of SOX relates to the relationship auditors share with their clients. This section creates limits to the type of work auditors can perform for their clients. This helps to prevent accounting firms from being involved in fraudulent schemes and conflicts of interest and to be more prone to detect fraudulent misrepresentations when they occur. Some services prohibited by accounting firms who also audit these clients include bookkeeping, accounting record or financial statement services, financial information systems design or implementation, management or human resource functions, or legal services. According to Anand, "one of the most direct impacts of this section is that the external auditor is unable to communicate compliance expectations to the company" (44). This type of involvement by the auditor is seen as a consulting activity, which is prohibited as it may create conflicts of interest (Anand 44).

SOX created section 302 in order to place responsibility on the shoulders of the CEO and CFO of public companies who commit fraud. This level of accountability on corporations meant to reassure the public that unethical behavior will no longer prevail (Anand 45). The CEO and CFO must certify the accuracy of financial statements and other related disclosures, as well as the effectiveness of their internal controls (Anand 46).

Section 404 of SOX has created the most controversy out of the entire Act. According to Anand:

> Each annual report must include a statement by executive officers to the effect that they are responsible for the establishment and maintenance of the internal control structure and other procedures for financial reporting. In addition, the Internal Control Report must also include an assessment of all internal controls related to the financial

information that has been released. This assessment is required to inform investors not only about the structure of the controls, but also about their efficiency. (51) Compliance with this section of SOX has proven to be very costly, requiring a significant increase in corporations' budgets and resources. Anand states, "According to a survey of 217 companies with revenues exceeding $5 billion that was conducted by Financial Executives International, the average cost [per company] of Section 404 compliance in the first year was $4.36 million" (106). One of the biggest reasons for such high costs has been the lack of maintenance of former controls before SOX (Anand 109).

Section 406 requires that all senior executives be bound by a code of ethics. Companies must establish this code of ethics by promoting an ethical environment, prohibiting activities that cause a conflict of interest, incorporating a code of confidentiality, and mandating compliance with financial reporting regulations. Although having an established code of ethics is very different from actually behaving ethically, SOX has at least reinforced the creation and implementation of compliance programs in publicly held companies (Anand 56-57).

Another important section of SOX is section 409, which relates to real time issuer disclosures. Although rules have been in place regarding the disclosure of relevant financial information on a rapid and current basis, section 409 expands this requirement by "[ensuring] that if a major event occurs between the issuance of quarterly reports, investors will have the information in enough time to make sound decisions" (Anand 59). Companies must file Form 8-K "whenever a major disruption occurs that could create a material impact on the company's financial situations" (Anand 60).

The last very important section in SOX that has been given a lot of attention is section 806, which protects employees who provide evidence of fraud. Whistle-blowers such as Cynthia

Cooper with WorldCom are protected by this section in that if they communicate to the public about illegal or unethical activities that are occurring within the corporation, they cannot be "discharged, demoted, suspended, threatened, harassed, or otherwise discriminated against" (Anand 64). Without this section, the PCAOB and SEC cannot discover all wrongdoings of a company without the help with those within the company (Anand 62).

The Sarbanes-Oxley Act of 2002 created quite a stir throughout public corporations across the country. According to *The Sarbanes-Oxley Debacle* by Henry N. Butler and Larry E. Ribstein, "SOX was arguably just one example of the 'Sudden Acute Regulatory Syndrome' that usually follows a market panic" (19). They believe that people are susceptible to claims that regulations need to be put in place to restore confidence in the market, and that "these public attitudes can be seized by policy entrepreneurs, political opportunists, and proregulatory interest groups" (Butler and Ribstein 19). However, it seems like this Act has increased a corporation's responsibility towards ethical decision making for the betterment of its stockholders and the public.

Another enactment that was partly in result of the recent fallouts of corporate fraud was the 2004 amendments to the 1991 United States sentencing guidelines. The sentencing commission wanted to place an even greater emphasis on effective and reliable corporate compliance programs. These amendments of 2004 established more scrupulous requirements for companies to receive a reduction in the fine of an offense when they demonstrate effective compliance programs (J. Jenkins 12). According to Jenkins:

> Under the revised guidelines, it is no longer acceptable for an organization to adopt a written compliance program, distribute it to employees, and hope they adhere to it...the amendments to the guidelines ultimately adopted by the Commission makes apparent that

> a corporation's adoption of a 'paper' compliance program will no longer qualify an organization for a point reduction. (12)

The 2004 amendments also revised the seven steps for organizations to establish a qualifying compliance program. These revised guidelines include:

> (1) Develop compliance standards and procedures tailored to the company's business needs, (2) Designate high-level personnel to oversee compliance, (3) Avoid delegating substantial discretionary authority to employees with a propensity for illegal conduct, (4) Educate employees in the company's standards and procedures through publications and training, (5) Design a compliance system that includes auditing and monitoring procedures and mechanisms that encourage employees to report potential violations, (6) Enforce standards through appropriate and consistent discipline, [and] (7) report all violations, and take appropriate steps to improve the program. (Verschoor "How Good is Your Ethics..." 19)

After these amendments came into effect, a court case on January 12, 2005 in *United States v. Booker* decided that "the guidelines should no longer be treated by sentencing courts as mandatory because of their potential to violate a defendant's Sixth Amendment right to a jury trial" (J. Jenkins 14). Although the guidelines are no longer mandatory, courts still calculate sentences based upon the guidelines. The guidelines also still remain the standard by which prosecutors evaluate the effectiveness of a corporation's compliance program (J. Jenkins 15).

