Thank you all for being here today. I am reminded of the 3 B's of speaking. Be sincere. Be brief. Be seated. So, I will. As Elizabeth Taylor told her 8th husband. "I won't keep you long today."

My purpose today is to focus on the value of ethics, trust, and honesty in the business world. Many noted figures throughout history have commented about honesty and ethics. Consider the sage advice from Groucho Marx: "there's one way to find out if someone is honest--just ask him. If he says yes, you know he's a crook"

And here's what Mark Twain had to say about it: "always do right; this will gratify some people and astonish the rest." I believe there is, at least, one dominant thread in the tapestry that makes up the central reason why ethics in business is so important to all of us. That thread is this: a nation's well-being is conditioned by a single pervasive cultural characteristic: the level of trust inherent in the society. The corollary to this can be found in the quote from Abraham Lincoln, "any successful organization, whether a business or a country, must possess strong, shared values. These values must be 'owned' by not only the vast majority of the organization, but in some cases by all its members. It is the sole responsibility of the leader to instill these values by constant persuasion. It is the leader's role to lift followers out of their every day selves up to a higher level of awareness, motivation, and commitment. So, the level of trust inherent in our society and the quality of leadership to instill such trust seem to be key success factors for any entity or nation to flourish and grow. And deeply rooted trust is a product of ethical practices and behaviors.

Abraham Lincoln also said, "If you want to test a man's character, give him power." During the 1980s decade, 115 of the nation's largest 500 corporations were found guilty of misconduct.

My senior year at Miami University, I had to take an economics class. I really struggled with the class yet found the professor fascinating. His main theme was "bigness is bad" and competition is good. These were the days where Reagan was allowing lots of mergers, which reduced competition, and he believed was bad for our economy. Big is Bad. This has made me think about what is also bad for our economy. As I get older, I have become more and more disenfranchised by Wall Street. More specifically, the <u>ethics of Wall Street</u>.

In preparation for this talk today, I went on-line and did a global search on the term "ethics," there were 10 million results for the term "ethics." Full disclosure and to be <u>*ethical*</u>, I did not explore them all. I also looked up "greed" which is very much associated with the lack of ethics we are seeing today. There were only 1.5 million results for "greed."

So, what is ethics? My answer has always been what C.S. Lewis taught me:

> "Ethics is doing what's right—even when no one is looking."

Today it appears companies have been behaving badly and many have just been closing their eyes! They don't practice ethics. All that matters on Wall Street is earnings--the incessant expectation to increase profitability. Flat earnings aren't good enough, even if you are making bazillions of dollars every year. The model is not sustainable year after year.

Let's look at Enron. We should, in some ironic way, be grateful to Enron for it was a "wake up call" for business in America. It brought to the surface the challenges we face in business and what would seem to be an unwillingness to "do what's right."

<u>So, What's going on</u>?

First, these incidents of lapses in ethical behavior are not isolated, but rather are "systemic." I wish it were only just a few "bad apples." Before I address this anymore, I do want to say there are many ethical business men and women who live up to their highest values day to day, but we do have a broader problem to address as a society and business community.

Also, I wanted to mention that throughout history, there have been periods of "unruly behavior" in business—from the monopolies in the late 1800s, Wall Street scandals in the 1920s, war profiteering, etc. Each incident weakened our social fabric for a period of time and put a strain on our democracy. In 1906, Ambrose Bierce, the American writer and political satirist, defined a corporation as:

> "An ingenious device for obtaining profit without individual responsibility.

So, we can conclude that today's problems are not unique, but the pendulum has swung in the wrong direction and needs to be adjusted. The question I would like to try to answer is: why ethics in business matters—and matters a lot.

In short, it matters because our democracy depends upon it. One of the key pillars of a democracy is a free market system which supports economic upward mobility for all willing to work for it. A free market system creates the opportunity for a large and educated middle class, which is essential for a healthy democracy. The U.S. has always been a model example of this to the world, but a free market economy is based upon one key, unalterable concept, and that is "trust." If the participants in that society cannot trust the "free market," and they believe it is stacked against them, then the market collapses and puts our democracy at risk.

The historians will tell you our democracy came close to faltering during the Great Depression, and although there may be many arguments as to what started it all in the late 1920s, lack of trust in the markets, in the banks, in industry and their leaders, and, especially, lack of trust in Wall Street, were all key factors.

You "business majors" know that the bank doesn't actually hold, as cash, the exact amount in your accounts. Everyone couldn't go to the bank, at one time, and withdraw all their funds. Our economic systems are all built, to a large extent, on trust. That is why these breaches in trust matter so much, and why we in the business community, and society in general, need to fix this problem.

