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The Reality of Ethics in Corporate America: the case of AIG

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ABSTRACT: *The aim of this paper is to delineate through a case study the erosion of morality, ethics and values in corporate America. The economic and moral challenges that businesses face today, it is suggested in the paper, is based on the fundamental principle of corporatism, which encapsulates a culture of profits at all cost, and thus the era of corporations as stewards of society is long gone. This paradigm shift in Corporate America serves to undermine ethical and moral principles that should be driving force and core ideology of businesses. This paper will explore the culture of unethical behavior at the American International Group (AIG).*

Keywords: Case study, Corporate America, Morality, Ethics, Corporatism, Paradigm shift.

American business enterprise is an endeavor that is more than two centuries old. The industrial revolution helped American businesses transform the United States from a largely rural country, with comparatively little infrastructure or interstate commerce into a dynamic world power, with multitudes of large urban areas functioning as densely populated networks of domestic and international trade and commerce. Over the course of time, American businesses became larger and more advanced as the limits of technology and resource allocation continued to advance. As businesses began to grow and form large corporations, the beginnings of the ideals of corporate America came about. Corporate America came to encompass the values and practices that were championed as industry benchmarks by the largest and most successful American businesses. Though there were always exceptions to high-minded and ethical business leaders at the helm of such large corporations, the majority of these sizeable business entities seemed to understand that the necessary function of maximizing shareholder value and the pursuit of profits was not a mutually exclusive goal of approaching both short and long-term business operations and strategies with an ethical and moral perspective as to how such plans and strategies should be carried out.

However, the last decade or so has seen a noticeable decline in the emphasis placed on moral and ethical conduct in corporate America. Where once large American corporations were paragons of industry for the rest of the world to emulate, several high-profile companies such as Enron, WorldCom, AIG, and most recently Stanford Financial have become mired in embarrassing and far-reaching moral and ethical scandals. These instances usually relate to some sort of financial or accounting fraud, perhaps where earnings have been artificially inflated by massive amounts of dollars that do not actually exist, or firms have sought the assistance of the company's accounting or auditing vendors to aid in the cover-up or help in the fraudulent and unethical activities.

What factors have brought about this moral and ethical decline in corporate America?

This paper will try to answer that question, beginning with a discussion about the recent decline in ethical principles, as well as potential reasons behind this disconcerting trend, and what techniques and measures can be implemented in an attempt to help managers in small companies as well as large corporations accomplish their important business goals without having to rely on unethical behavior in order to accomplish these ends. The hedge fund scandal at AIG, one of the largest insurance companies in the world, will serve as one example and be discussed.

However, on a broader scope, an analysis of what can be done to try and prevent future similar situations from occurring is also needed, if there will be real lessons learned, and applied from the unethical business practices in businesses entities.

The rationale for this research is to understand the reasons behind the recent decline of ethics in corporate America by focusing on what management can do to effect the change and then establish conclusions about what policies or procedures might be put in place to have a positive effect in other areas of American business. The hope is that if more people are educated in an ethical sense, this will translate to more consumers directly requiring—through their dollar votes--business leaders to have a new appreciation for honest and fair dealing in all aspects of company policy, procedure, and disclosure.

The goal of any such research is to not only inform the reader and arouse their attention on the subject, but to also serve as a catalyst for serious discussion of the issue as it concerns the ethical practices of the individual, business, and government entity. In order for there to be real change in this ethical and moral decline in corporate America, more people need to take charge of their role as stakeholder, stockholder, or just as a society member in general, to do what they can to demand that the manufacturers and producers that serve their interests are delivering high quality goods and services in a fair, moral, and ethical manner.

It is hoped that such a topic of research will continue to serve as a touchstone issue, not only in the business school classroom, but also in the business arena, which is the true test of how an important change is implemented or how one is taking hold. What is occurring in the field so to speak; how are ethical and moral approaches to business practices and codes of conduct in corporate America really working in day to day activities? Are these measures successful? Are they not? If so, how can one further the application of such policies and procedures? If not, what can one do to try and instill the idea that an ethical and moral approach is the better way to go about running a business, be it a small company or a massive corporate enterprise. Overall, the aim and objective of this paper is not only to inform the reader on the topic, but to challenge the reader to think in a more ethical and moral manner themselves.

Introduction

Before examining the specific example of AIG, it is helpful to review some of the other literature and source material on the topic of the decline of moral and ethical values in business. When studying ethical practices in American businesses, it is important to note that it is usually not one person who is completely responsible for whatever unethical incident that has occurred. As Turner (2006) states, poor ethical behaviors are often the result of interaction among several individuals that have rationalized their values. Thomas, Schermerhorn, and

Dienhart (2004) found that in the 12 months following the crisis of Enron in 2001, 13 of the largest corporate bankruptcies in U.S. history were filed--each had been involved in unethical business practices.

