

**Better Business Bureau Ethics Seminar**

**Blinn College**

**Bryan, Texas**

**March 26, 2004**

Presentation of:  
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## BUSINESS ETHICS

### Business Ethics in Corporate America

“Where the Rubber Meets the Road”

Presentation of  
**Charles I. Underhill**  
Senior Vice President  
Council of Better Business Bureaus  
March 26, 2004

www.bbb.org

employees, and their competitors--that integrity is good business. As we’ve heard this morning, there is a lot of data that says it is - and, more importantly, as Skipper has indicated - it is a matter of character. All the companies that will be honored here today are running their companies the way they do because that is who they are, and this is what they are made of. So, a bit in advance of the actual awards, I want to congratulate the winners – and the runners up – for their character and commitment to ethics in the marketplace.

#### Slide 1 - Title

Over lunch today, we’re going to honor some real heroes in the “ethics tree” – companies whose individual owners and employees are in the trenches every day. These are people who are regularly demonstrating -- in how they treat their customers, their



## BUSINESS ETHICS

### “Business Ethics”

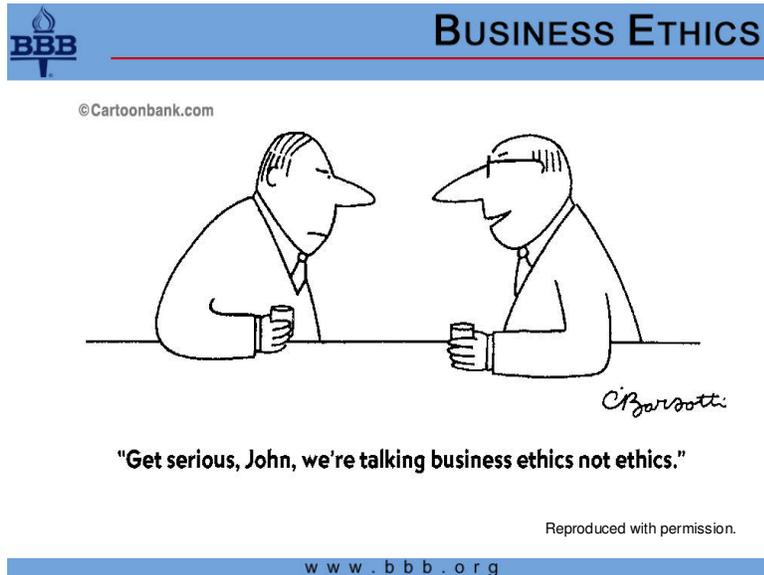


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#### Slide 2 – Search Engines

In preparing for this presentation, I went on two Internet search engines, Yahoo and Google, and entered the term (in quotations)

“business ethics”. One returned a claimed 808,000 entries on the subject; the other, a claimed 598,000.



### Slide 3 - Cartoon

With that much information floating around out on the Internet on the subject of business ethics, why does it seem that we are reading, almost every day, about yet another breach of ethics – ranging from the largest corporations to our smallest

businesses?

### Slide 4 – BBB1

Better Business Bureau

- Founded in 1912
- Funded by business
- Promote an honest marketplace to benefit ethical businesses and their customers

www.bbb.org

The Better Business Bureau was founded in 1912 – over 90 years ago – as a business self-regulatory organization – an organization that would be funded by businesses to help promote truthful and accurate advertising and selling practices. The BBB’s “founding fathers” believed that this would promote an

honest marketplace that would benefit both ethical businesses and their customers.



### Better Business Bureau

- Review advertising
- Handle complaints (620K in 2002)
- Report on business (2 million)
- National advertising review forum (NAD)
- Charity accountability standards (WGA)
- Online standards (*BBBOnLine*)
- International standards (GTA)

[www.bbb.org](http://www.bbb.org)

They compiled those advertising reviews and consumer complaints into public reports on more than 2 million U.S. and Canadian businesses, and they've put those reports on the Internet, where the public can access them. Nationally, the BBB system maintains a very sophisticated and highly-regarded advertising self-regulatory program – a forum where America's largest advertisers – and their customers – regularly challenge the truthfulness and accuracy of advertising claims. Our BBB Wise Giving Alliance evaluates America's largest charitable organizations against a set of specific standards for charitable accountability – and publishes the results of those evaluations. Our *BBBOnLine* Reliability and Privacy programs, to which more than 17,000 businesses subscribe, set standards for online business practices – which have, themselves, become models for governments and business groups around the world, through the BBB-initiated Global Trustmark Alliance.

### Slide 5 – BBB2

Local BBB offices review competitor or consumer allegations that an advertisement was misleading or inaccurate, and they handled over 3 million consumer complaint calls during 2002 and processed more than 620,000 written consumer grievances.

## Slide 6 – Rubber Meets the Road

 **BUSINESS ETHICS**

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**“Where the Rubber Meets  
the Road”**

**Theoretical Ethics**

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**— The Better Business Bureau —**

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**The Real World**

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We are not theoretical ethicists; we do, however, operate in the area where the ethical “rubber meets the road”.

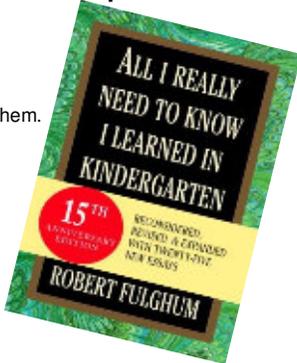
## Slide 7 – Fulgham

 **BUSINESS ETHICS**

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**Ethics Made Simple**

- Share everything.
- Play fair.
- Don't hit people.
- Put things back where you found them.
- Clean up your own mess.
- Don't take things that aren't yours.
- Say you're sorry when you hurt somebody.
- Wash your hands before you eat.
- Flush.



www.bbb.org

Most of us believe that ethics ought to be a fairly simple proposition. I think it was best summed up in Robert Fulgham’s relatively short book, “All I Really Need To Know I Learned In Kindergarten”.

Fulgham was a Unitarian minister in the Pacific Northwest for 22 years, and (an important note for this

audience) he was born and grew up in Waco, Texas, where a lot of his values were shaped. Here are some (but far from all ) of Fulgham’s kindergarten truisms:

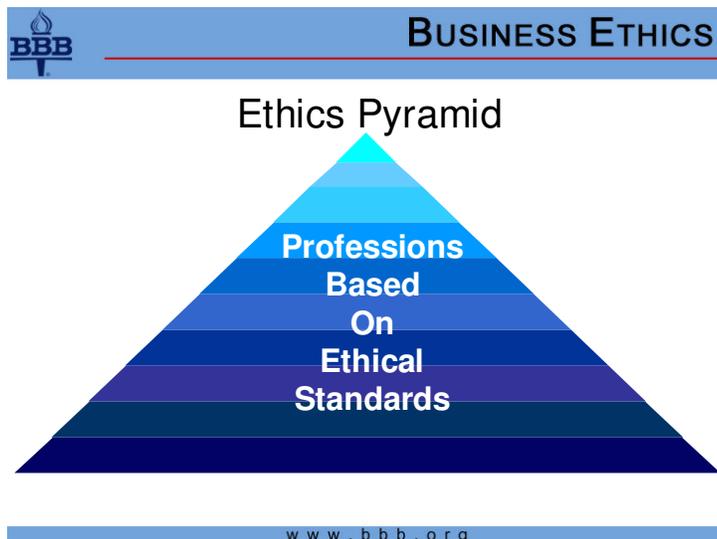
- Share everything.
- Play fair.
- Don't hit people.

- Put things back where you found them.
- Clean up your own mess.
- Don't take things that aren't yours.
- Say you're sorry when you hurt somebody.
- Wash your hands before you eat.
- Flush.

