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Corporate Leaders Lack of Ethics

A corporation is tasked with the ultimate goal of creating value and profits for the business and shareholders. While this is true, there should be other goals that corporate leaders need to have alongside the pursuit of profits. Ethics in business is often a subject that gets pushed to the side because being ethical typically has a cost associated with it or it will make profits harder to achieve. There are many examples throughout history where ethics were lacking in business. Two examples of this are Enron's accounting scandal in the early 2000s and the financial crisis starting in 2008. Both of these scenarios show corporate leaders being filled with greed and not knowing the impact their actions have on the public at large. Ethics is a hard subject to examine because each individual person has their own morals and values. There are however universal morals that most humans have such as stealing or murder being inhumane and wrong. Social morals are going to be the basis of discussion in this paper. These morals and values will ultimately lead to a group, such as a business, ethical guidelines they expect each employee to follow. The problem is that ethics seem to not be strictly enforced in a setting where the ultimate goal is to derive a profit. Motivated by the pursuit of profits coupled with a lack of adequate ethics trainings on the job or in school and the failure to teach sound decision making, corporate leaders often push their morals aside when making decisions about their companies' futures.

Ethics can vary depending on one's background and life experiences, so it is hard to define a code of ethics in a corporate setting for a group of people. Most employees know the difference between right and wrong, but when put into a decision-making role for the company it can be tougher to choose the right answer. Defining a uniform code of ethics for a corporation and making sure all employees know the expectations is key for its long-term success. But when a monetary incentive is brought in, it might be harder to stick to that code and do what is best for the corporation and everyone involved.

Corporations exist so that trade can facilitated easily and they can receive compensation. There are many goals that corporations might have built into their business model to better the world and their company. Some examples could include a commitment to carbon neutrality, paying its employees a livable wage, or increasing gross profits by 5% in the next year. In an article entitled "The Ethical CIO," Usha Sekar along with other business experts were interviewed regarding ethical business practices. Sekar states: "Speaking as a CEO of a company, making money is the goal, but it is not making money without any constraints… I think the expectation is for the shareholders, the number-one focus for most companies, that you do not cheat your shareholders. I think that is a kind of high-level expectation" (The Ethical CIO). Achieving profits in a legal way is the main goal for any corporation. The secondary goals that a corporation have fall into more of the corporate social responsibility (CSR) categories. In today's society, more and more corporations are moving towards ethical standards or goals that the executives have for the company. CSR is being driven by social change. The consumer has begun to demand that more products be produced ethically and that employees are treated fairer. But this does not stop companies from outsourcing labor to third world countries where labor is cheap or to continue to pollute the air or waterways as a result of manufacturing. This happens because being ethical typically has a cost, and if top executives make the decision to switch to domestic labor or commit to carbon neutrality, the business model has to change. Not to mention, it could negatively affect the financials of the company and ultimately hurt the share price in the short run. It could however attract new customers because of social change being so prevalent in the world today, but it will take a large group of new customers to lead corporations to commit to ethics in the workplace and the community. Being an ethical company is hard because it can butt heads with the main goal of creating profits. Corporate leaders have a lot to think about with where they want the direction of the company to be headed.

The Enron accounting scandal happened as a result of poor morals and values from their corporate leaders making decisions for the company. Kenneth Lay and Jeffrey Skilling were the former CEOs of the company and endorsed market-to-market accounting, which is legal, but Enron took it to the extreme. This accounting method has to do with reporting assets based on their respected fair values, which may not accurately depict an asset's real value in the market. Lay and Skilling advised employees to cook the company's books so that investors saw inaccurate earnings reported on Enron's financial statements. This propped up Enron's stock price to $90 at its peak in 2000 and was named "America's Most Innovative Company" for 6 consecutive years. This news would come as comfort to many investors and would often lead them to double down on their shares if they see it as a safe, and as close to a risk-free investment as it gets. But things that seem too good to be true usually are, as Enron's stock comes crashing down to less than a dollar in December of 2001. Carol Dahl states: "In this testosterone-and-espresso steeped culture, stock and stock options were the cocaine that drove the ...bubble, loyalty become a commodity that was bought and sold, while management capability was never a prerequisite for advancement" (Dahl). This shows how Enron's business was filled with inadequate managers who knew what was going on but would not bite the hand that was feeding them. Ultimately this causes the 7th largest U.S. company in terms of Market Capitalization to file for bankruptcy and leads to billions of dollars lost by employees and shareholders (Dahl).

