

PREFACE

“Never trust the people you cheat with. They will throw you under the bus. Just ask Michael Vick.”

— MARIANNE M. JENNINGS

“Three people can keep a secret if two are dead.”

— HELL’S ANGELS (QUOTING BEN FRANKLIN)

“Ethical standards and practices in the workplace are the pillars of successful employment and ultimately the benchmark for a strong business.”

— FRANKLIN RAINES, former CEO of Fannie Mae (ousted in 2005); with a \$6 billion restatement of its financials, the board concluded that “[management was] manipulating earnings and creating an ‘unethical and arrogant culture.’”

The Josephson Institute released its data for 2006 on cheating in high school and found that 60 percent of the students surveyed say that they have cheated on an exam in the past year, and 62 percent say that they have lied to a teacher in the past year. The Center for Academic Integrity at Clemson University and Professor Donald McCabe of Rutgers report that college cheating has grown from 11 percent in 1963 to 49 percent in 1993 to 75 percent in 2006.¹ Professor McCabe also found that MBAs have the highest rate of self-reported academic dishonesty (57 percent) of all graduate disciplines. Longitudinally, it would seem we have a decline. Many argue that there is no decline; rather, they offer, we are simply more honest about our ethical breaches. There is little comfort in this reassurance that we’re more honest about our cheating. And there remains a disconnect between this conduct and an understanding of what ethics is. The Josephson Institute also found that the high school students who report that they cheat feel very comfortable about their behavior, with 92 percent saying they are satisfied with their character and ethics and 83 percent believing that they would be listed by their friends as one of the most ethical people they know. Perhaps we are more honest about our cheating. But perhaps that honesty results from our belief that cheating is not an ethical issue.

The following events offer some insight into the current issues in business ethics as well as a sobering thought. We are not quite there yet in terms of helping businesspeople understand when they are in the midst of an ethical dilemma and how those dilemmas should be resolved. The following list indicates that even in this post-Enron era, we have some work to do:

- As of mid-2007, the SEC was investigating 153 companies for backdating stock options (deciding in hindsight the best day to grant the stock options—and always picking the lowest share price date!), and the financial restatements because of the failure of the companies to report accurately the cost of the options awarded is over \$5 billion. One CEO

¹ The Center for Academic Integrity study has been conducted by Professor Donald McCabe on a regular basis over the years. This survey had 4,500 student respondents. See *ESchool News Online*, May 11, 2001, Edupage. See also <http://www.rutgers.edu> for more information on Professor McCabe and his work on academic integrity. For information on the Center for Academic Integrity, go to <http://www.cai.org>.

has been convicted of criminal charges for the backdating, and general counsels for corporations are resigning, entering guilty pleas, and settling up as the advisors for companies that crossed the line on these options dates.

- Hewlett-Packard made the news almost daily in late 2006 as its “pretexting” activity percolated to the surface. Faced with board leaks, Patricia Dunn, then-chair of the HP board, ordered an investigation on the hows, whys, and whos of the leaks. The private investigators HP contracted with, using Social Security numbers of board members and others, posed as those individuals to obtain phone records and other confidential information. HP’s former associate general counsel and ethics officer, who was aware of the activities and more than a bit nervous about their legality, would eventually resign from the company and enter a misdemeanor guilty plea even as other officers and the investigators took the Fifth Amendment in congressional hearings on “pretexting.”
- Major league baseball was flummoxed over the books, news conference statements, and amazing hitting records of its players in regard to players’ steroid use. Players took the Fifth Amendment in congressional hearings on steroids, and fans booed as other players approached records under a cloud of accusations and suspicions. Barry Bonds was indicted on perjury charges related to his grand jury testimony on steroid use.
- John Rigas, former CEO, and his son, Timothy, former CFO, Adelphia; Bernie Ebbers, former CEO, and Scott Sullivan, former CFO, WorldCom; Andrew Fastow, former CFO of Enron; and Dennis Kozlowski, former CEO, and Mark Swartz, former CFO, Tyco, all are in prison. Their terms range from 6 to 25 years. Jeffrey Skilling, former CEO of Enron, was sentenced to 24.4 years; Richard Scrushy, former CEO of HealthSouth, was sentenced to 7 years for bribery of Alabama’s former governor; and Joseph Nacchio, the former CEO of Qwest, awaits sentencing.
- The fines companies have paid for ethical and legal lapses are quite commonly reaching the billion-dollar mark:
 - Boeing
 - \$615 million fine (government contract and proprietary information issues)
 - Royal Shell
 - \$120 million fine (overstatement of reserves)
 - AIG
 - \$1.5 billion for accounting misstatements
 - HealthSouth
 - \$1 billion restatement
 - \$100 million fine (earnings manipulation)
 - Tenet
 - \$725 million settlement (coding for government reimbursements)
 - Plus interest, for a total of \$900 million
 - HCA
 - \$1.7 billion in civil and criminal fines (Medicare fraud)