As Fulgham said, “Everything you need to know is in there somewhere. The Golden Rule and love and basic sanitation. Ecology and politics and equality and sane living. Take any of those items and extrapolate it into sophisticated adult terms and apply it to your family life or your work or your government or your world and it holds true and clear and firm. Think what a better world it would be if . . . all governments had a basic policy to always put thing back where they found them and to clean up their own mess.”

If Robert Fulgham’s propositions are so simple, how do we come to be in the pickle we’re in today. And, make no mistake about it, we are in an ethical “pickle”.

### Slide 8 – Pyramid



Here’s our own pyramid – a pyramid of institutions in society based on or supporting ethical standards. Let’s quickly step up the rungs of the pyramid.

## Slide 9 - Level 1 (Business)

**BUSINESS ETHICS**

Ethics Pyramid

Corporate Leaders/Governance

www.bbb.org

We begin with our business leaders and corporate governance. It wasn't all that long ago that America's corporate leaders ranked well up the ladder in the public's esteem. I think it is fairly safe to say that since the turn of the century, this no longer holds true.

## Slide 10 – Articles (Business)

**BUSINESS ETHICS**

Ethics Pyramid – Our Corporate Leaders

www.bbb.org

Articles shown include:

- BBC NEWS: Martha Stewart guilty of lying
- CNNmoney: WorldCom's Ebbers pleads not guilty
- CFO.com: Enron Testimony Could Involve Ken Lay
- Newsday.com: Summations begin in Tyco trial

We could probably devote the rest of the time we have remaining today just making an itemized list of the companies and corporate leaders that have been accused of all sorts of ethical and legal breaches. Here are just a smattering – do the names “Enron, WorldCom, Tyco, Adelphia Cable, Martha Stewart, Ken Lay, Bernie Ebbers, Dennis Kozlowski, John Regas ring bells?

## Slide 11 – Level 2 - Government



### BUSINESS ETHICS

## Ethics Pyramid



www.bbb.org

Well, if we can't trust our corporate leaders, at least we can trust our government leaders, can't we?

## Slide 12 – Articles



### BUSINESS ETHICS

## Ethics Pyramid – Our Government







www.bbb.org

Unfortunately, it should hardly come as a surprise that politicians have been very much in the news recently. As Mark Twain said, 128 years ago, 'History has tried hard to teach us that we can't have good government under politicians. Now, to go and stick one at the

very head of the government couldn't be wise."

## Slide 13 – Level 3 – Sports Figures

**BBB BUSINESS ETHICS**

### Ethics Pyramid – Our Government

www.bbb.org

Let's turn to someplace where we can always find our heroes, where men and women were straight shooters, where fair and honest competition are best exemplified – our national sports heroes. And while we still do have some shining examples . . .

## Slide 14 – Articles

**BBB BUSINESS ETHICS**

### Ethics Pyramid – Our Sports Heroes

www.bbb.org

We also have this . . . our athletes . . . role models for our young people . . . charged with sexual assaults, gambling, drug use, cheating and a host of other very un-heroic – and very public – offenses.

## Slide 15 – Level 4 – Investment Industry

**BUSINESS ETHICS**

Ethics Pyramid

Investment Industry  
Sports Figures  
Politicians, Government and Law Enforcement  
Corporate Leaders/Governance

www.bbb.org

Well, if we can't trust our sports heroes, at least we can trust the investment houses and bankers to whom we're entrusting our life savings . . . our children's college funds, our own – and our parents – retirements.

## Slide 16 - Articles

**BUSINESS ETHICS**

Ethics Pyramid – Investments

**INTERNATIONAL Herald Tribune**  
Banks Failed to Tell Public of Problems at WorldCom  
March 17, 2004  
Three big banks expressed misgivings internally about the financial soundness of WorldCom in early 2001, just months before they helped the company sell \$12 billion in debt, according to documents filed in federal court in Manhattan. But their doubts were not bought WorldCom.

**The Miami Herald Herald.com**  
FleetBoston Financial Corp., Bank of America to Pay \$675 Million Penalty

**Legal News Watch**  
Citigroup CEO Sanford Weill Will Testify in Salomon Smith Barney Inquiry  
The Associated Press  
October 24, 2002  
The New York attorney general's office will question Citigroup Inc.'s Chairman and Chief Executive, Sanford J. Weill in its broad investigation of the company including the research practices of its securities-firm unit, Salomon Smith Barney.

Business News  
Investors are also forcing out eight of Bank of America's Funds. The expulsion is the he regulators have held mutual trustees, who are akin to rs of a corporate board, liable for allowing improper or.

www.bbb.org

Here's another set of examples of companies and individuals apparently more interested in their own profits than the welfare of the investors who entrusted their savings to them. Here we have countless examples of individuals who privately scoffed at the firms they were publicly recommending to their clients,

firms that apparently knowingly withheld adverse information about certain companies in the hope of obtaining additional investment business from them.

## Slide 17 – Level 5 – Health Care

So, we can't necessarily trust our investment advisors, but we certainly ought to be



### Ethics Pyramid



www.bbb.org

able to trust our health care providers, shouldn't we?

### Slide 18 – Articles



### Ethics Pyramid – Healthcare

A collage of news articles related to healthcare ethics. It includes:

- DentonRC.com**: "New Boston podiatrists, hospital accused of insurance fraud" (03/12/2004, Associated Press). Text: "Federal and state authorities arrested eight people Thursday in charges..."
- The Mercury News**: "Bayer AG, GlaxoSmithKline agree to Medicaid fraud settlement" (Posted on Wed, Apr. 16, 2003). Text: "BOSTON (AP) - In the largest-ever settlement involving Medicaid fraud, drug giants Bayer AG and GlaxoSmithKline agreed Wednesday to pay nearly \$345 million to settle claims they used a labeling scheme to overcharge the government insurance program for the poor." It also mentions a "shared District except Bayer" and "violating the prescription Drug Marketing Act, pay a criminal fine of \$5.6 million for alleged..."
- BUSINESS JOURNAL**: "HealthSouth fraud may have topped \$4B" (Tom Bassing, January 20, 2004). Text: "HealthSouth Corp's interim management revealed Tuesday that the accounting fraud that rocked the Birmingham-based company may have exceeded \$4 billion in false earnings." It also mentions "the fraud between 1996 and early 2003. So far, 15 former executives have pleaded guilty to various criminal charges related to the scandal." and "The government also accuses founder Richard Scrushy of orchestrating the scam. He has been charged with 85 criminal counts, from fraud to money laundering, to which he has pleaded not guilty. Scrushy faces an August trial."

www.bbb.org

Perhaps particularly in the medical field, we find a host of ethical breaches – ranging from literally thousands of scams and schemes to defraud medicare and Medicaid (by hospitals, doctors and other healthcare professionals and individuals) to major effort like the Bayer and GlaxoSmithKline billing

scheme, in which the companies agreed to pay the government \$345 million to settle claims they used a labeling scheme to overcharge the government.

So we sense a pattern emerging here?

## Slide 19 – Level 6 – Accounting



Here we come to a profession that is a “reputational intermediary” – an individual or institution that uses its own reputation to vouch for the conduct of another. We’ll come back to that a bit later. But if any profession has been synonymous with “trust”, it is accounting. But the trust we have place in accounting

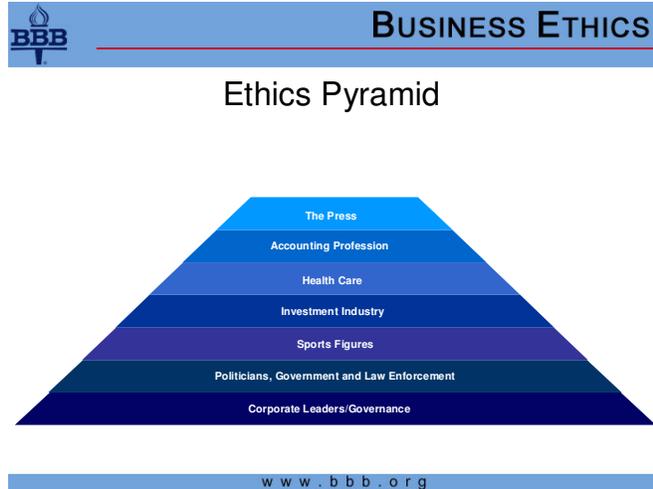
has made its fall from grace all the more painful.