III. Arguments For and Against Business Ethics

How has the last decade evolved in terms of ethics education? In 1998, before the major corporate scandals occurred, a typical undergraduate accounting major was exposed to only ten hours of ethics education over all four years of college. Once the Enron and WorldCom scandals exposed the world to unethical decisions enveloping the business environment, many people pointed to the academic community for not instilling ethical values in their students in the classroom. Now, the largest North American institutions allocate over twenty-seven hours to ethics education. Accounting students enrolled in the largest accounting programs are exposed to approximately three times more ethics education than an accounting student was before the major corporate scandals (Madison and Schmidt 26-27).

Even though the academic accounting community has responded with an increase in ethics teaching in order to benefit the profession as a whole, the National Association of State Boards of Accountancy issued a proposal for accounting programs to institute both a stand-alone ethics course in the accounting curriculum and another such course in the business core curriculum. This proposal has since been withdrawn, but it goes to show that there may be some criticism as to how colleges have implemented ethics in their curriculum (Madison and Schmidt 27-28).

There have been numerous studies conducted pertaining to ethics education, asking professors, business deans, professionals, and even students what they think of the current structure of ethics education in their respective curriculums, and what they think could be improved or implemented, if at all.

Professors' Opinions

In February of 2005, the National Association of State Boards of Accountancy proposed an increase in the number of business courses required to sit for the CPA exam, including three credit hours of accounting ethics and three credit hours of business ethics. Business schools could fulfill this requirement by either offering a stand-alone course or integrating the subject content in other courses. In addition, an increasing number of state boards are requiring an ethics CPE (Continuing Professional Education) course as a requirement for license renewal (Blanthorne, Kovar, and Fisher 355-356). Since business schools are beginning to incorporate ethics education into their lesson plans thanks to the rapid unfolding of corporate scandals in the beginning of the 21st century, many opinions have been formed as to whether ethics education is pertinent in the college curriculum.

Accounting professors and educators tend to accept ethics education in schools. Blanthorne, Kovar, and Fisher conducted an online survey in 2004 of 279 U.S. accounting faculty members. When asked if accounting students should receive ethics training, ninety-five percent responded in the affirmative. Lawson performed a survey of business faculty at five institutions, and there was universal support of some form of ethics education. However, the most prominent reasons why faculty fails to address ethical issues in their curriculum are "the lack of necessary resources and rewards to teach ethics" (Blanthorne, Kovar, and Fisher 363). Some believe that the coverage in ethical issues is only a front in response to the existence of corporate scandals. Nevertheless, the majority of accounting faculty believe "that ethical development is 1) critical to the profession, 2) necessary to re-establish public trust after recent accounting scandals, and 3) an important step toward making sure that the profession does not lose the right to self-regulate" (Blathorne, Kovar, and Fisher 369).

The respondents of the Blanthorne, Kovar, and Fisher survey revealed that accounting educators tend to agree with using a practical approach to teaching ethics rather than theoretical or classical approaches. Using "ethical issues faced by the profession, the understanding of professional moral obligations, and professional guidance (i.e., codes and standards)" is what a majority of professors believe should be taught to students in order to establish an ethics background (Blanthorne, Kovar, and Fisher 377).

A highly debated issue within accounting faculty and business schools is the need for a stand-alone course in ethics versus an integrated approach. Blanthorne, Kovar, and Fisher's study showed only 22.6 percent in favor of a stand-alone course. A larger percentage of respondents supported an ethics course in the business curriculum (47.3%), and 77.4% favored an "inclusion of ethics in a required course in business law/social responsibility" (Blanthorne, Kovar, and Fisher 378). Overall, 98.1% of the surveyors believed that ethics needs to be integrated into accounting courses in some manner.

A surprising finding from this survey was where ethics is currently taught today. In 1993, McNair and Milam conducted a survey to determine the effectiveness of integrating ethics within accounting courses. They found that approximately 78% of respondents teach ethics in their courses. In Blanthorne, Kovar, and Fisher's study in 2007, approximately 82% of respondents indicated that they teach ethics in their classes, a very small increase in over a decade of questionable ethics. Nearly all ethics coverage was integrated into core accounting courses; only thirteen of the 279 respondents taught a stand-alone ethics course (Blanthorne, Kovar, and Fisher 378-380).