And then there are those events that fall short of criminal conduct or civil fines misconduct. These are the day-to-day ethical breaches that capture media headlines and cause continuing concerns about the ethical culture of business. Former World Bank CEO Paul Wolfowitz intervened personally in negotiations and adjustments for his girlfriend’s salary and position at the World Bank. James Frey admitted to one of his book’s chief promoters, Oprah Winfrey, that his book *A Million Little Pieces* might have had a few hundred exaggerations. We will spend years trying to sort through what Merck knew about its drug Vioxx and its cardiovascular effects. Verdicts for and against Merck

vary because what juries are grappling with are ethical questions that may not actually cross legal lines. Former prosecutor Ray Nifong gripped the nation with his accusations about the Duke Lacrosse team, charges that would later prove to be false and that would cost Nifong his license to practice law. Pressures for success, recognition, profits, and high returns still affect those in business, government, and nonprofit organizations. Those pressures translate into ethical lapses that involve everything from pushing the envelope on truth to earnings management that crosses over into cooking the books and fraud. Weak product designs and products' defects often produce a chain of memos or e-mails in the company that reflect employee concerns about product safety. College sports, baseball, and politics all have their ethical issues. We are over six years out from Enron's collapse, but each day brings news of another ethical lapse. Businesses do exist to make a profit, but business ethics exists to set parameters for earning that profit. This book of readings and cases explores those parameters and their importance. This book teaches, through detailed study of the people and companies, that business conducted without ethics is a nonsustainable competitive model. Ethical shortcuts translate into a short-term existence. Initially, these shortcuts produce a phenomenon such as Enron, WorldCom, or Tyco. But then that magnificent force of truth finds its way to the surface and the company that does not factor in the ethics of its decisions and conducts falls to the earth like a meteor's flash. Long-term personal and business success demand ethics. This edition takes a look at the subprime lending market, a market that brought easy pickings in terms of profit so long as real estate values held firm. But when the market took a dip, as it inevitably does, the wisdom of taking advantage of subprime customers came into question. The business model for that industry did not include a hard look at how long they could capitalize on debtors and how extensive the risk of their model was. This book connects the moral sentiments of markets with the wealth of nations. Business without ethics is self-destructive.

We've been down this road before, and the historic patterns are now emerging for study and insight. In 1986, before Ivan Boesky was a household name and Michael Douglas was Gordon Gekko in *Wall Street*, I began teaching a business ethics course in the MBA program in the College of Business at Arizona State University. The course was an elective. I had trouble making the minimum enrollments. However, two things changed my enrollments and my fate. First, the American Association of Collegiate Schools of Business (AACSB) changed the curriculum for graduate and undergraduate business degree programs and required the coverage of ethics. The other event was actually a series of happenings. Indictments, convictions, and guilty pleas by major companies and their officers—from E.F. Hutton to Union Carbide to Beech-Nut to Exxon—brought national attention to the need to incorporate values in American businesses and business leaders.

Whether out of fear, curiosity, or the need for reaccreditation, business schools and students began to embrace the concept of studying business ethics. My course went from a little-known elective to the final required course in the MBA program. In the years since, the interest in business ethics has only increased. Following junk bonds and insider trading, we rolled into the savings and loan collapses; and once we had that straightened out, we rolled into Enron, WorldCom, HealthSouth, Tyco, and Adelphia, and we even lost Martha Stewart along the way. Three decades of similar ethical lapses later, we still study with the hope of training a new generation of leaders to understand ethics and factor them into their decisions and strategy. Today, nearly 100 percent of the Fortune 500 companies have a code of ethics. Under the provisions of the Sarbanes-Oxley Act of

2002 and in order to minimize sentencing under the U.S. Sentencing Guidelines, companies must also provide their employees with regular training in ethics. New to this edition is a section on culture and governance—what is it in the culture of an organization that causes it to miss the ethical issues that seem so obvious in hindsight? Sarbanes-Oxley details are woven into the cases that highlight weaknesses in governance and culture. As the case studies increase, our ability to understand and apply increases, and the sixth edition offers a layered historical look at patterns and solutions in the culture and decision processes of organizations.

Application of ethical principles in a business setting is a critical skill. Real-life examples are necessary. Over the past two decades plus, since my ethics course first began, I have collected examples of ethical dilemmas, poor ethical choices, and wise ethical decisions from newspapers, business journals, and my experiences as a consultant and board member. Knowing that other instructors and students were in need of examples, I have turned my experiences into cases and coupled them with the most memorable readings in the field to provide a training and thought-provoking experience on business ethics.