## Slide 20 – Articles

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Every major accounting firm has suffered in the post-Enron era – none more so than Arthur Andersen – one of the worlds largest accounting firms that imploded in a matter of months after the Enron scandal became fully exposed.

## Slide 21 – Level 7 – The Press



Here's a profession that we depend upon for truthful, accurate and unbiased reporting of events – we hope their opinions are fully labeled as such and that their ventures into fiction are done on their off hours. This is a profession so revered by our founding fathers that it is specifically afforded constitutional

protections.

## Slide 22 – Articles

This slide features the same pyramid as Slide 21, but with the top level, 'The Press', highlighted. Below the pyramid are three news article snippets. The first snippet is from USA TODAY, dated January 13, 2004, titled 'USA TODAY reporter resigns after deception'. The second snippet is from CNN.com, dated August 19, 1996, titled 'Boston columnist resigns amid new plagiarism charges'. The third snippet is from CNN.com, dated August 19, 1996, titled 'New York Times: Ex-reporter faces fraud inquiry'. The website address 'www.bbb.org' is at the bottom.

That's why it is so unnerving when we see a host of journalists accused of falsifying reports, making up interviews that never took place, claiming to have reported stories in one country when they were sitting in an apartment in the U.S., claiming to have interviewed an adolescent drug abuser that never actually existed,

claiming as their own works that were written by others.

## Slide 23 – Religious and Non-Profit Leaders



We're getting close to the top here, folks. Surely we can trust our religious and non-profit leaders – or can we.

## Slide 24 -- Articles

This block contains a collage of news articles. At the top left is the BBB logo and the text 'BUSINESS ETHICS'. Below this is the title 'Ethics Pyramid – Our Religious Leaders'. The collage includes several article snippets:
 

- CHICAGO SUN-TIMES**: 'Hopeful note lies hidden in report on priest abuse' (March 6, 2004). The snippet discusses a report on priest abuse and mentions a 'hopeful note'.
- The Oregonian**: 'Suit contends Salvation Army responsible for rape' (March 6, 2004). The article reports that a St. Helens woman claims she was abused by a minister while a teenager in the 1980s. The suit seeks more than \$5 million in damages.
- DAILY NEWS**: 'Rabbi under fire cuts 700G deal' (March 6, 2004). The article mentions a politically connected Brooklyn rabbi accused of stealing a \$700,000 federal grant.
- washingtonpost.com**: 'Hare Krishnas in Court' (March 6, 2004). The article reports that the Hare Krishna movement has filed a motion to dismiss a lawsuit filed by a woman who claims she was raped by a member of the movement.

 At the bottom of the collage is the website address www.bbb.org.

We're all too familiar with the problems of the Catholic church . . . but I should note that no church has a corner on ethical (or legal) lapses. Fairly recently, the Hare Krishna church in the U.S. filed for bankruptcy protection, setting aside \$15 million for the underage victims of alleged rapes

by church members. And there are any number of examples of charitable organizations whose leaders have led them astray.

## Slide 25 – Educators

**BBB** BUSINESS ETHICS

Ethics Pyramid

The pyramid consists of the following levels from top to bottom:

- Educators
- Non-Profit Religious Leaders
- The Press
- Accounting Profession
- Health Care
- Investment Industry
- Sports Figures
- Politicians, Government and Law Enforcement
- Corporate Leaders/Governance

www.bbb.org

These are the people to whom we entrust our future – our children. So, what are the examples being set?

## Slide 26 – Articles

**BBB** BUSINESS ETHICS

Ethics Pyramid – Educators

The collage includes the following articles:

- The ADVOCATE**: University president retires over plagiarism. Associated Press, March 19, 2004. HARTFORD, Conn. -- Central Connecticut State University President Richard Judd, facing criticism that he plagiarized an op-ed.
- Forbes**: Doris Kearns Goodwin And The Credibility Gap. Mark Lewis, February 27, 2002. Razor in its current cover story on "Fifteen Presidents Who Changed the World." Goodwin herself seemed trapped in a hall of mirrors last month after *The Weekly Standard* accused her of plagiarizing from several sources in her hugely popular *The Fitzgeralds and the Kennedys*, a 1987 bestseller that later was made into a successful TV miniseries.
- SFGate.com**: Poet laureate quits over fudged resume. Creative writing professor admits lying about degree. Kelly St. John, Chronicle Staff Writer, Sunday, October 29, 2002. California's first official poet laureate, Quincy Troupe, has resigned after acknowledging he lied on his resume about graduating from college. And the admission could even cost him his tenured position as a creative writing and literature professor at the University of California at San Diego. Troupe, 62, submitted a letter of resignation to Gov. Gray Davis late Friday night. He had held the poet laureate post for four months.

www.bbb.org

Unfortunately, there are any number of examples of teachers accused of cheating or plagiarism or other less-than-ethical behavior.

## Slide 27 – Children

**BBB** BUSINESS ETHICS

Ethics Pyramid

The pyramid consists of the following levels from top to bottom:

- Children
- Educators
- Non-Profit Religious Leaders
- The Press
- Accounting Profession
- Health Care
- Investment Industry
- Sports Figures
- Politicians, Government and Law Enforcement
- Corporate Leaders/Governance

www.bbb.org

And what is the effect of all this? Can we reasonably expect that our children – the leaders of the rest of the 21<sup>st</sup> century – will be better than the examples we have set for them? It seems highly unlikely.

## Slide 28 – Articles

**BUSINESS ETHICS**

### Ethics Pyramid – Our Children

**CNN.com**  
Survey: Many students say cheating's OK  
Confessed cheater: What's important is getting ahead!  
By Kathy Skobien

**The Mercury News**  
Cheating probe snares Saratoga students  
**FOUR FACE EXPULSION FROM HIGH SCHOOL**  
By Kariha Dunlap and Becky Gardinaka  
Jan. 24, 2004

**WMC-TV**  
Campus Crime report for March 2, 2004  
March 2, 2004

**KansasCity.com**  
Students cheating with cameras, text-messaging on cell phones  
By SUZANNE PARSONSON

**Bradenton.com**  
Fifth Grade Teacher accused of helping to cheat on FCAT  
March 8, 2004

**WESTON** - A Broward County teacher may be fired after 19 students alleged he gave them answers to last year's Florida Comprehensive Assessment Test and told them to keep it secret.

School Superintendent Frank Till is urging the school board to fire Robert Prosser, a fifth-grade teacher at Oator Run Elementary in this affluent Fort Lauderdale suburb, for misconduct, immorality and moral turpitude. The board will consider the recommendation March 16.

Prosser, 34, originally told a testing official that he "guided students to the right answer" and told "students they could change answers," according to a formal complaint to the board.

an Burden, a math teacher at College Park High in Pleasant Hill, Ga., was shocked last fall when a student showed her a picture on his cell phone of a test question sent to him by a friend in another class. She so has heard of students taking photos of tests and posting them on the Internet.

atching kids cheating is just a nightmare," Burden said. "It's not nearly as easy as it used to be."

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As you can see, the impact on our young people is profound.