The study asked professors how ethics should be taught by asking them to rank the top three methods. Eighty-two percent ranked using case methods as one of their top three methods for teaching ethics, while the next most commonly cited method, vignettes, was supported by only thirty percent. This suggests that although there are many methods accounting educators use to teach ethics, the case analysis method is one of the most favored. When asked what methods accounting educators actually taught, many responded that they use more than one method. Consistent with their responses as to how ethics should be taught, 70.9% said they used case studies in their courses. However, the most commonly used method (77.5%) was classroom lecture, although it was not considered to be one of the "better" methods. It seems that the ease and efficiency of using classroom lecture is compelling educators to use this method, although it may not be the method they should use (Blanthorne, Kovar, and Fischer 380-381).

The last question the study asked professors was if current ethics coverage was adequate. It seems that ethics coverage is more encouraged by accounting departments that it was a decade ago; in the survey conducted by McNair and Milam in 1993, only 35.2% believed their department encouraged ethics coverage, while 67.5% of those surveyed by Blanthorne, Kovar, and Fischer in 2007 believed their department encouraged ethics coverage. Also in the 1993 study, only 34% believed that their ethical coverage was insufficient, whereas in the 2007 study, 75.2% believed they should incorporate more ethics into their courses. For those respondents who do not incorporate ethics in their courses, the most common reason they did not was the lack of time. The adequacy of materials and the lack of knowledge were also common reasons (Blanthorne, Kovar, and Fischer 381-383).

Business Deans' Opinions

There was also a survey conducted of the deans of the Association to Advance Collegiate Schools of Business International's member schools in 2003. There were 295 respondents, with ninety percent identified as "deans, directors, acting deans, or similar titles that clearly indicated they were the chief administrative officers for the program. The remaining ten percent were associate deans, program directors, and in two or three cases, faculty members" (Evans and Marcal 235).

A majority of deans strongly agree that business ethics should be a part of business programs, and that ethical behavior in business has declined in recent years. Remarkably, forty-three percent strongly agreed and thirty-seven percent somewhat agreed that business schools should place more emphasis on ethics education. This seems to show that business deans are aware of the unethical choices consuming much of the business environment and the need to teach students about these situations in their programs (Evans and Marcal 236-237).

It seems that the deans believe an increased teaching of ethics to both undergraduate and MBA students can make a difference. When asked if "a concerted effort by business schools to improve the ethical awareness of students eventually will raise the ethical level of business practice," seventy-eight percent strongly or somewhat agreed (Evans and Marcal 238). They also tend to believe that students are already becoming more aware of ethical issues as they go through the business program. Deans seem to believe that although their current business program may need more ethics education, their current program is already having an impact in terms of ethical sensitivity (Evans and Marcal 245).

In a follow-up survey of deans, Evans and Weiss "conducted a comparative survey of Fortune 500 CEOs, and deans and faculty of AACSB member schools in the U.S." in May 2004 (Evans and Weiss 49). When responding to the statement, "In general, effective business leaders are ethical," CEOs tended to agree more than deans or faculty (Evans and Weiss 50). Not surprisingly, most CEOs believe they are effective and ethical, so this statement can be interpreted as reflecting on their character. Business deans and faculty, however, possess more skepticism about an effective business leader's ability to remain ethical (Evans and Weiss 50). If business deans and faculty are correct in assessing the ethical values of effective business leaders, how are their educational standards responding to this dilemma?

More than 80 percent of CEOs, deans, and faculty agreed that more emphasis should be placed on ethics education. There is also general agreement with the statement "that undergraduate and MBA students who take a business ethics course will experience a change in attitude and behavior" (Evans and Weiss 52). However, business deans had the strongest belief that an increased level of ethical awareness in students will eventually lead to an increased ethical awareness in everyday business practices. According to Evans and Weiss, "although the differences are not statistically significant, faculty appear somewhat more skeptical than CEOs that a course in ethics will lead to more ethical behavior" (52).

The comparative survey matched the 2003 survey results showing that business deans believe the current ethics education implemented in business schools is already having an impact. Approximately seventy-eight percent agreed that "students are more sensitive to ethical issues in business by the time they complete our program than when they start" (Evans and Weiss 53). CEOs were significantly more likely to agree that universal standards of right or wrong exist than were business deans or faculty. Sixty-eight percent of CEOs agreed with this statement compared to forty-eight percent of deans and forty-nine percent of faculty.

According to Evans and Marcal, "business schools are remarkably uneven in the attention they give to business ethics. Private religious institutions give the most attention to ethics followed by private secular institutions and then by public institutions" (246). The Evans and Weiss study also saw a positive correlation between ethics requirements and the type of institution, since private schools are far more likely to require an ethics course than are public schools (Evans and Weiss 56). Evans and Marcal believe this may be because there is an impression that teaching ethics is coming close to comingling church and state. However, American businesses choose many employees from schools of business, and if these people do not know and appreciate the ethical responsibilities bestowed upon them, "American business and society as a whole will suffer significant harm" (Evans and Marcal 246).