One other example of greed and improper ethics in corporations is the 2008 financial crisis. Big investment banks had gotten into Mortgage-Backed Securities (MBS) and Collateral Debt Obligations (CDOs). With the housing bubble already showing cracks well before 2008, these banks were in a bad position. The CDOs were given AAA ratings, which is the highest rating a security could get. But the problem is that Lehman and the other investment banks were partnering with the rating agencies to give prime ratings to bundles of subprime securities. Lenders did not care if borrowers could repay their mortgages because the mortgage was bundled and sold to another company anyway, so it was off their books with no risk. This led to mortgage loan officers making riskier loans to customers who could not repay. Between 2000 and 2003, the number of mortgages in the U.S. nearly tripled. The investment banks did not care either because the more CDOs they sold, the higher their profits. The rating agencies had no liability if their rating of CDOs were wrong, so it was rare not to give out a AAA rating. Rating agencies are supposed to be impartial judges of the value and riskiness of a financial security. Since the agencies were partnered with the investment banks, they were making billions of dollars in profit for giving false rates. Investors take these ratings very seriously when making a decision in where to put their money. So being given false hope about the subprime loans greatly hurt investors' confidence. In 2008, the market for CDOs collapsed, leaving the investment banks holding billions of dollars in loans, CDOs, and real estate they could not sell. The customers who were given a mortgage they could not afford were left homeless and on the street. This is so important to highlight because it shows how corporate ethics are essential to the greater public.

The banks knew that these actions could lead to risk but did not do anything to hedge their investment. Ultimately as a result of negligence from the corporate leaders in the financial collapse households worldwide felt the effects of the Great Recession (Ospina Tejeiro). Both Enron and the collapse of 2008 will be used to examine ethics in the workplace.

The actions of Enron and the investment banks show that actions have consequences. For Lay and Skilling, jail was the consequence. For all of Enron's other employees who were once highly regarded, now have a blemish on their resume because of someone else's actions. Carol Dahl states: "Enron employees were highly desired as Enron made it a point to pay top dollar to hire the best and the brightest, putting them through analyst and associate programs and instilling them with the core values of respect, integrity, communication, and integrity" (Dahl). Obviously, Enron's top executives were not put through the same training as their incoming employees. But now it will be tough to regain any sort of trust from another company who is willing to give them a chance. Future employers will always care about past experience, whether good or bad. Trust is something that is hard to regain once someone loses it. Lay and Skilling either did not see the effect their actions could have on people, or just did not care. In the case of the financial crisis, the employees of Lehman Brothers will face the same situation when looking for another job. Employers will not want to hire someone who is associated with a scandal or situation of that magnitude. These blemishes on the employee's records will unfortunately follow them forever.

American capitalism is an idea that has been engrained in the minds of young people throughout history. A driven work ethic paired with financial stability and success is taught by elders so that the younger generation can be stress free later in life. Nowadays, young people especially, have begun to flaunt any wealth they or their families have as a way to impress their peers. The internet has become a platform for "flex culture," meaning a place for people to show off their assets and superior position to others. And in today's society this has become very important to people. Danielle Smith, a political reporter and author states: "No matter their motives, people are selling some version of themselves. Their brands, put on the altar of a fickle internet, are a reflection of their innermost desires—or at the very least their perceptions of success" (Smith). This shows how important it is for Americans to be perceived as successful and exemplifies how the driving force for corporate leaders or any individuals is being motivated by the affluence of their peers. This kind of society puts a glamorous lifestyle on a pedestal and adores those who can achieve that way of life. Humans are easily influenced with history showing that tough decision-making regarding ethics is not a strong suit of Americans.