## Slide 29 – Survey

**BUSINESS ETHICS**

### Our Children

**From a 2001 survey of high school students:**

- **50%** admitted plagiarizing from the Internet
- **74%** cheated on exams or tests
- **97%** cheated on homework

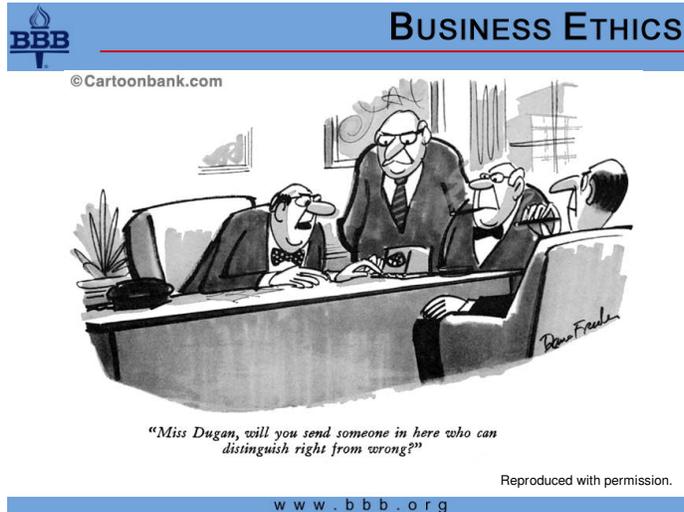
Source: Donald McCabe, professor of management, Rutgers University, survey of cheating among high school students, 2001, 4,500 high school students

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Donald McCabe, a professor of management at Rutgers University, has conducted a number of surveys of cheating among high school students in recent years. In a 2001 survey of 4,500 high school students, he found more than half admitted to plagiarizing from the Internet, three-

quarters (74 percent) admitted they had cheated on exams or tests, and 97 percent admitted to cheating on homework.

## Slide 30 – Cartoon



How have we come to this? What is happening that brings us from Robert Fulgham’s “Play fair”, “don’t take things that aren’t yours”, “don’t cheat”, “clean up your own mess” to Enron and Sammy Sosa’s corked bat?

We’ll, as the cartoon said earlier in the presentation, “We’re talking business ethics, not ethics” here. And my only expertise, limited as it is, is in the field of business/consumer relations. But I’d like to use that to try and examine a couple of issues: one is important in understanding how we’ve gotten here and one is important if we are to tackle the problem. The former issue is the accelerating pace of change – largely technological. The latter is the decline of “reputational intermediaries”.

Let’s start with the pace of change.

To make this point, I’m going to begin by quoting from Stephen Ambrose’s book “Undaunted Courage”, the story of the Lewis and Clark expedition. There are two ironies worthy of note here. First, it was exactly 200 years ago, on March 9<sup>th</sup>, 1804, that the first American flag was raised west of the Mississippi River, and Meriwether Lewis was there. Second, Stephen Ambrose, the late author and former history professor, was himself accused of repeated acts of plagiarism in several of his books.

## Slide 31 – Ambrose Quote 1

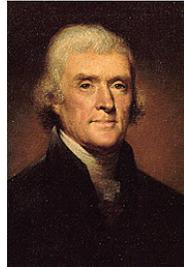


### BUSINESS ETHICS

#### The World of 1801

“A critical fact of the world of 1801 was that nothing moved faster than the speed of a horse. No human being, no manufactured item, no bushel of wheat, no side of beef ( or any beef on the hoof, for that matter), no letter, no information, no idea, order, or instruction of any kind moved faster. Nothing ever had moved any faster, and, as far as Jefferson’s contemporaries were able to tell, nothing ever would.”

Stephen Ambrose  
“Undaunted Courage”



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That said, Ambrose wrote this about Thomas Jefferson’s world of 1801:

“A critical fact of the world of 1801 was that nothing moved faster than the speed of a horse. No human being, no manufactured item, no bushel of wheat, no side of beef ( or any

beef on the hoof, for that matter), no letter, no information, no idea, order, or instruction of any kind moved faster. Nothing ever had moved any faster, and, as far as Jefferson’s contemporaries were able to tell, nothing ever would.”

## Slide 32 – Socrates to Jefferson



### BUSINESS ETHICS

#### From Socrates to Jefferson



“Since the birth of civilization, there had been almost no changes in commerce or transportation. Americans lived in a free and democratic society . . . but a society whose technology was barely advanced over that of the Greeks. The Americans of 1801 had more gadgets, better weapons, a superior knowledge of geography and other advantages over the ancients, but they could not move goods or themselves or information by land or water any faster than had the Greeks and Romans”.



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Ambrose goes on to say:

“Since the birth of civilization, there had been almost no changes in commerce or transportation. Americans lived in a free and democratic society . . . but a society whose technology was barely advanced

over that of the Greeks. The Americans of 1801 had more gadgets, better weapons, a superior knowledge of geography and other advantages over the ancients, but they could not move goods or themselves or information by land or water any faster than had the Greeks and Romans”.

Now, the bad thing about all this is evident. Nothing much changed quickly – or, as Ambrose points out – in some cases, it didn't change at all. But, there is a very important good point.

### Slide 33 – Horse

In the 2,200 years between the death of Socrates and the beginning of the Jefferson presidency, mankind had a lot of time to think about and evolve an ethical system for selling horses, or real estate, or clothing. And when change did come along, we had time to consider the consequences and adapt.

### Slide 34 -- Lincoln

Let's look at how things had changed in the relatively short sixty years between Jefferson and Lincoln. When Abraham Lincoln took the oath of office as the 16<sup>th</sup> President of the United States, Ambrose writes:

“... Americans could move bulky items in great quantity

farther in an hour than Americans of 1801 could do in a day, whether by land

(twenty-five miles an hour on railroads) or water (ten miles an hour upstream on a steamboat). This great leap forward in transportation – a factor of twenty or more – in so short a space of time must be reckoned as the greatest and most unexpected revolution of all – except for another technological revolution, the transmitting of information. In Jefferson’s day it took six weeks to move information from the Mississippi River to Washington, D.C. In Lincoln’s, information moved over the same route by telegraph all but instantaneously.”

My point here is that – at least in the commercial context – mankind lived in a period of relatively creeping technological change and, therefore, had considerable time to comprehend, consider, debate and weigh the ethical and moral implications of these changes against the benefits they might bring.

### Slide 35 – Past 60 Years



## BUSINESS ETHICS

# The Past 60 Years

- The atomic bomb (1945)
- The first computer (1951)
- The heart-lung machine (1953)
- The polio vaccine (1957)
- Space satellites (1958)
- Minicomputer (1965)
- Moon landing (1969)
- Bar-coding products (1974)
- Video camera (1980)
- Artificial heart (1982)
- U.S. Cell Phone Systems (1983)
- Hubble telescope (1990)
- Human genome project begins (1990)
- The World Wide Web (1990)
- Cloning – “Dolly the Sheep” (1997)
- Genome project completed (2000)

Consider, then, the sweeping changes our society has witnessed in the past 60 years – here are just some:

- The atomic bomb (1945)
- The first computer (1951)
- The heart-lung machine (1953)
- The polio vaccine (1957)
- Space satellites (1958)
- Minicomputer (1965)
- Moon landing (1969)
- Barcoding products (1974)
- Video camera (1980)
- Artificial heart (1982)
- U.S. Cell Phone Systems (1983)
- Hubble telescope (1990)
- Human genome project begins (1990)
- The World Wide Web (1990)
- Cloning – “Dolly the Sheep” (1997)
- Human genome project completed (2000)

This is the farthest thing from a complete list, but any one of the items on it could – and, in fact, has – appropriately prompted an outpouring of essays, papers, lectures and books by ethicists, philosophers and theologians. Our technology is now racing ahead of our ability to fully understand and appreciate all of its various implications. Our world is simply a much more complex place than it was just a few short years ago – and it is having a real impact on marketplace ethics.

Let’s interject a lighter note here – a couple of humorous stories may illustrate my point. Here is a “pre-technology” marketplace ethics story:

A grocer moved to Texas and bought a donkey from an old farmer for \$100.

The farmer agreed to deliver the donkey the next day. The next day the farmer drove up in his wagon – the donkey stretched out in the back. The farmer said: "Sorry, but I have some bad news. The donkey died."