Students' Opinions

In 1998, Spero C. Peppas and Barry A. Diskin conducted a study of students enrolled as sophomores, juniors, and seniors in the College of Business at a large public university in Florida. Of the 209 females and 132 males who participated, approximately thirty percent were majoring in accounting. The surveyors listed eight ethical value statements and asked the students to rate their level of agreement or disagreement. They asked both students who had taken an ethics course and those who had not (Peppas and Diskin 350).

The statement "doing what is ethically right is good business in the long run" was generally accepted by both groups of students, those who took an ethics class and those who had not. This statement had the strongest agreement among respondents. The statement "whatever is good business is good ethics" was disagreed to by both groups, with those who had taken an ethics course disagreeing slightly more (Peppas and Diskin 350).

"For managers to act in the interest of shareholders alone, and not also in the interest of employees and consumers, is unethical" was a statement agreed to by both groups of students, with a slightly higher agreement by students who had taken an ethics course. Peppas and Diskin believed this was an interesting finding "given that business schools are stressing the importance of maximizing shareholder value." Both groups of students also agreed with the statement, "as a result of stiffer competition today, many business people find themselves forced to resort to practices which are considered shady, but which appear necessary to survive." (Peppas and Diskin 350-351)

The differences in ratings between students who had taken an ethics course compared to those who had not were not significant in any of the eight ethical value statements, leading some to wonder if ethics classes contribute to ethical decision making. The authors of this study believe that much more research needs to be conducted in order to answer this question, such as how professors are teaching ethics and the effects of different teaching styles. There are truly many questions that have yet to be answered regarding ethics teaching (Peppas and Diskin 351).

Another study, conducted by Patricia J. Carlson and Frances Burke, seemed to show that ethics classes do help students to recognize ethical dilemmas and solve them using what they had learned in an ethics class. This study was based on data collected from undergraduates during the fall semester of 1994 at a private university on the East coast. Students were given a case about a shipbuilding firm in Maine. A consultant of this firm left a confidential report out in the open, which "contained cost information about the Aegis guided-missile destroyer program and also included information about the competition's costs" (Carlson and Burke 1182). When the chairman of this firm found the document, he had it photocopied. He then believed he made an unethical decision, returned the document, and resigned because he "failed to set a strong moral example" (qtd. in Carlson and Burke 1182). Students were asked at the beginning of the semester and then again at the end of the semester if the CEO's behavior was appropriate.

At the beginning of the semester, seventy-three percent of students thought the CEO acted appropriately and should have resigned; at the end of the course, only sixty-three percent felt this way. This decreased support was surprising for the researchers; however, while investigating the reasons for this decrease in support, the researchers began to understand the ways in which student thinking evolved during the semester (Carlson and Burke 1183).

Students became more flexible in relation to their reasoning. At the beginning of the semester, students were using outside influences brought to the course: "i.e. their religious background, their family environment, and their value system for differentiating right from wrong, as well as their previous formal education through the interpretation of former teachers" (Carlson and Burke 1183). Throughout the semester, however, students "were exposed, in an explicit, systematic, pedagogical manner, to formal frameworks for analysis, tools for ethical decision making, and equally importantly, to the enriched discussion, thoughts, and opinions of their classmates" (Carlson and Burke 1183). Instead of just believing in two pathways for ethical behavior – right and wrong – students were able to expand their ability to appreciate additional reasons for behavior, becoming more flexible to gray and complex areas (Carlson and Burke 1184).

According to Carlson and Burke:

> The results of the study were unexpected. As teachers and researchers, we had thought the responses would reflect classical ethical thinking: the writings of Aristotle, Kant, and Machiavelli, or 'ethics as virtue, consequence, principle, and responsibility' [Richter, Burke and Doig, 1990]. The students, however, apparently used what the faculty and other students had discussed in class to develop their own ways of dealing with ethical dilemmas. They developed flexibility, complexity, and a relatively high level of sophistication about ethical concern…The end-of-semester responses show more perception, more willingness to read between the lines, more sensitivity to the ambiguities, and more curiosity as to exactly what happened. (1185)

Although these studies provide evidence that students are learning in their ethics courses, it seems that the studies are more concerned about making students more ethical instead of helping them to recognize ethical dilemmas and to respond with appropriate reasoning and action. According to O.C. Ferrell and Linda Ferrell, "there is often a limited awareness of the importance of principles and values to be synchronized with technical skills and strategic decision making. Yet all management-related and professional employees have to make ethical decisions on a daily basis as they carry out their responsibilities" (223-224). Some approaches to ethics education use intellectual reasoning to solve problems but do not touch on actual ethical decision-making situations that people face in the corporate environment (Ferrell and Ferrell 224).

According to Ferrell and Ferrell, students should learn about the "importance of organization culture and the influence of coworkers who may foster conditions that limit or permit misconduct" (233). Sometimes unethical conduct may be encouraged by including rewards that may compel people to make the wrong decision. Students need to understand the context of ethical decision making in order to understand how the process fits together (Ferrell and Ferrell 233-234).

