

10.2: Reading- Ethical and Unethical Business Decisions

Misgoverning Corporations

At the very beginning of this module you watched a video that showed two young, powerful, and ultimately criminal corporate executives from WorldCom head to jail. For many of you this story is probably either ancient news or just another exposé on corporate malfeasance. But it's worth learning a little more about what happened behind the scenes in order to see how unethical decisions get made—and by whom. It's often the executives who star in the headlines when such scandals break, since they carry the most responsibility for the company's actions, but employees all the way down can play their role, too—by joining in, by caving to pressure from the top, or by refusing to play along.

“Mommy, Why Do You Have to Go to Jail?”

The one question Betty Vinson would rather avoid is “Mommy, why do you have to go to jail?” Vinson graduated with an accounting degree from Mississippi State and married her college sweetheart. After a series of jobs at small banks, she landed a midlevel accounting job at WorldCom, at the time still a small long-distance provider. Sparked by the telecom boom, however, WorldCom soon became a darling of Wall Street, and its stock price soared. Now working for a wildly successful company, Vinson rounded out her life by reading legal thrillers and watching her twelve-year-old daughter play soccer.

Her moment of truth came in mid-2000, when company executives learned that profits had plummeted. They asked Vinson to make some accounting adjustments to boost income by \$828 million. She knew that the scheme was unethical (at the very least) but gave in and made the adjustments. Almost immediately, she felt guilty and told her boss that she was quitting. When news of her decision came to the attention of CEO Bernard Ebbers and CFO Scott Sullivan, they hastened to assure Vinson that she'd never be asked to cook any more books. Sullivan explained it this way: “We have planes in the air. Let's get the planes landed. Once they've landed, if you still want to leave, then leave. But not while the planes are in the air.” Besides, she'd done nothing illegal, and if anyone asked, he'd take full responsibility. So Vinson decided to stay. After all, Sullivan was one of the top CFOs in the country; at age thirty-seven, he was already making \$19 million a year. Who was she to question his judgment?

Six months later, Ebbers and Sullivan needed another adjustment—this time for \$771 million. This scheme was even more unethical than the first: It entailed forging dates to hide the adjustment. Pretty soon, Vinson was making adjustments on a quarterly basis—first for \$560 million, then for \$743 million, and yet again for \$941 million. Eventually, Vinson had juggled almost \$4 billion, and before long, the stress started to get to her: She had trouble sleeping, lost weight, looked terrible, and withdrew from people at work. But when she got a promotion and a \$30,000 raise, she decided to hang in.

By spring 2002, however, it was obvious that adjusting the books was business as usual at WorldCom. Vinson finally decided that it was time to move on, but, unfortunately, an internal auditor had already put two and two together and blown the whistle. The Securities and Exchange Commission charged WorldCom with fraud amounting to \$11 billion—the largest in U.S. history. Seeing herself as a valuable witness, Vinson was eager to tell what she knew. The government, however, regarded her as more than a mere witness. When she was named a co-conspirator, she agreed to cooperate fully and pleaded guilty to criminal conspiracy and securities fraud. And that's why Betty Vinson spent five months in jail. But she wasn't the only one doing time: Scott Sullivan—who claimed he was innocent—got sentenced to jail for five years, and Bernie Ebbers—who swore he was innocent also—got locked up for twenty-five years.

So where did Betty Vinson, mild-mannered midlevel executive and mother, go wrong? How did she manage to get involved in a scheme that not only bilked investors out of billions but also cost seventeen thousand people their jobs? Ultimately, of course, we can only guess. Maybe she couldn't say no to her bosses; maybe she believed that they'd take full responsibility for her accounting “adjustments.” Possibly she was afraid of losing her job. Perhaps she didn't fully understand the ramifications of what she was doing. What we do know is that she disgraced herself and headed for jail.

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The WorldCom situation is not an isolated incident.

- In fall 2001, executives at Enron, an energy supplier, admitted to accounting practices concocted to overstate the company's income over a period of four years. In the wake of the company's collapse, stock prices plummeted from \$90 to \$1 a share, inflicting massive financial losses on the investment community. Thousands of employees lost not only their jobs but their retirement funds, as well.