"Well, then, just give me my money back."

"Can't do that. I went and spent it already."

"OK, then. Just unload the donkey."

"What ya gonna do with him?"

"I'm going to raffle him off."

"You can't raffle off a dead donkey!"

"Sure I can. Watch me. I just won't tell anybody he's dead."

A month later the farmer met up with the grocer and asked:

"What happened with that dead donkey?"

"I raffled him off. I sold 200 tickets at two dollars apiece and I made a profit of \$898."

"Didn't anyone complain?"

"Sure, but just the guy who won. So I gave him back his two dollars."

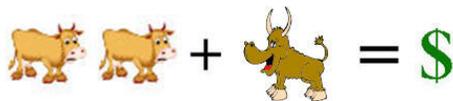
Contrast that story with this one – a product of the “post-Enron” era:

### Slide 36 – Capitalism



#### BUSINESS ETHICS

#### Capitalism



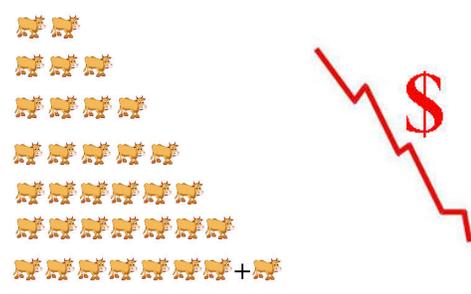
Definition of Capitalism: You have two cows. You sell one and buy a bull. Your herd multiplies, and the economy grows. You sell them and retire on the income.

## Slide 37 – Enron Capitalism



BUSINESS ETHICS

### Enron Capitalism



www.bbb.org

Definition of Enron Capitalism: You have two cows. You sell three of them to your publicly listed company, using letters of credit opened by your brother-in-law at the bank, then execute a debt-equity swap with an associated general offer so that you get all four cows back,

with a tax exemption for five cows. The milk rights of the six cows are transferred through an intermediary to a Cayman Island company secretly owned by the majority shareholder who sells the rights to all seven cows back to your listed company. The Enron annual report says the company owns eight cows, with an option on one more.

Some wag noted that if you had bought \$1,000 worth of Enron stock at its peak, it would be worth .73 cents today. If you had taken the same \$1,000 at the same time and purchased Coors – not the stock, but the equivalent amount in beer – drunk the beer and returned the empties in a state that had a .10 cent deposit, you'd have something around \$200 – proving that the best investment advice over the past 4 years would have been to drink heavily and recycle.

Coming back, now, to my point – I'd like to use a couple of concrete examples to illustrate how complex the marketplace ethics problem is becoming.

## Slide 38 – Cicero Quote



### BUSINESS ETHICS

#### Principle of Commerce

“All things should be laid bare, so that the buyer is in no way ignorant of anything the seller knows”

Cicero 106 – 43 B.C.

One of the basic BBB precepts can be found in quote from the Roman lawyer, politician and philosopher Cicero:

“All things should be laid bare, so that the buyer is in no way ignorant of anything the seller knows”

Permutations of this principle of disclosure have found their way into a

number of U.S. state and Federal court decisions and regulations governing advertising and selling practices.

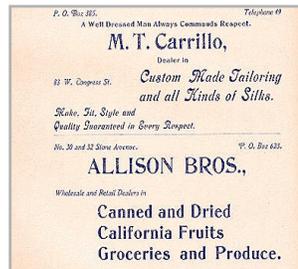
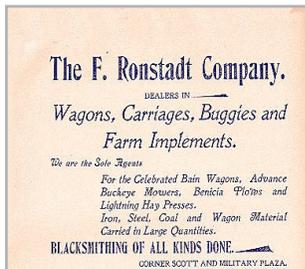
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## Slide 39 – 19<sup>th</sup> Century Advertising



### BUSINESS ETHICS

#### 19<sup>th</sup> Century Advertising



Here’s a relatively simple ad for wagons and carriages, clothing and food from the very end of the 19<sup>th</sup> century. Note that all three are fairly straight forward offers to sell, with no pricing information or savings claims, no performance claims or pricing information. On the positive side,

there was very little that could be questioned about the advertising; on the down side, there was very little information imparted.

www.bbb.org

## Slide 40 – 21<sup>st</sup> Century Advertising

### 21<sup>st</sup> Century Advertising

Free shipping for all phone orders

**Families talk free**  
 FamilyTime® plan

- \$49.99 for two lines
- Unlimited mobile-to-mobile
- Unlimited weekends
- 400 Whenever Minutes

[» Details](#)



www.bbb.org

I've chosen to use cell phones as my example for the 21<sup>st</sup> century advertising. Let's take a close look. This is a T-Mobile ad from the company's Web site. But I'm not picking on T-Mobile; this could just as easily have been any of the other major wireless carriers. What I am going to

discuss could be said of any of them.

The ad itself, with the exception of the single price claim, is as sparse as the 19<sup>th</sup> century ad. Four or five major points. But this is the Internet, so we see toward the bottom right corner the familiar "details", and we know there is a hyperlink to more information.

## Slide 41 – Pricing Table

### 21<sup>st</sup> Century Advertising

Plan name	FamilyTime Basic Plan	FamilyTime Plan	FamilyTime Plus Plan
	<a href="#">» Add to cart</a>	<a href="#">» Add to cart</a>	<a href="#">» Add to cart</a>
Price (per month)	\$49.99	\$69.99	\$99.99
Whenever minutes (per month)	400 Minutes	800 Minutes	1600 Minutes
Weekend minutes (per month)	Unlimited	Unlimited	Unlimited
Weeknight minutes (per month)	Unlimited	Unlimited	Unlimited
Mobile-to-mobile minutes (per month)	Unlimited	Unlimited	Unlimited
Additional minutes	40¢	35¢	35¢
Data Transfer (per month)	N/A	N/A	N/A
Included Services (See more at: www.t-mobile.com)	Built-in Paging, Call Waiting and Call Hold, Caller ID, Conference Calling, Deleted Billing, Enhanced VoiceMail, Web Browser	Built-in Paging, Call Waiting and Call Hold, Caller ID, Conference Calling, Deleted Billing, Enhanced VoiceMail, Web Browser	Built-in Paging, Call Waiting and Call Hold, Caller ID, Conference Calling, Deleted Billing, Enhanced VoiceMail, Web Browser

www.bbb.org

One level deeper into the site, we learn that the \$49.95 plan is really the lowest of three plans (\$49.99, \$69.99 and \$99.99) and the table tells us that there are differing features associated with each of the three plans.

## Slide 42 – Definitions



### BUSINESS ETHICS

## 21<sup>st</sup> Century Advertising

<b>Whenever minutes</b> Minutes that can be used at <i>anytime</i> and anywhere on the GSM network.	<b>Mobile-to-mobile minutes</b> Minutes used between T-Mobile phones. If you are the caller, for the call to rate as T-Mobile to T-Mobile: * You must be on the T-Mobile network. * BOTH caller and receiver must be T-Mobile subscribers. If you are the receiver, for the call to rate as T-Mobile to T-Mobile: * You must be on the T-Mobile network.
<b>Weeknight minutes</b> * Includes Free Long Distance and Roaming * Ideal for those who use their phones frequently at night * Available for new activations on nationwide, unlimited weekend rate plans \$39.99 or higher, run from 9:00 pm to 6:59 am Monday through Friday and are not available on either the Neighborhood/Regional, Sidekick \$39.99 plans.	<b>Additional minutes</b> * All plans include the ability to send and receive text messages for just 5¢ each. * Receive information for alerts (horoscopes, sport scores, joke of the day and more) for each 5¢ each. * Receive official T-Mobile messages for free.