Many professors know little about the dynamic environment that envelops ethical decisions in the corporate world. Without the education that students need to develop a "holistic understanding of how ethical decisions are made in an organizational context," business schools will fail in providing students with the best ethical education needed (Ferrell and Ferrell 236). By putting the ethical decision in its correct context, students can understand that they have a much greater responsibility in the decisions they make.

Professionals' Opinions

A study was conducted by Beverley Jackling, Barry J. Cooper, Philomena Leung, and Steven Dellaportas in 2007, asking professional members of the International Federation of Accountants about ethical issues, potential causes of these issues, and the need for ethics education. Sixty-six members responded to the survey, representing 41.25% of the IFAC, and these respondents held senior positions within their business (Jackling et al. 934).

According to the results of the study, many believed that the biggest ethical issue affecting public accounting practices and business entities was conflicts of interest, including self-interest. According to Wimbush and Shepard, "self interest is often endorsed, objectively or subjectively, by the lack of organizational policies or the failure to enforce laws concerning this type of behavior" (qtd. in Jackling et al. 937). Also in business entities, earnings management rated equally as high. According to Jackling et al., "The emerging significance of earnings management has been seen as a key factor in many corporate collapses and occurs when the 'true' financial information is concealed by adjustments to the accounts to show a desired outcome" (937).

Earnings management is difficult to define and measure; "however, a common understanding of earnings management includes some level of deception, usually to influence some outcome" (Kalbers 191). Stolowy and Breten define it as "the use of management's discretion to make accounting choices or to design transactions so as to affect the possibilities of wealth transfer between the company and society (political costs), funds providers (cost of capital) or managers (compensation plans)" (qtd. in Kalbers 191). They also use "account manipulation," "creative accounting," and "fraud" as synonyms for the term (Kalbers 191). Although fraud is usually associated with illegal activities, earnings management may or may not be illegal; thus, many researchers have attempted to find conditions that outline levels of earnings management.

This study also asked respondents to answer what they believed was the cause of ethical failure. The results showed that "self interest" and a "failure to maintain objectivity and independence" was considered the most likely causes. When asked for feedback about ethics education, many believed that they (professional bodies) have a significant role in ethics development, and that professional bodies should be the ones to advise about the nature of ethics education for accountants. Many believed that ethics should be learned as part of the pre-qualifying programs, and should be learned just like any other technical accounting skill (Jackling et al. 938).

The challenge for professionals is to work with accounting educators at universities to develop and improve the ethical knowledge needed in the workplace. Respondents showed that they had a critical role in ethics development and in helping ethics education to be accepted in curricula. According to Jackling et al., "the results of this study indicate a range of ethical issues that can assist in the education of accountants in public practice, business entities, the government and not-for-profit sectors" (941).

IV. Evidence as to How and Why Ethics is Taught

Business schools around the country are beginning to teach ethics in their classrooms. Lectures continue to be the predominant choice of teaching such material, and graduate courses tend to spend more time on these issues than undergraduate courses. Nevertheless, there are numerous ways professors are implementing this subject into their classroom. According to John

R. Farnsworth and Brian H. Kleiner, "further research reveals that the traditional activities are being supplemented by innovative techniques with promising results" (134).

Harvard University is one of the leaders in supporting the implementation and inclusion of ethics teaching into its core curriculum. They require their applicants to write an essay about an ethical issue that they were involved in, and how they were able to handle and work out the issue for the better. In addition, "MBA students must take a non-graded, nine session course on ethics taught by some of Harvard's most seasoned professors" (Farnsworth and Kleiner 132). The faculty of this institution are encouraged to integrate ethics into their own courses and to introduce case studies on ethical issues and questions (Farnsworth and Kleiner 132).

The University of Northern Iowa has even been noted for their innovative techniques to approaching ethics:

> Tony McAdams, a professor in Business Law in the Management Department at the University of Northern Iowa, has experimented with *The Great Gatsby* for two semesters in undergraduate classes totaling approximately 150 students...[the students] commented enthusiastically, both about the virtues of *Gatsby* as a piece of literature, and as a springboard for an ethics dialogue. (Farnsworth and Kleiner 134)

Professors Dietrich L. Schaupp and Michael S. Lane of West Virginia University teach ethics in the classroom by using the newspaper. Students gather newspaper articles depicting real-life occurrences, establish background information on the topic, and discuss their research and recommendations in class. There have also been community outreach programs established in many colleges such as donating time at local soup kitchens or tutoring kids at Boys' and Girls' clubs (Farnsworth and Kleiner 134-135). Trevino and McGabe believed that "students gain the most through 'meta-learning', learning not only from their classes but also by being part of an 'honorable' business school community where real ethical issues are discussed openly and regularly" (Peppas and Diskin 349).

According to *The Environment for Teaching Business Ethics* by Ronald Sims, teaching ethics poses a few obstacles and issues for teachers. Sims proposes that there are three categories of obstacles and conflict potentials: "the existing business curriculum as a whole and the courses which it consists of, the students' working situation and mind-set, and faculty's working situation and mind-set" (Sims 33). Business ethics is not taught alone, but in relation to its environment and to other courses within the business curriculum. Thus, business ethics needs to be synced with all other business courses in order to maximize student understanding of the subject. Yet its primary message often stands in conflict with the profit-maximization message of most other business courses.