In fact, recent media coverage suggests that Fortune 100 companies, businesses that should be largely viewed as paragons of industry, reveals that many of these corporations have at least drawn undesired press attention to themselves for some sort of unethical practices. It's a realization that these unethical practices are becoming more common and such incidents are being documented at more and more major American corporations. According to Cornehis (2004), "What was originally proclaimed to be one or two rogue corporations and their executives enriching themselves and their friends now has become a flood of reported ill-gotten gains and financial irregularities" (p. 29). There are unethical leaders from almost every profession, industry, and type of business (Turner, 2006).

So, what conclusions can be drawn from these facts? It seems as though the problem with unethical practices in American corporations begins with typically a group of senior management executives who then convince enough key decision-makers or board members that whatever the company is doing, is doing so for some sort of collective good or the actions taken are perhaps bending the rules, but not breaking the rules. While it's usually not the case that just one person's actions lead to an entire corporation's unethical practices, a top manager or board member can have a particular influence. Such is the case with AIG, where the CEO, Hank Greenberg, managed the company in an almost autocratic fashion. The AIG scandal bears mentioning how a group of top managers can begin to project their rationalizing approach to others by making unethical business practices seem less disagreeable to engage in. This line of reasoning begs the question of just what makes up a corporation.

A business entity such as a corporation only exists as a group of human members who ideally are all working harmoniously towards the same goal: financial stability from operating the business in an efficient and effective manner. However, if the individuals of a corporation began to stray into unethical and morally questionable practices, can one hold corporations accountable? Or, does one limit the culpability to the individuals who are responsible for condoning or allowing such unethical practices?

Rationalization

There are many factors that can be considered in explaining the decline of ethics in American corporations. It could be argued that unethical behavior increases because many malpractices go unnoticed (Shaw, 2009). Further, many times corporate executives never see or meet the victims of their ill actions, thereby making the crime appear victimless. This rationalization can lead to more unethical behavior (Zyglidopoulos, Fleming, &Rothenburg, 2009). In addition, the globalization of the marketplace and increased competition has in led to un-ethical behavior as managers engage in creative accounting to increase profits (Epstein, 2007).

Similarly, in a recent study, Martin, Johnson, and Cullen (2009) have found a potential correlation between organizational change and corruption. Given the turbulence of today's marketplace, change is likely the most prevalent and consistent aspect to any organization. As part of the Martin et al. (2009) framework, they suggest that organizational processes are composed of human behaviors, actions, and shifting social structures. Thus organizational change may in fact set the stage for corrupt practices.

However, Tenbrunsel and Messick (2004) contend that the process of self -deception is the root cause of unethical behavior. They suggest that the consequence of self-deception is the fact that decisions are made by managers without considering the moral implications. This decision process they call ethical fading; which allows individuals to behave in ways that they normally would not and not realize that they are doing so.

Be it as it may, it is pertinent to note that ethical decisions involve a trade-off between self-interest and personal morality. When avoiding the moral implications of a decision, managers can behave in a manner of self-interest and still feel that they are ethical (Tensbrunsel & Messick, 2004). It still remains unclear as to whether this self-deception is held in the conscious or unconscious part of the brain.

Managerial Decision Making

Managers encounter situations on a daily basis that require them to make decisions that may have ethical implications for the organization of which they work. It is important for organizations to have assurance that managers will act in compliance with ethical standards across a wide range of circumstances. Hopkins, Hopkins, and Mitchell (2008) have researched managerial decision making and concluded that managerial decisions vary depending on the type of ethical situation that they encounter. Their research has led them to look at unethical behavior in three categories—bribery, discrimination, and social responsibility. In regards to bribery, it has been concluded that globalization will bring managers from different countries into situations where they are likely to be faced with whether to accept or pay a bribe (Hopkins, Hopkins, & Mitchell, 2008).

Research on organizational diversity has suggested that women, racial minorities, and other stigmatized groups face work discrimination. Hopkins et. al. (2003) have drawn the conclusion that discrimination in the workplace will provide a challenge to the ethical decision making capacity of managers due to perceived and real cultural decisions.

Social responsibility as an ethical decision making tool seems to not be on the radar of some American companies (Hopkins et. al., 2003). This research further concluded that the concept of corporate citizenship has been adopted to help minimize breaches in ethics and social responsibility in ethical decision making.