Here things take a more complicated turn, since each term in the table has a specific meaning, and the company provides definitions for our use, for example:

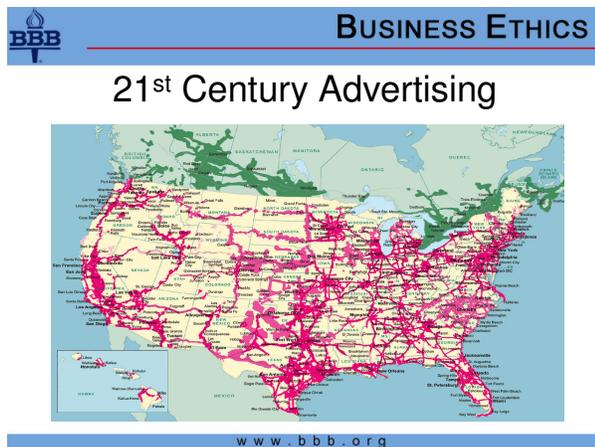
- “Whenever Minutes” are minutes that can be used at *anytime* and anywhere on the nationwide GSM

network. – you have to look elsewhere to find out the differences between a GSM network and a TDMA network.

- “Weekend Minutes” are Minutes used between 12:00AM Saturday and 11:59PM Sunday, local standard time.
- “Weeknight Minutes” include free long distance and roaming nationwide, are ideal for those who use their phones frequently at night, are available for new activations on nationwide, unlimited weekend rate plans \$39.99 or higher, run from 9:00 pm to 6:59 am Monday through Friday and are not available on either the Neighborhood/Regional, Sidekick \$39.99 plans.
- “Mobile to Mobile Minutes” are Minutes used between T-Mobile phones. But for the call to rate as T-Mobile to T-Mobile, both the caller and the receiver must be on the T-Mobile network. Further, you can use your mobile to mobile minutes nationwide, except that if you are in certain area codes in the Carolinas, Iowa, Wisconsin and Michigan – the calls will not be rated as mobile to mobile in those areas.
- “Additional Minutes” is the amount you pay per minute for minutes of service you use beyond your monthly allotment of minutes.

- “Data Transfer is the amount of information/data received or sent from a wireless device to or from the network.
- “Additional Services” All plans include the ability to send and receive text messages for just 5¢ each, receive information alerts (horoscopes, sport scores, joke of the day and more) for each 5¢ each and receive official T-Mobile messages for free.

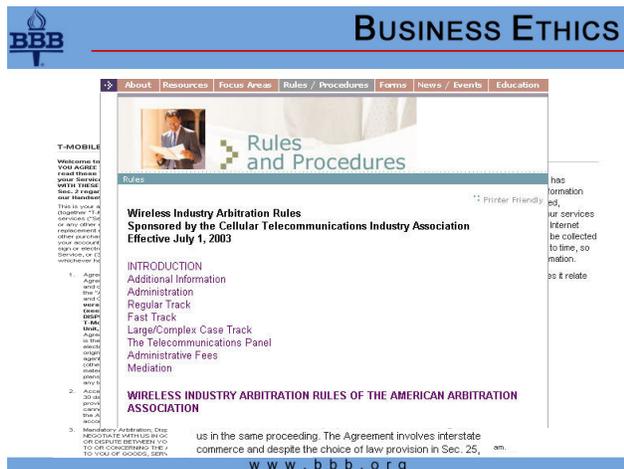
### Slide 43 – National Coverage



Well, you might assume you understand the company’s offer. But a good deal of that offer involves its “national service plan”, so the company provides you with further information – the map of its coverage area. I leave it to you to form your own conclusions about what constitutes

“national coverage”.

### Slide 44 – Other Terms



Surely, you may say, you now know what you need to know to make an informed decision. But there is more. Your transaction is governed by:

- The “Terms and Conditions” is a weighty (if an electronic document can be called “weighty”), 32 paragraph document specifying the

company's and your rights and responsibilities. It also includes an arbitration clause. More on that in a minute.

- A “Handset Return and Cancellation Policy” that gives you the right to cancel the service and return the phone within 14 days of service activation or 30 days or receipt of the phone if service isn't activated.
- A separate “Terms of Use” document
- The T-Mobile Privacy Notice, setting forth the companies privacy policies and your rights and responsibilities under it
- Here's that arbitration clause I spoke of, in which – generally speaking – you relinquish your right to sue the company in court in favor of using an arbitration procedure administered by the American Arbitration Association.
- The arbitration rules are available on the American Arbitration Association web site.

I'm going to ask for a show of hands at this point. How many of you regularly carried a cell phone on your person (not in your car) in 1995?

How many of you have a cell phone with you this morning?

How many of you can honestly say that you fully understand all the details of your plan's billing? How many of you can honestly say you understand and use all of the features currently available to you either through your carrier or on your phone right now?

## Slide 45 -- Comparison



### BUSINESS ETHICS

## A Complex Issue

19<sup>th</sup> Century



21<sup>st</sup> Century



www.bbb.org

Two advertisements – very similar in size and in the amount of information they convey on their face. But very different indeed. At the end of the 19<sup>th</sup> century, people had been buying and using horse-drawn wagons, carriages and buggies for hundreds and hundreds of years. It is reasonable to

assume that the average buyer and the average seller were on fairly equal terms. It is also reasonable to assume that buyers and sellers, generally speaking, lived in close proximity to one another – and perhaps knew one another personally. And it is also reasonable to assume that sellers didn't feel any particular compulsion to provide intricately detailed instructions – which probably would have been viewed by customers as condescending overkill.

By contrast, most of us have only just come to cellular technology – and that technology keeps changing. New “convergent” technologies are combining computers, cell phones and other devices at an accelerating pace.

## Slide 46 – Complaints



### BBB Wireless Complaints

<u>2002</u>		<u>2001</u>	
Number	21,534	Number	5,928
Rank	1	Rank	16

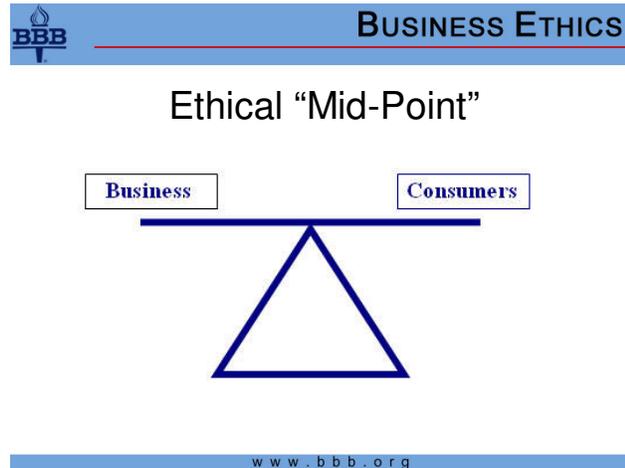
It is important to note here that during 2002, cell phone complaints to the BBB system jumped 263% from the year before, soaring from 5,928 complaints in 2001 to 21,534 in 2002. Our 2003 number will be available shortly. One of the major drivers of those complaints has been a gap created

by the company's offers and the customers perceptions of those offers.

Now, it would be hard to say that the companies are not providing us with enough information upon which to base buying and service decisions – as we've seen, we're drowning in information – most of it just a few clicks away on the Internet. Are the cellular companies deliberately confusing us with multiple plans – with options within options? Could the companies give us even more information? Or are we ourselves partially responsible, as we rush to embrace the new technologies without necessarily fully understanding what we're purchasing? Yet as our lives get more and more pressed – as time becomes a more and more precious commodity – how much of it are we willing to spend pouring through literature on thousands of products and services?

At least in the consumer marketplace, we are living in an increasingly complex world. Sure, it is still fairly easy to draw a "bright line" around the traditional

outright frauds and schemes – which are certainly unethical and almost certainly illegal.