Business ethics is also not the only subject that is taught, so it competes with other courses for students' attention. As stated by Sims, "while teachers, and in particular ethics teachers, tend to offer complex theory and abstractions, many students look for the opposite: for simple models, for checklists for practice, for examples, and even entertainment" (37). Thus, business ethics teaching should include a high degree of discussion about ethical conflicts in order to interact with students in hopes of broadening their understanding and attention of the subject matter.

In 1993, a report was written about how Harvard Business School was handling ethics teaching in their curriculum. In this report, several barriers seemed present among the faculty: "information deficits, curriculum logistics, effort without appropriate reward, and fears of personal dissonance and of losing control in the classroom" (Sims 38-39). In 1993, it was difficult to find information on business ethics and it was a subject that very few faculty members or administrators knew about; thus, the faculty was having a hard time forming an opinion on the subject. The business faculty was also facing similar information overload and time pressures as their students; "business ethics seem to enter when there are vacancies to be filled, when parts of the curriculum are redesigned, or when a prolongation of a curriculum is discussed and there is a need to fill it with something new" (Sims 39).

Developing a new course or changing an existing course is also costly at times because increasing the number of business faculty who are willing to become experts in the subject of ethics can lead to an issue of opportunity costs. According to Sims, "Involvement in business ethics is often perceived as a distraction rather than a chance to make research more problem oriented and interdisciplinary" (40). Lastly, fears of personal dissonance and of losing control in the classroom can make teaching business ethics more challenging and risky for faculty (Sims 40).

James Weber, Virginia W. Gerde, and David M. Wasieleski provided an outline with key ingredients for business schools to use in implementing an ethics program into their curriculum. Before beginning an ethics program, the business school must make sure that the overall goals are in sync with the entire university's goals and mission. In order to achieve a synergy between goals in an ethics program and goals of a university, ethics classes need to be required rather than elective and taught at the start of their college career when they can reinforce these concepts with situations in subsequent courses (Weber, Gerde, and Wasieleski 87).

The ultimate goal of teaching ethics to students is so that they can become ethical decision-makers after they graduate. Thus, according to Weber, Gerde, and Wasieleski, "basic survey ethics courses should focus on the individual decision maker in terms of ethical dilemmas, ensuring that the analysis of the dilemmas takes place within a global context" (88).

Students must not forget that these ethical decisions will affect numerous parties in both the short and long run. They must acquire the awareness of when an ethical issue exists, and then learn to effectively "reason toward a satisfactory resolution of an ethical dilemma based upon the students' personal value system and reasoning criteria" (Weber, Gerde, and Wasieleski 88).

Weber, Gerde, and Wasieleski suggested using an "ethical decision-making model," or a "tool-box" for students to evaluate ethical dilemmas (88-89). Ethical dilemmas cannot all be solved with the same steps; thus, students should gain knowledge of different means of making ethical decisions in order to solve the issue the best possible way (Weber, Gerde, and Wasieleski 89).

Using real-life business ethics cases was the preferred approach to teaching by Weber, Gerde, and Wasieleski. These cases should touch on a vast amount of different issues facing the accounting, finance, marketing, and information technology environments. These courses should also be focused on writing; according to Weber, Gerde, and Wasieleski, "papers requiring students to provide a thoughtful, logical, in-depth analysis of case material are a useful exercise not only for developing writing skills, but also for learning how to form arguments using core concepts in the class" (90). Public speaking can also help students form an opinion and debate about ethical issues with fellow classmates (Weber, Gerde, and Wasieleski 90).

Although teaching ethics can prove difficult for business schools, teachers, and students, there is evidence that suggests links between a corporation's financial performance and its commitment to ethics. For example, a study analyzing the largest five hundred publicly held U.S. corporations of 1996 showed "a statistically significant linkage between a management commitment to strong controls that emphasize ethical and socially responsible behavior on one hand and favorable corporate financial performance on the other" (Verschoor "A Study of the

Link…" 1515). This study examined the annual reports for these obviously successful companies, and found that 74.8% contained a report by management on internal control. In 1996, these reports were strictly voluntary (Verschoor "A Study of the Link…" 1512).

Although the language and weight of ethics programs varied considerably from company to company, "substantially all companies use the same major activities to achieve their internal control objectives. These include audit committee oversight, a program of internal auditing, and work of the external audit firm" (Verschoor "A Study of the Link…" 1512). According to Verschoor:

> These results demonstrate the probability that a broad corporate concern for ethical conduct toward stakeholders is becoming a mainstream management issue in achieving higher profitability. Ethics is no longer concerned with just compliance with laws and regulations…or the quality of financial reporting. (1515)

Even before the major corporate scandals and the regulations that made ethics standards a requirement, most highly successful corporations understood the need for ethical compliance in order to remain successful for future years. Thus, a link between a corporation's financial performance and its commitment to ethics is real (Verschoor "A Study of the Link…" 1515).