Decision making is a hard quality for many people to achieve. Often times there are temptations or other influences that get thrown in the decision-making process, which can blur the lines of good and bad. Exercising self-control in the Enron scandal was not present for Lay and Skilling, both of them wanted more; more money for themselves, more money for the company, and to hold a larger market share than they already were. However, growth and return are what business is all about. Shareholders invest so they can grow their income and reach financial stability. This shows how hard it can be for individuals who control the actions of a company. The line of good and bad can be tough to draw because of the pressure executives face from the outside. Thomas Tang, a professor of behavioral economics states: "Intelligent executives must have studied business ethics from their elite MBA programs and known right from wrong, yet they failed to do so or stand up for their ethical and moral reasoning due to abundant opportunities, mounting pressures, and substantial personal financial gains in the environment" (Tang). When people are thrown into a situation where they have a potential monetary reward, decision making can become much harder to see right from wrong. Staying levelheaded and true to one's morals and values in a tough decision-making role is a skill that is highly regarded by companies. Making one bad decision in a corporate setting will lead to harsh consequences. But in some corporate settings, managers can make decisions without any personal risk to them because they know that the government can bail them out. Peter Grundy states: "We still allow various managers and supposed entrepreneurs to mismanage companies and institutions and walk away with no penalty" (Grundy). This was true of most of the investment banks during the start of the financial crisis. They were all bailed out by the government with the exception of Lehman Brothers. The banks are such a vital part of the economy that the government cannot let them all fail. The decision-making process becomes easier for top officials with power and a lot of job security and shows how money as an influencer can play a big role in how blurry one's judgement is.

Accumulating wealth is the main driver for humans to have a job. In some cases, a "get rich quick" mindset is used to exert the smallest amount of energy for the greatest payout possible. In a 1992 Scholastic Update article entitled "Dreams for a Dollar," Phil Sudo examines the American lottery and what draws people to play the game. The odds of winning are so slim, but the potential payout could change one's life forever. Sudo states: "In today's economy – where years of hard work no longer offer protection against layoffs, where athletes earn millions for playing games, where rock and rap stars flaunt their wealth – perhaps a get-rich-quick mentality is inevitable" (Sudo 24). This attitude shows a reality that many Americans face on a daily basis. It is so hard for the average person to achieve the status of a millionaire let alone a multimillionaire. Many Americans are content with their current financial situation, but there is usually a want or need for more. This leads people to play the lottery or in this case cheat to get ahead. The lottery is an example of a typical American mindset on finances and shows how external motivators influence our perception of success. However, this mindset can often get employees and corporate leaders in trouble. Examining Enron and the investment banks involved in the financial collapse there is a huge example of corporate greed and a get-rich-quick mentality. In both of these cases, the top executives saw an easy way to success and ran with it. The investment banks did not see the greater impact that their actions could have on not only the American economy, but the world economy as well. Their mindset was that as long as they were reaping the benefits of the short-term success the firms were having, they did not need to look into any potential problems they might face in the long run. They also did not look out for the individual consumer, leaving millions of Americans without a home because of a banks negligence to screen a loan applicant correctly.

One motivator for corporate leaders to act unethically is when they are benefiting from stock option compensation. This motivates them to put the company's stock price at the forefront of their business model so that they can have a big pay day and cash out their options. The one thing that these leaders care about is increasing their company's stock price so they will directly benefit. This type of compensation is becoming increasingly common for top executives to be given. The board of directors believes that this is a good way to put executives and shareholders on the same playing field with similar goals for each party. When the managers of a company are only focusing on increasing Earnings Per Share or the company's stock price, there is usually a conflict of interest for the rest of the company. Typically, there are no consequences for having a conflict of interest between management and shareholders. Managers will usually have a focus on short term results as opposed to long term growth of a company because their pay is so dependent on the performance of the company. Obeua Persons states: "Directors may turn their backs on excessive risk-taking behavior or questionable conduct of management as long as stock price and their stock-option value are rising" (Persons). This means that the board of directors is failing to accomplish what they set out to do in the first place with providing option compensation to their executives. Option compensation has the potential to cause more problems than it would solve. Managers should be compensated the same way as other the other employees are. Either grant them shares of stock, not including the option, or provide them with bonuses based on the company's performance over the year. Options have too much of an emphasis on the short-term performance of the stock and not long-term growth. Changing the way top managers are compensated can help solve the ethical dilemma of inconsistent goals among shareholders and employees.