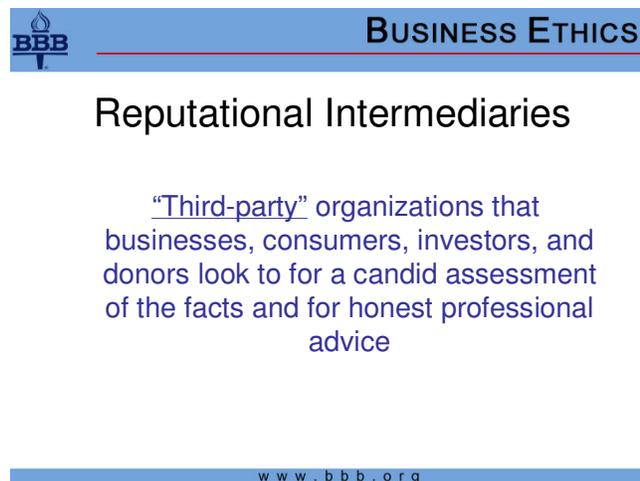
### Slide 47 – Ethical Mid Point

But it is becoming more and more difficult for legitimate businesses and well-meaning consumers to find the ethical “mid-point” in an increasingly complex and changing world – a world where we hardly have time to think about the moral and ethical implications of the last major change before that change, too,

is supplanted.

Remember – earlier on – I said I’d come back to the subject of “reputational intermediaries”. We’ll, here we are.

### Slide 48 – Reputational Intermediaries



What are reputational intermediaries?

They are “third-party” organizations that businesses, consumers, investors, and donors look to for a candid assessment of facts and for honest professional advice. They place their “reputation” on the line – evaluating companies,

products, services, charities – then issuing those evaluations and standing behind them.

As our world grows increasingly complex, as most of us face a growing number of more intricate marketplace choices and a declining amount of free time in which to educate ourselves, we increasingly rely on these reputational intermediaries to guide our decision making.

Because the media has focused so much attention on the business people that have done unethical or illegal things, we may have overlooked an important societal change that has taken place – one that doesn't bode well for any of us.

Look, the truth is that there have always been “bad apples” in commerce, and there always will be. Does that mean we should not set and strive to maintain the highest ethical standards in the marketplace? Of course not. But strive as we will, our “bad apples” will be with us.

But let's look more closely at what has happened over the past four or five years.

## Slide 49 – List of Issues



### BUSINESS ETHICS

#### In the News

- Enron
- Chicago Stock Exchange
- New York Stock Exchange
- Putnam, Morgan Stanley, Prudential Financial
- Merrill Lynch
- Morgan Stanley
- United Way

Let's take another look at some of these companies that have made the news.

- **Enron.** Hidden partnerships, overstated earnings, mis-valuation of assets. As investors and employees,

we relied on the independent auditors, Arthur Andersen, to discover, and even to prevent, these transgressions. But they did not, or at least they did not reveal to us any of these problems.

- **Chicago Stock Exchange.** Recently, the SEC ordered the Chicago Exchange to improve oversight of trading practices; it found that CHX failed to detect violations of trading rules by its members--and-- when it did find violations-- that it often failed to take appropriate disciplinary action.
- **New York Stock Exchange.** The Compensation and Benefit Committee approved a \$187 million compensation package for the CEO. Many Committee members were regulated by the Exchange and were hand-picked by the then-CEO.
- **Putnam, Morgan Stanley, Prudential Financial, and other mutual funds.** A number of the funds were allowing large investors to trade after the market closed, based on the closing price that day instead of the next days' closing price. They were also accused of permitting trading timing, the frequent trading of shares, contrary to usual fund investment practices. The funds often did not know on whose behalf they were bending the rules-- the shares were traded by brokers who held them in street name. As a former SEC enforcement chief said, it is these brokerage "intermediaries" that are the source of the problem.
- **Merrill Lynch and the Investment Bank conflict of interest scandal.** Investment analysts recommended stocks that they privately acknowledged were not very worthy. In one case an internal email was discovered referring to

the security the analyst recommended as "crap." They did this to curry favor-- so they would get very large future deals-- like IPO placements. Ten banks recently agreed to pay \$1.4 billion-billion-- to settle these charges.

- **Morgan Stanley.** A \$50 million fine was levied by the SEC for steering customers to the funds of certain investment banks, for undisclosed extra compensation, and in return for the banks' steering brokerage customers to them.
- **United Way.** This older one may have been a warning shot. United Way was found to have weak Board governance, poor financial controls and irresponsible perks for its CEO, who was sent to jail.

Investment banks; charity umbrellas; CPAs; stock exchanges; stock brokerage houses. What is going on here? Is there a common thread? -- I think so.

The very organizations we rely on to help us sort through a complicated marketplace and find reliable companies and investments and products and charitable causes-- have themselves breeched the trust we put in them. Ethics violations by these organizations can actually put us in a worse position than had the marketplace not relied on them in the first place. Better Business Bureaus understand this. We appreciate how the public relies on our reports about company performance and adherence to our standards-- and how our members benefit from the validation they get from their relationship with us.



Undermined

Self-Regulation



### Slide 50 - Undermined

The long term implications of the heightened skepticism might be profound. Self-regulation as a viable public policy is now in play. Can it work? Do the self-regulators need to be regulated? Will public support for self-regulation disappear? The fall out from this could extend far beyond the

securities markets - to all sorts of self-regulation initiatives -- by trade associations, professional societies, indeed, the Better Business Bureau itself.

We should not underestimate the importance of self-regulation to the US economy -- or its fragility. Why do we take self-regulation so seriously in the US? It's probably because of our respect for free markets, and our strong desire to be left alone. We believe that government should legislate to remedy known problems. We generally do not want our government to anticipate problems that might arise-- to devise solutions to hypothetical issues. We want more focus --remedies narrowly tailored to fit the circumstances. This is a key difference between a common law and civil law heritage-between the US and Europe.

Self-regulation plays an important role here. It allows the business sector to provide broad stroke protections for the public-to fill in the gaps left by legislation... It allows flexibility and nimbleness-responsiveness to change-and it provides confidence in the markets and in the minimalist legislative strategy we have adopted. Does self-regulation work in the US? I think it works well.



## Slide 51 Privacy

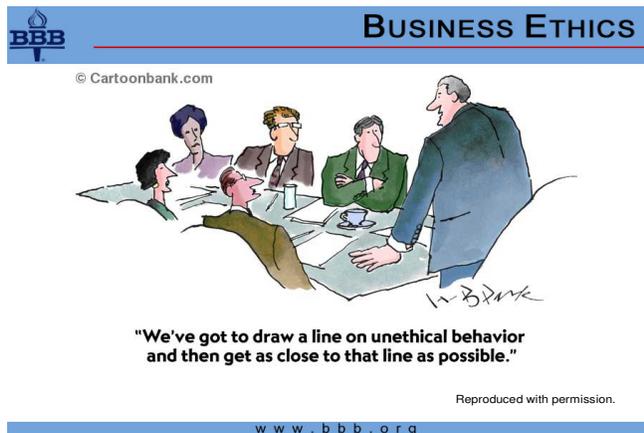
One example is online privacy. We characteristically have relied on a combination of approaches to deal with privacy concerns. Individual company compliance with industry norms as the first line approach; concerted action by associations and other groups like the BBB to promote best practices is next;

and legislation only for the most sensitive issues-financial services and health, for example.

While there is still some pressure for broader legislation, it was interesting to see a Consumers International study a year or so ago that concluded US web sites were more likely to have helpful privacy notices-these are the notices explaining how personal information would be used -- than was the case in Europe. This was so even though US conduct was generally voluntary, and European behavior was heavily regulated. Self-regulation can and does work. So, why am I worried?

## Slide 52 – Draw a line

First of all, many do not trust self-regulation. The media and lawmakers alike have made the connection between recent corporate ethics failures and self-regulation -- we read the charges every



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day and the calls for new laws and controls over self-regulation. One of the earliest responses to Enron was heightened regulation of the auditing profession.