V. Analysis

Everybody has ethical decisions that they must face, whether it be in their personal, educational, or professional lives. Do we take twenty dollars from our mom's wallet without telling her? Do we cheat on an upcoming test? Do we call in sick from work today, when we really just do not want to come in? Ethical issues arise in our lives all the time, and they arise in the corporate world as well. Corporations want to make their shareholders happy by showing high profitability and growing market share. However, sometimes corporations go too far in trying to be profitable and they neglect to consider their ethical responsibilities to stakeholders or the general public.

This disregard for the ethical well-being of the corporation is what made companies like Enron and WorldCom crumble under the pressure. They both grew considerably in a short period of time, and once their profits started to dwindle, their executives were not ready to let go of their power and wealth. Thus, they began making unethical decisions in order to continue the uphill climb of profitability and market share. This proved to be successful in the beginning, but once these companies began to make these rash decisions on an increasing basis, they could not stop, and they could not keep covering up the legal and accounting inconsistencies. Eventually, these unethical decisions by executives at Enron and WorldCom were discovered, and millions of people were left with the ruins and losses that these two companies left in their wake. Not only did the demise of Enron and WorldCom leave people without a job at these companies, but millions of people who invested in energy- or telecom-related stock also suffered greatly once their investments were reduced to nothing.

After these two companies went into the largest bankruptcies seen in U.S. history, the public was left with a lot of questions. Why was this not discovered earlier? Who is to blame: the executives for being unethical, the shareholders for being greedy, the boards of directors for going along with bad decisions, the government for letting it happen, or the public's own naiveté? Lastly, can we really teach people to make better ethical decisions in the workplace?

Legislators have tried to take it upon themselves to make sure this does not happen again by enacting laws to better regulate and persecute those who disregard their ethical responsibilities to the general public. Laws such as Sarbanes-Oxley have greatly increased ethical compliance set forth by corporations, and those who are seen as neglecting this compliance can be fined or even faced with jail time.

This is a good start in establishing ethical conduct throughout the business environment, but we must all be able to make these ethical decisions responsibly and properly. In order to accomplish this, some believe that ethics classes and training programs need to be firmly established within business schools and companies alike. Without guidance towards the right path in ethical dilemmas, some may not know how to correctly assess the situation and make the right decision for the betterment of themselves, their company, and the general public.

However, others believe that ethics simply cannot be taught. Ethics is a trait instilled in an individual and shaped through one's personal experiences and interactive environments. In order to acquire the skills needed to identify and correctly assess an ethical situation, one needs a history of past trials and errors on ethical dilemmas rather than a formal education on the topic.

Many people have their own opinions as to whether ethics classes and training really help people make better decisions in the workplace. Professors, business deans, students, and professionals have been questioned about their attitude on the subject. It seems that many professors agree that ethics education needs to be integrated into a university's business curriculum in some manner, but there tends to be a lack of necessary resources or rewards to teach ethics. Evidence to this is shown by the fact that when asked how ethics should be taught, 70.9% of professors said case studies. However, the most commonly used method (77.5 percent) was classroom lecture, although it was not considered to be one of the "better" methods (Blanthorne, Kovar, and Fischer 380-381). It seems that the ease and efficiency of using classroom lecture is compelling educators to use this method, although it may not be the method they should use. Maybe with more of the necessary resources and rewards provided to these educators, more of the "better" methods of teaching ethics can be utilized.

Deans also tend to agree that business ethics should be incorporated into the business curriculum, and they are aware of the need to teach students about the unethical choices consuming the business environment. They seem to believe that although their current business program may need more ethics education, their current program is already having an impact in terms of ethical sensitivity (Evans and Marcal 245). It seems that business deans and professors have a similar view on the needs of ethics education within the institution. There needs to be a constant communication between business deans and professors on the resources needed to teach these classes so that students can get the best possible ethics education out of their college career before entering the business environment.

The Peppas and Diskin study, which surveyed a group of students over eight ethical value statements, showed that students who took an ethics class had similar agreements to the ethical statements compared to those who had not taken an ethics class. Although some may wonder if ethics classes really contribute to ethical decision making, this study seems rather injudicious. Students may be able to correctly evaluate the eight ethical statements given to them, but this does not show whether students are able to recognize ethical situations and respond with appropriate reasoning and action.

The Carlson and Burke study showed a little more difference between students from the beginning to the end of their ethics class. Their development of flexibility, complexity, and sophistication about ethical dilemmas seems to show itself when students reveal shades of gray in assessing the CEO's ethical responsibility. Once students had taken the ethics course, they were able to assimilate their own perceptions in a way not demonstrated at the beginning of the course. This ability to assess ethical situations and formulate responsible action clearly supports ethics education in business curriculum.

Professionals also need to communicate with educators in order to develop and improve ethical knowledge in the workplace. In the Jackling et al. study, many professional bodies believed that they have a significant role in ethics development and that they should be the ones to advise about the nature of ethics education for accountants. In order for ethics development to be fully accepted, professional bodies and educators need to help develop a plan of action for instilling ethics education in students and employees as they make critical decisions throughout their professional lives.