Teaching ethics courses in schools and jobs does not seem to be a priority for teachers and students. Is there evidence that these courses are actually helping prepare the future leaders of tomorrow? There is no one defined answer for this question. Again, it seems to link back to the individual and their personal morals and values. In Jeffery MacDonald's article about teaching ethics in business schools, he interviews Michael Hoffman where Hoffman states: "Higher education, especially after Enron realized it hadn't done enough in ethics, sustainability, or corporate social responsibility. Now the trend is to integrate the three themes throughout the curriculum, so it becomes habitual and becomes part of the thinking of a business executive" (MacDonald). Hoffman believes that more classes focused on ethical behavior and thinking are needed so that it almost becomes second nature to act in a proper way. While this is how some people in the industry feel about ethics education, others feel different. MacDonald states later: "Others believe patterns of moral behavior are formed long before students reach college. The key period for shaping a person's moral character falls between the ages of 2 and 10" (MacDonald). This seems to be the mindset of other people regarding their views of ethics being taught in schools. Some people believe that teaching ethics at the ages of 18-22 comes way too late and believe that parents need to do a better job instilling better value judgement in their children. This does seem like a persuasive argument since the key development stages for humans fall in those early years of life. The answer to creating a more ethical workplace might come in the form of role models instead of courses. Having people that employees look up to and display ethical morals and values will enhance the company culture. There is not one particular solution that will work well for every individual within a corporation. The need for resources and trainings throughout the work environment should be a priority to keep a company's reputation as having strong morals and values.

After examining the cases of Enron and the firms involved in the financial crisis of 2008, there is an obvious need to reinforce ethics, CSR, and decision making within any corporation. Shareholders and lower-level employees should be held in higher regard when top executives are making riskier decisions. These people are the lifeblood of the existence of any business and need to be more appreciated. The Enron case shows how people can lose their livelihood when a corporation goes bankrupt, and the financial crisis shows how being unethical and negligent in business can affect the world economy. Both of these situations could be prevented if more time and care were put into educating employees and providing resources for role models and trainings. Even though classes or trainings might not provide the best results of improving better morals and values in the company, it does not hurt to have them. It will show that the company is making an effort to improve the overall values of their employees. Top managers however need to set a better example of holding their own morals at a higher standard when making decisions for the future of the corporation. Sunghee Lee and Heungjun Jung experimented with CSR and its effects on profitability. Their study states: "Our analytical model demonstrates that products made by socially responsible firms are attractive to consumers, as CSR involvement increases both product demand and profits for retailers and manufacturers" (Lee/Jung). This shows that being ethical in the workplace can be paired with profitability, which is something that people might believe to be false. Customers want to support a company that is making an honest effort to create change and better the world. So, managers should take this advice and look to shift their corporation to better represent the overall values of the population.

Putting ethics in the forefront of a corporation's business model should be something that every top manager should consider. The long-term benefits that a company will receive greatly outweigh the scandals, bankruptcies, or employee revolts they could face if the company lacks sound morals. Financial success and security hold such a large influence on American society. This mindset helps with the firm's main goal of creating profits but can adversely affect the ethical outlook of the top executives of the firm. Teaching ethics in schools and in the workplace is worth it to ensure that employees have the resources and role models to strengthen their individual and collective values. In this day and age, it is critical to prepare the leaders of tomorrow and equip them with the necessary decision-making skills so that a financial collapse or bankruptcy is avoided. Scandals like Enron will continue to happen until top executives are held accountable and ethics are more prevalent within the corporation.

Annotated Bibliography

Dahl, Carol. "Pipe Dreams: Greed, Ego, and the Death of Enron/Anatomy of Greed: Unshredded Truth from an Enron Insider/Enron the Rise and Fall/What Went Wrong at Enron: Everyone's Guide to the Largest Bankruptcy in U.S. History/The Smartest Guys in the Room: The Amazing Rise and Scandalous Fall of Enron/Power Failure: The Inside Story of the Collapse of Enron/24 Days." The Energy Journal 25.4 (2004): 115-34. ProQuest. 28 Mar. 2021.

This source will overview Enron as one of the scandals where ethics and morals were not present with the members near the top of an organization. It summarizes one of the largest bankruptcies in the whole world. It also talks about how the company only hired the top employees with the most potential in their careers. The irony in this is now that the scandal is over and done with, nobody wants to hire someone who might have been involved in something like this. The people who were once highly regarded as the best in their fields are now struggling to find work because of the actions of others.

Grundy, Peter. "Survival of the Fittest?" Circuits Assembly 20.6 (2009): 12. ProQuest. 28 Mar. 2021.

This source will talk about how adapting to the business environment is so important in driving profits and keeping the company afloat. Near the end of the article, it talks about how some managers take risks without as much fear because they know if they are put into a bad position, the government would probably bail them out. Is this a good view for a company to have? Some companies are so essential to the world economy that they are invincible. This was seen during the financial collapse in 2008.

Lee, Sunghee, and Heungjun Jung. "The Effects of Corporate Social Responsibility on Profitability: The Moderating Roles of Differentiation and Outside Investment." Management Decision 54.6 (2016): 1383-406. ProQuest. 28 Mar. 2021.