Interestingly, although the accounting profession initially fought these reforms, it has emerged as a stronger, more muscular marketplace force.

Indeed, even a respected online research firm like Forrester Research has questioned the integrity of self-regulation because it is paid for by business. Of course it is. It is "self" regulation, after all. Who else will pay for it? Even more recently, proposed legislation to curb spam was attacked by some because of incentives for self-regulation built into the legislation. I should not be making fun of this challenge -- the fact that funding for self-regulation comes from business can raise potential questions of integrity and transparency. But I abhor the wholesale rejection of the concept simply because business supports it.

A second reason for my angst is that the acceptance of self-regulation as a reasonable approach is not widespread outside the US, and, where it exists in some form, it is practiced very differently. They even use other terms--co-regulation and regulated or audited self-regulation-- to express a heavier government involvement than we are used to here. The emerging ethics scandals will likely fuel greater foreign suspicion, which in turn will eventually have an impact on its acceptance in the US.

### **Slide 53 – Globe**



#### **International Impact**

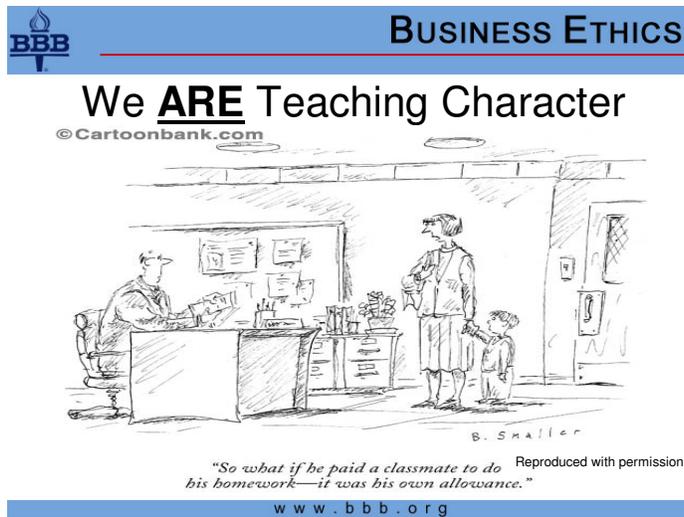


I am also worried that in this era of globalization and e-commerce, acceptance of self-regulation is needed more than ever--wariness about it comes just at the wrong time. Traditional government regulation is

not at its best in cross border situations. What is needed are new forms of governance that will rely on voluntary self-regulation. But that will not happen if the public is suspicious of all of us.

What can we do? We need to understand that our concern about business scandals is not really about business ethics as such – it is about education failures, about family influences or the lack of them. It is -- as Skipper and Bill have said -- about character and individual responsibility.

### Slide 54 – We ARE Teaching Character



It occurs to me that self-regulatory organizations, much like individuals, can focus on character as a way to rebuild confidence-- and to succeed in their missions. Character is what we are here today to celebrate.

We at the Better Business Bureau understand this-we are part of a broad public interest movement, and we have devoted ourselves to our missions, because we believe that we serve nobler purposes than only making money or achieving prestige.

Self-regulation organizations – reputational intermediaries -- need to remember that the public relies on them, and that they have an obligation to make decisions -- take every action, every day-with the larger public interest in mind, however painful that

might be in the short term. Perhaps some aspects of self-regulation need to be divorced from the profit motive so that the higher purpose to be achieved--our destiny-- does not get lost in a morass of conflicts of interest.

Like individuals, organizations need to be conscience-driven as well. We must always strive to do better, and to make decisions on principle and not expediency. What companies do we recommend? What decisions do we make in cases?



## BUSINESS ETHICS

### The Truth . . .

. . . Shall set you free

. . . But first it will make you miserable.

Attributed to President James Garfield

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miserable."

- **ATTR James Garfield**

We must recognize that truth is much, much more than the absence of a lie. Recall the oath administered in court - "to tell the truth, the whole truth, and nothing but the truth." Honesty -- with oneself and with others. Not covering up; recognizing our limitations and acknowledging them; telling our friends, family and colleagues what they need to hear about themselves, however uncomfortable that may be.

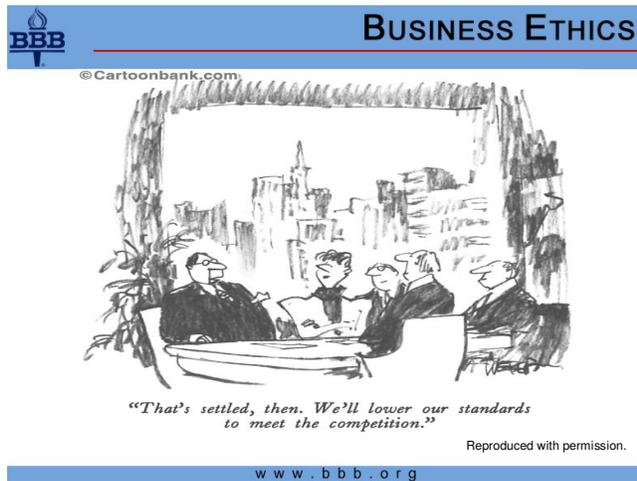
### Slide 55 - "The Truth Shall Set You Free"

Our primary guide through life must be truth. We have all heard the expression, "the truth shall set you free." Well, my friends, the full quote -- allegedly from President Garfield, of all people, was --

- "the truth shall set you free . . .
- . . . but first it will make you

The relevance to self-regulatory organizations should be obvious. The whole truth about our members, our investment portfolios, our corporate research subjects, our auditing clients must be exposed, even if it hurts-- and it will. Our decisions and our procedures need to be transparent-put on public display -- so that our efforts, our judgments, can be measured and evaluated by others. Membership decisions – finances – governance -- qualifications of staff and decision-makers -- the bases for recommending companies or investments -- or adjudicating a case one way or another -- all should be exposed to scrutiny.

### Slide 56 – Lower our Standards



Some of this truth telling might well make us miserable in the short run -- we may lose lucrative business opportunities -- even the resources we need to serve the public. But if we don't lower our standards – if we do serve the public interest – it will build an atmosphere of trust that will serve us

well in the long run.

Reputational intermediaries are often asked how we can be truthful about our members or clients when they provide our revenue support -- sort of the Forrester Research point. We answer that we don't have a choice -- if we lose our reputation, we will have nothing of value to offer our members or clients or customers in the future. Honesty, we say, is in our self-interest. Some intermediaries seem to have made a calculation and decided that the gains from stepping over the line outweighed

the risk to their reputations. This was a gross miscalculation -- our answer is the right one -- we don't really have a choice.

For self-regulation organizations it seems clear-- we must tell our members or customers when they are meeting high standards, and when they are not. It means telling them what they need to do to pass muster--and risk losing their membership or business if they don't like what we have to say.

I am very optimistic we at the Better Business Bureau, inspired by the examples of leadership, humility and conscience shown by the torch award winners today and in so many other communities around the United States and Canada, can be the leaders for self-regulation and business ethics that our countries needs - leaders by example, not by preaching. I am reminded of a quote has been ascribed to General Norman Schwarzkopf:



## BUSINESS ETHICS

### A Bright Future

"Leadership is a combination of strategy and character. If you must be without one . . .

. . . be without strategy."

General H. Norman Schwarzkopf

### Slide 57 – Quote

"Leadership is a combination of strategy and character. If you must be without one, be without the strategy.

Thank you for your patience and your attention.

## Slide 58 – Congratulations



**BUSINESS ETHICS**

# Congratulations!

**2004 Honorees**  
**BBB Torch Awards**  
**for Marketplace Ethics**

Better Business Bureau  
Bryan/College Station  
Serving Brazos Valley  
and Deep East Texas



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Congratulations to all of the entrants and winners, and thanks to Skipper, Bill, Larry and all of you for reminding me why we do what we do.