<u>So, why have these ethical breakdowns occurred?</u>

I will offer three causes, two of which are obvious:

<u>First, is just plain greed.</u>

The 1980's classic movie "Wall Street" focused on the insidiousness of greed, as characters such as Gordon Gecko unabashedly flaunted their greed – in the name of upward mobility. As Gordon Gecko says in the movie:

> *"Greed is right. Greed works. Greed clarifies, cuts through and captures the essence of the evolutionary spirit. Greed, in all of its forms -- greed for life, for money, for love, knowledge -- has marked the upward surge of mankind."*

This speech in the movie mirrored some of the real-life events of the times, as businessmen such as Ivan Boesky and Michael Milken had revived the greed and deceit seen in the late 1920s – with the manipulation of the financial markets. As you can see, there are patterns in this behavior in each generation. So, as the ancient philosopher Herodotus said,

> "*If you don't learn from the mistakes of the past, you are doomed to repeat them."*

<u>Second, is ego.</u> Ego is always a problem in every generation. Enron was a combination of ego and greed. I would also say that Martha Stewart fell into the ego category. The first two, "greed" and "ego" are always around and much easier to identify. It doesn't mean they're as easy to fix.

<u>***The third reason*** is a little more treacherous</u> because it is a trap many have fallen into and for which many well-intentioned and good moral individuals have let their guard down and compromised their values.

I'm going to give it a broad title because it's not a simple topic. I'll call it "the pressures of Wall Street." This is what I want to emphasize as the MAIN problem. I might even argue that the pressures of Wall Street create ego and greed.

Our free enterprise system is based on free markets—the centerpiece of which is the stock market. This market is where capital is raised to support starting and growing companies. It is where individuals save for their homes, children's education, retirement, and anything else imaginable. At one time, it was a place where mostly the wealthy invested, but with the advent of mutual funds, pension plans, and 401K investments...

- Over 50% of households in the U.S. are now in the stock market versus only 19% in 1983;

  and

- The amount of money in the equity market has grown from $1.85 trillion in 1983 to $68 trillion today.

It makes sense that the U.S. stock market is where Americans should invest. I want to emphasize the term "invest" here for an important reason. We "hope" to invest our money in something we can trust. The stock market is not the lottery. We expect with some research, or by employing someone or some institution we trust, that over time our investments, based upon intelligent choices, should make money.

But, there has also been a fundamental change in the stock market in the past 25 years. In 1985, shareholders held stocks an average of five years. This is an "average." That means, that some stocks were held ten years or longer...others a year or less. By the year 2010, holding periods dropped to six months. The message was clear: Shareholders were no longer true investors, but rather speculators that moved rapidly in and out of stocks with little interest in the long-term "health" of the companies.

CEOs aren't stupid. They got the message—which was they should create immediate profits and forget long-term investment; cut corners and ethics; boost your stock; sell your options; move to the next company and let the next CEO clean up the mess!

Many institutional investors stopped measuring companies on earnings growth and cash flow. Whether a company could beat Wall Street's earnings expectation, quarter after quarter, became an ever-increasing measurement. If expectations were missed by as little as a penny per share, a stock could tumble by 30% in one day. So much for building your business for the long term!

Companies learned how to “play the game” and Boards of Directors went along by incenting CEOs and key managers with huge amounts of stock options. So, it created this continuing cycle: I’ll raise earnings...hit my earning per share targets, by hook or by crook...cash in my options...even if I miss my quarter target and the stock tanks, I’ll get more options at the new lower price and start all over again. As a result, CEO compensation increased ten-fold in the 1990s, while real wages of workers remained relatively flat. Unfortunately, most of this was not “illegal,” but in my mind, it is highly “unethical” and is a major threat to our society.

Some of the most unethical practices that result from this “Wall Street pressure” are the many companies that went public in the mid-to late-1990s (primarily technology related). Many never made a profit or actually came out with a product before they folded...but, many of the venture capitalists and CEOs cashed out and made millions while the little investors, through their pension plan or mutual fund, lost it all. The investment bankers who took these companies public also made millions in fees, and I don’t ever remember hearing that they refunded the investors’ money for this bad advice.

While all these ethical and legal lapses were going on, where were the auditors and directors (and those regulatory agencies that were to protect us)? Where were the corporate controls that were intended to catch fraud?

The New York Times ran this story in the February 1, 2004, Sunday magazine on the Rigas family who started and built a cable company called “Adelphia” into a large and powerful business:

> “.... Even to people familiar with Wall Street scandal, the central detail of this one remains astonishing. Somehow, the Rigases persuaded a network of commercial banks to lend to them more than $3 billion that not only the family, but also Adelphia, a public company with public shareholders, would be liable for repaying. The money was used, in large part, to buy Adelphia securities, which subsequently lost most of their value, as well as to make payments on stock the family had bought on margin. It was also used as a sort of A.T.M. to finance extravagances of the Rigases both small and not so small.
>
> For instance, roughly $150 million was lent to John’s money-losing hockey team, the Buffalo Sabers; $3 million was blown on “Songcatcher,” a movie produced by Rigas’s daughter, Ellen. Then there was the $13 million plowed into an unfinished golf course, a pet project of his son Tim, who had memberships in some 12 other golf clubs courtesy of Adelphia as well. Millions more were squandered by the Rigases’ use of the corporate Gulfstream as a family taxi, particularly to shuttle John’s wife, Doris, on shopping trips; and some