There have also been numerous instances where ethical decision-making was taught, as shown by the fact that a typical undergraduate accounting major used to be exposed to only ten hours of ethics education over all four years of college, and is now exposed to over three times that amount (Madison and Schmidt 26-27). Harvard University seems to be put on a pedestal for their leading implementation and inclusion of ethics teaching into their core curriculum. However, Farnsworth and Kleiner described a non-graded, nine session course on ethics taught to MBA students. If educators want their students to make an effort in assessing and developing ethical values through these classes, their hard work and dedication in the classroom must be graded and academic credit must be granted. If a grade is not given to students who take a class, they tend not to have the motivation to excel because they are getting the requirement met no matter what. Ethics classes should not be undermined in relation to other business classes; students need to be tested on their ability to assess ethical situations and graded appropriately.

The leaders in ethics education have used widespread and unique techniques to instill these values into their students. Many students can agree that they remember classes that use unusual or uncharacteristic ways of teaching the subject. Educators who have used innovative techniques such as *The Great Gatsby*, newspaper articles, and outreach programs help to direct students' attention to the particular subject being taught. Students can walk away with a sense of intrigue and can retain the material based on the captivating methods used. Professors should take note of these approaches and use them when trying to captivate students about the use and benefits of ethics education.

VI. Future for Business Ethics

Business ethics will continue to be valued and desirable for corporations and businesses around the world. Given the call for reform from professional organizations, legislative branches, and the public, a sense of corporate social responsibility is needed as society increasingly demands that corporations act responsibly. Business schools also have a responsibility to teach students about the basics of ethics which would lead to a knowledgeable and educated workplace and act as a catalyst to stimulate appropriate ethical decisions. Changes in ethics requirements at the college level and the professional education level are critical in keeping corporate responsibility sufficient.

According to Eynon, Hill, and Stevens, "the role of an accountancy practitioner is unlike that of most other professionals (e.g., lawyers) in that the CPA owes primary allegiance to the public, rather than to the fee-paying client" (1306). These professionals face ethical temptations and dilemmas every day, as they must adhere to the needs of the client and the rules set forth by legislation. Independence needs to be maintained by public accountants as they continue to serve the public because without this trait, the public cannot trust accountants to effectively audit financial statements for the betterment of the public rather than the deep pockets of the corporation.

With the many rules set forth by Sarbanes-Oxley, some wonder if professional tests, such as the CPA exam, will be broadened to include ethics. According to Madison and Schmidt, "accounting regulators might require new CPAs to pass a state-board ethics examination before receiving their CPA certificate" (28). As of now, Ohio requires current CPAs to take an ethics class every three years as a condition for renewing their license (Madison and Schmidt 28).

There has obviously been pressure by the federal and state governments for the accounting profession to reform in order to re-establish public confidence in corporations and the financial markets in general. Therefore, we may see not only an increase in ethics education throughout business schools, but an increase in ethical consideration when training professionals, testing future CPAs (as well as other professional examinations), and in continuing professional education requirements. All of these reforms may be needed in order to improve the corporate environment's tarnished reputation.

VII. Conclusion

Money is a powerful tool. Some believe it can improve one's "quality of life," although others believe it can limit it by taking attention away from non-monetary things that matter. Nevertheless, businesses and companies need money and profitability to survive in this capitalist economy. Without money, businesses cannot expand their resources and acquire market share. They cannot afford to buy necessary equipment, pay wages and salaries, or invest in technological innovations and advancements. Although money is a much-needed aspect of a company's well-being, ethics is a much-needed aspect as well. Business executives, employees, accountants, and other stakeholders need to be aware of the ethical choices facing the company every day, and the potential consequences that the wrong choice can have to the future of the company.

The wrong choices that led to the demise of Enron and WorldCom has left many without investments, jobs, retirement security, and a sense of trust in corporate responsibility. Legislators and business schools around the world have taken it upon themselves to regain the public trust by enacting laws and teaching students. These strides have helped companies establish codes of conduct within their own establishments, and have slowly helped alleviate some of the tension between corporations and their stakeholders. However, much more needs to be done to solve the problem.

Recent studies have shown that ethics education can benefit the future corporate leaders of our world today. Many professors, business deans, and professionals agree that ethics education can help people make better decisions in the workplace. There are different methods and styles for teaching business ethics, and each one has their strengths and weaknesses. As long as the end result is a capability for students to effectively identify and assess an ethical situation, the methods of ethics education are a success.

Educators, professionals, legislators, and corporations need to come together to shape ethics education in our country. Without a steadfast commitment to ethics education, some people may not be able to correctly assess ethical dilemmas, which could lead to another Enron or WorldCom in the future. We need to learn through these studies and finding the benefits to ethics education and the best methods for teaching future students about ethics in the workplace. By learning from our mistakes of the past, we can correct our misunderstandings and be more ethical in the future.

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