This article will talk about the corporate social responsibility that business have, and how these responsibilities can either help or hurt the company. Profitability is the main goal for the company, but CSR is also becoming a very important topic that almost every business is having. Being an ethical company does not always translate to profits, because being ethical typically requires more money to be put into one particular issue. CSR does not always match the main goal of the company to maximize shareholders value.

MacDonald, G. J. "Can Business Ethics be Taught?; Post-Enron, Business Schools are Boosting Ethics Courses. but Critics Say Book Learning Won't Change Much.: [ALL Edition]." The Christian Science Monitor Mar 21 2007: 13. ProQuest. 28 Mar. 2021.

This source states how colleges are attempting to create morals and ethical standards that it holds their students to, but it wonders if this will actually help at all. The article implies that ethics are derived from the individual and it is hard to change the mindset of everyone who takes these classes. These ethics classes have become more and more prominent in schools in the past 10 years in hopes that it will help the future work force.

Ospina Tejeiro, Juan J. *Essays on the Macroeconomic and Financial Causes of the Great Recession*, The University of Chicago, Ann Arbor, 2017. *ProQuest*

This article will provide an overview of the recession of 2008. It talks about the causes of it and what went wrong leading up to it. Who should be held responsible for the disaster that happened? Where were ethics lacking during the crisis and what can they do to move forward from this and prevent another crisis from happening.

Persons, Obeua S. "Stock Option and Cash Compensation of Independent Directors and Likelihood of Fraudulent Financial Reporting." *The Journal of Business and Economic Studies*, vol. 18, no. 1, 2012, pp. 54-74,137. *ProQuest*

This article has to do with stock option compensation and how that can influence the goals of an individual. This ties into how managers can have different goals than the other employees. It motivates them to make decisions based on short term outlook and not long term.

Smith, Marie-Danielle. “Flex Culture for Rent.” Maclean’s, vol. 133, no. 3, Apr. 2020, pp. 94–96. EBSCOhost.

This article will be used to show how money has such a big impact on the minds of everyone. The article talks about how social media “influencers” buy extravagant cars, houses, and experiences to show how wealthy they are, essentially to put themselves on a pedestal above the average person. The ideal within the young American society is becoming a culture where it is important to show how much wealth one has acquired. So people will do whatever it takes to be able to show off what they have, and sometimes these people will not take the most ethical road to get there.

Sudo, P. “Dreams for a Dollar. (Cover Story).” Scholastic Update, vol. 124, no. 12, Mar. 1992, p. 24. EBSCOhost.

This source will talk about how the American Dream can be hard to achieve so people end up playing the lottery so that they can fulfill their wish of "getting rich quick." These people want to take the easier way out rather than working for their income because work is typically not someone's favorite thing to do. This ties into Enron's and Lehman Brothers corporate leaders wanting to take the easy way out so they can make a quick profit.

Tang, Thomas L. "Theory of Monetary Intelligence: Money Attitudes--Religious Values, Making Money, Making Ethical Decisions, and Making the Grade: JBE." *Journal of Business Ethics*, vol. 133, no. 3, 2016, pp. 583-603. *ProQuest*

This article will talk about how easy it is to be influenced with money. Top executives can be swayed to make a decision for the company one way or another based on how much return it will provide them or the company. Also it will talk about being ethical and profitability.

"The Ethical CIO; Amid a Summer of Corporate Scandals, Cost-Cutting and a New Climate of Accountability, is it Possible to be both Effective and Ethical?" *CIO Insight*, vol. 1, no. 17, 2002, pp. 28. *ProQuest*

This source will overview how ethics and profitability can go hand in hand. It will talk about how shareholders and managers can sometimes have different outlooks on profitability. It interviews speakers providing insight on how different people regard ethics in business.

"Top Corporate Ethics Officers Tell Conference Board that More Business Ethics Scandals are Ahead." PR Newswire Jun 17 2002: 1. ProQuest. 28 Mar. 2021.

This source will be key in talking about how Enron and the financial collapse of 2009 will not be the last scandals that happen. It states many short facts about findings from surveys about ethics trainings and if these would or would not help in preventing future scandals from happening. The article seems to imply that people will act however they want, regardless of if they have been trained on it or not. One question further to look at is if schooling or more job training would play a bigger role in the creation of better ethics.