> $45 million was advanced to John, apparently to finance his private businesses. The Rigases never bothered to disclose that they had borrowed all this—and with Adelphia's guarantee. So when the news broke, the public stockholders discovered that they had bought into seriously misrepresented goods. The company collapsed and filed for bankruptcy, and the stockholders were wiped out. The Securities and Exchange Commission, which filed a civil complaint parallel to the criminal case, called it "one of the most extensive financial frauds ever to take place at a public company."
>
> [The family denied they did anything illegal.]

My concern is that as the economy gets better, that these incidents will be forgotten and these institutions, and society in general, will let down our guard.

What I have described so far are the major, well known cases of either illegal activity or gross unethical practices, but it usually doesn't start there. It starts with smaller lapses of ethics. I want to share with you a few examples of these ethical dilemmas. See what you think, because these are what you likely encountered years ago:

In reviewing many articles, I came across one from a 1998 Inc. magazine which I thought summarized the problem we are witnessing today. It was titled "True Lies" and the lead paragraph stated,

> "During their start-up days, many Inc. 500 CEOs tell half-truths to win over customers, while others tell outright lies. A look at the ethical differences between posturing and overt deception."

Now I don't know what you think, but is there a difference between "half-truths" and "outright lies"? It's like being "half-pregnant." It reminds me of the 1960's civil rights activist and politician Andrew Young's statement,

> "Nothing is illegal if a hundred businessmen decide to do it."

I'm reminded of the story of the lawyer: After drafting a will for an elderly client, the lawyer announced a fee of $100. The client gave the lawyer a $100 bill. After the client left, the lawyer saw that the client had in fact paid $200, as two of the client's $100 bills had stuck together. Looking at the $100 overpayment, an ethical question arose in the lawyer's mind: "Do I tell my partner?"

Where do we go from here?

<u>First</u>, we must enforce the laws we currently have on the books. The actions by New York's Attorney General Elliot Spitzer on a number of fronts—including Tyco, Imclone,

the sanctioning and fining of Wall Street banks, and pressuring the N.Y.S.E. to fire Richard Grasso—are essential. Federal prosecution of the officers at Enron, World Com, and others is also necessary. Fines will not help, but prison terms will make a difference.

Second, although I am always leery when the government gets involved, I think the Sarbanes-Oxley Act on corporate governance...as clumsy as it is...brought the needed attention to the corporate board room.

Third: We need to continue to dialog on this subject of ethics. As I said at the beginning of this talk, I think one good thing about the Enron mess is that it brought the issue to the “front burner” of American thought. If any issue is to be solved by society, it needs to first be seen as a significant problem—it then needs to be analyzed and discussed in multiple venues, including the press, the government, academic institutions, our homes, etc.

“Ethics in business” is a national problem and needs this elevated level of attention. I am staying away from ethics in politics as I only have 20 minutes to share my essay! Wouldn’t it be fun to discuss, “Is President Trump ethical?”

Universities are setting up academic departments of ethics. I would suggest that a required course on ethics be taught to freshmen at all colleges and universities, and ethics topics should be included in every course—woven into our academic fabric to be top of mind.

You are probably all aware of the studies that show a high percentage of high school and college students believe it is OK to cheat on exams. The criteria seem to depend on if one is caught or not.

Finally, leaders at all levels in our organizations need to practice what they preach by living it daily. I know that is harder than it sounds—but we should start by asking, “What is the purpose of our company?” The initial, simple answer is to “make long-term economic profit for our owners/shareholders.”

But our mission must be much more than that. In fact, making money for our shareholders should be a by-product (albeit an important one) of running an ethical business that has the goal of honestly fulfilling a need in society by producing a quality product or service.

Going back to my original definition of ethics, “Doing what’s right when no one is looking...,” It is as simple as that!

I conclude with this poem from an unknown author that I think represents what this essay is about:

<u>The Guy in the Glass</u>

When you get what you want in your struggle for self,
And the world makes you King for a day.
Then go to the mirror and look at yourself,
And see what that guy has to say.

For it isn't your Mother, Father, Husband, or Wife,
Whose judgement on you must pass.
The fellow whose verdict counts most in your life
Is the guy staring back from the glass.

He's the fellow to please, never mind all the rest,
For he's with you clear to the end.
And you've passed your most dangerous and difficult test,
If the guy in the glass is your friend.

You may fool the whole world down the pathway of years,
And get pats on the back as you pass.
But your final reward will be heartaches and tears
If you've cheated the guy in the glass.