- Officials at Adelphia, the nation's sixth-largest cable company, disclosed that founder and CEO John Rigas had treated the publicly owned firm as a personal piggy bank, siphoning off *billions* of dollars to support his family's extravagant lifestyle and bankrupting the company in the process.
- CEO Dennis Koslowzki of conglomerate Tyco International was apparently confused about what was his and what belonged to the company. Besides treating himself to a \$30 million estate in Florida and a \$7 million Park Avenue apartment, Koslowzki indulged in a taste for expensive office accessories—such as a *\$15,000 umbrella stand*, a *\$17,000 traveling toilette box*, and a *\$2,200 wastebasket*—that eventually drained \$600 million from company coffers.
- Bernie Madoff, founder of Bernard L. Madoff Investment Securities, is alleged to have run a giant Ponzi scheme that cheated investors out of up to *\$65 billion*. Madoff convinced investors to give him large sums of money. In return, he gave them an impressive 8 percent to 12 percent return a year. But Madoff *never* really invested their money. *Instead, he kept it for himself*. Thousands of investors, including many of his wealthy friends, not-so-rich retirees who trusted him with their life savings, and charitable foundations, were financially ruined. All those harmed by Madoff either directly or indirectly were pleased when he was *sentenced to jail for 150 years*.

Are these cases merely aberrations? Why do such incidents happen (and with such apparent regularity)? Who are the usual suspects? How long until the next corporate bankruptcy record is set? What action can be taken—by individuals, organizations, and the government—to discourage such behavior?

The Idea of Business Ethics

It's in the best interest of a company to operate ethically. Trustworthy companies are better at attracting and keeping customers, talented employees, and capital. Those tainted by questionable ethics suffer from dwindling customer bases, employee turnover, and investor mistrust.

Let's begin this section by addressing one of the questions that we posed previously: What can individuals, organizations, and government agencies do to foster an environment of ethical and socially responsible behavior in business? First, of course, we need to define two terms: *business ethics* and *social responsibility*. They're often used interchangeably, but they don't mean the same thing.

What Is Ethics?

You probably already know what it means to be ethical: to know right from wrong and to know when you're practicing one instead of the other. At the risk of oversimplifying, then, we can say that business ethics is the application of ethical behavior in a business context. Acting ethically in business means more than simply obeying applicable laws and regulations: It also means being honest, doing no harm to others, competing fairly, and declining to put your own interests above those of your company, its owners, and its workers. If you're in business you obviously need a strong sense of what's right and what's wrong (not always an easy task). You need the personal conviction to *do* what's right, even if it means doing something that's difficult or personally disadvantageous.

What Is Social Responsibility?

Corporate social responsibility deals with actions that affect a variety of parties in a company's environment. A socially responsible company shows concern for its stakeholders—anyone who, like owners, employees, customers, and the communities in which it does business, has a "stake" or interest in it. We'll discuss corporate responsibility later in this module. At this point, we'll focus on ethics.

How Can You Recognize an Ethical Organization?

One goal of anyone engaged in business should be to foster ethical behavior in the organizational environment. How do we know when an organization is behaving ethically? Most lists of ethical organizational activities include the following criteria:

- Treating employees, customers, investors, and the public fairly
- Making fairness a top priority
- Holding every member personally accountable for his or her action
- Communicating core values and principles to all members
- Demanding and rewarding integrity from all members in all situations (Alan Axelrod, *My First Book of Business Ethics*, Philadelphia: Quirk Books, 2004, p 7.)

Whether you work for a business or for a nonprofit organization, you probably have a sense of whether your employer is ethical or unethical. Employees at companies that consistently make *Business Ethics* magazine's list of the "100 Best Corporate Citizens"

regard the items on the previous list as business as usual in the workplace. Companies that routinely win good-citizenship awards include Procter & Gamble, Hewlett-Packard, Intel, Avon Products, Cisco Systems, and Merck (“100 Best Corporate Citizens for 2010,” *Corporate Responsibility Magazine*, no. 11, Spring 2011, accessed September 5, 2011).

By contrast, employees with the following attitudes tend to suspect that their employers aren’t as ethical as they should be:

- They consistently feel uneasy about the work they do.
- They object to the way they’re treated.
- They’re uncomfortable about the way coworkers are treated.
- They question the appropriateness of management directives and policies (Alan Axelrod, *My First Book of Business Ethics*, Philadelphia: Quirk Books, 2004, p 7).

Check Your Understanding

Answer the question(s) below to see how well you understand the topics covered in this section. This short quiz does **not** count toward your grade in the class, and you can retake it an unlimited number of times.

Use this quiz to check your understanding and decide whether to (1) study the previous section further or (2) move on to the next section.

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