The cases come not only from over thirty years of teaching and business experience, but also from my conviction that a strong sense of values is an essential management skill that can be taught. The cases apply theory to reality; hopefully, they will nurture or reinforce a needed sense of values in future business leaders.

A new realization came to me during my use of the fifth edition over the past few years. That realization was that my students did not have sufficient grounding in ethics in life, not to mention business. Further, the magnitude of the mistakes that businesspeople continued to make, despite all the warnings from ongoing debacles, did not indicate that these were close calls. Something had gone awry in their ethics training in business school for them to drift so far from virtue. I continue to emphasize in teaching, consulting, and writing that helping students and businesspeople see that personal ethics and business ethics are one and the same is critical to making virtue a part of business culture. Virtue is the goal for most of us in all aspects of our lives. Whether we commit to fidelity in a personal relationship or take the laundry detergent back into the store to pay because we forgot it was on the bottom of our grocery cart, we show virtue. Ethics in business is no different, and we need not behave differently at work than we do in that grocery store parking lot as we make the decision to be honest and fair with the store owner. Substitute a shareholder and the disclosure of option dates and true costs, and we have our laundry detergent example with a stock market twist.

As a result of this continuing quest to make personal and business ethics one, the introductory unit, introduced in the fifth edition, is even better this time around. There are more information and more examples on personal ethics to help motivate students and teach both theory and application. Ethical theory, a tip of the hat to my good colleagues who felt the students needed more grounding there before they could tackle the more difficult business issues in the remainder of the book, continues with some new and exciting pieces from Marjorie Kelly and Michael Novak. The introductory unit continues its marvelous blend of theory and practice with new cases and discussion questions to get students really thinking about life, business, and ethics. And, for the sixth edition, we have more and new cases in the government and nonprofit sections. As it turns out, the patterns in culture and misconduct are the same across organizations. These updated and expanded sections prepare students for interaction in organizations that have pressures. Their pressures are not those of profit, but of deadlines, fundraising, rankings, and even just hubris, the classic component in the Greek tragedies by which heroes fall.

The sixth edition continues the features students and instructors embraced in the first, second, third, fourth, and fifth editions, including both short and long cases, discussion questions, hypothetical situations, and up-to-the-moment current, ongoing, and real ethical dilemmas. Some of the long-standing favorites are back by popular demand—such as the Nestlé infant formula experience, with its long-standing lessons in doing the right thing. There are so many “oldies but goodies” when it comes to ethics cases, but length constraints do not allow me to continue having all the oldies along with the new cases that promise to be “oldies but goodies” in this book. Check out the availability of custom options noted at the end of this section. Now there are further opportunities to integrate cases from previous editions into your course.

New to the sixth edition is a training tool to help businesspeople who are working their way through an ethical dilemma. In the discussion questions for many of the cases will be “Compare and Contrast” questions. These are questions that provide an example of a company that made a different decision from the one made by management in the case at hand. For example, in the stock options reading (Case 6.16—new to this edition), the students will find a question that highlights companies that made the decision early on that stock options had one award date each year, and that was the end of the discussion and the decision. Why did these companies choose that path? What was different about their decision-making process? What did they see that the other companies and their leaders did not take into account?

The sixth edition still continues the classic readings in business ethics that provide insight into the importance of ethics in business and how to resolve ethical dilemmas. However, the sixth edition offers more readings integrated throughout the book to provide substantive thoughts on the particular areas covered in each section. The organizational structure and indexes, continued from the fifth edition, make material, companies, people, and products easy to locate. A case can be located using the table of contents, the topical index, the people index, or the product index, which lists both products and companies by name. An index for business disciplines groups the cases by accounting, management, and the other disciplines in colleges of business.

Supplements

Instructor’s Manual

The instructor’s manual is updated with more sample test objective- and essay-answer questions of varying lengths and structures. The questions have been coded for topic and even some for case-specific questions so that exams can be created by subject area. The PowerPoint package, which includes illustrative charts to assist instructors in walking classes through the more complex cases, has been updated and expanded.

Customized Selections of Case Studies and Readings

New to this edition is the option to customize your choice of cases and readings. Case studies and readings from both the fifth and sixth editions of Jennings’ *Business Ethics* can be found by visiting www.textchoice.com/collections. Select the Business Ethics option. This collection includes intuitive browse and search features, allowing you to quickly and easily find the content you need. Selections can be used to create an affordable course companion or to integrate material into your customized textbook. Now you have choices and a rich resource to tap into so that you can tailor topics and depth of coverage for your own course needs.