In light of the view espoused by (Hopkins et al, 2003) that managers decision making approach is situational, can it be assumed that gender doesn't play a role in the decision making process? Research has implied that men and women do, indeed differ in their ethical decision making rationale. Hopkins et. al. (2003) concluded in their research that the overall effects of their decisions are equal across various ethical decisions. On the other hand, they determined that women are not consistent in their ethical decision making because women base their final decisions on the greater good of each situation presented. Although, it has been noted that gender does not play a role in the likelihood of unethical decision making

Salvador and Folger (2009) have looked at the cognitive side of decision making. In their studies they have found that ethical decision making is not associated with other forms of brain process thinking. This study suggests that ethical decision- making and other forms of decision making involve multiple parts of the brain. In essence, ethical decision making has nothing to do with the intellectual ability of a person; rather it entails many other neurological mechanisms that are different from other mental processes (Salvador & Folger, 2009).

Analysis and Discussion

If it has been established that individuals are ultimately responsible for unethical practices in businesses, how does society intend to counteract these practices? It would seem that a mixture of several approaches to curbing ethical violations is in order, ranging from instituting fundamentally new business ideas and codes to effectively communicating these new policies as the only proper way to go about daily business operations. To reshape an unethical organizational culture, leaders must employ ethical and moral codes as a standard. Reshaping an unethical organizational culture requires all individuals to look beyond themselves and focus on higher purposes (Turner, 2006).

Measures to Address Ethical Behavior

Turner (2006) further goes into several measures that can be used to accomplish this goal. These measures include: Communicating a clear vision, incorporate ethics policy and an ethics hotline, creating leadership training that focuses on accountability, and avoiding a group think culture. In all, a strategic ethics plan should ultimately be the goal for every organization.

Mission statements that have a clear and concise message address the issue of ethics within an organization. According to Bartkus and Glassman (2008), firms can successfully address all issues related to stakeholders by mentioning them in the mission statement. In essence, a mission statement is often what holds companies accountable and employee's look to them as their guide for what is most important to the firm.

Related to this, simple measures taken by management to reinforce positive company values and reassurance of the organizational concern for employee welfare may offset the acceptance of corrupt behavior (Martin et al., 2009). Ultimately, controlling the situation before the conditions of corruption arise should be a priority within the organizational structure. These measures would institute a sense of ethical values in organizations by imparting a sense of duty for top management and all employees.

Only when there is a fundamental shift away from unethical practices toward ethical business dealings, will the decline of ethics in corporate America successfully be reversed. It is hoped that the techniques articulated in this paper, along with other approaches such as instituting changes in codes of conduct, corporate governance, and formal ethics training, will stem the continued unraveling of large American corporations who have been exposed for acting unethically.

AIG's Hedge Fund Scandal: a Case Study

Before recent headlines of government bailouts, AIG faced its first major scandal several years ago. Among these scandals, AIG's hedge fund incident necessitates a careful analysis: not only because it destroyed the career of one American business giant, CEO Hank Greenberg; but it may also serve as an example of how more legislative oversight and scrutiny is needed in this industry.

The root of the company's misdeeds came from a controversial financial product known as finite insurance. Finite insurance has been viewed as a way for corporations to retain risks without really retaining them and transfer risks without really transferring them. For example, if an organization suffers a loss today, a finite contract can spread out that loss over time (Katz, 2005). However, the problem with such product is how a company records it with respect to generally accepted accounting principles.

Finite insurance is just like a currency trading deal in which one places a forward contract to receive a dollar today in exchange for a dollar tomorrow. In this regard, finite policies should be considered as a loan that can sometimes be used improperly. For instance, in 2000, AIG consummated a business arrangement with General Re. In this deal, General Re provided $500 million in finite insurance policies that AIG used to improperly embellish its financial statements, in order to bolster its stock price. In return, AIG paid General Re a 10% fee for moving these finite contracts off its books. Because these transactions are complicated and ambiguous, its nature should be scrutinized from an insurance and accounting perspective. Indeed, the deal involved two instances of $250 million reinsurance transactions taking place between December 2000 and March 2001, during which a consolidated net premium written and a consolidated net loss reserve, increased AIG's fourth quarter of 2000 and first quarter of 2001 financial results by an equivalent $500 million amount ("Accounting for abusers," 2005).

The second part of the transaction remained in AIG's books and helped to resolve the issues of insufficient reserves raised by its shareholders. This practice raised concern to anyone scrutinizing the company's books, while AIG compensated General Re for such assumption of risk by paying the company $500 million. As a result, AIG appeared to be losing money when the company was really making it. Consequently, this deal happened without any evidence of risk transfer, and, as such, would be considered a loan rather than an insurance product. Further, AIG concluded that the General Re transaction documentation was improper and would reclassify the consolidated premiums as a deposit ("Accounting for abusers," 2005). This example demonstrates that the AIG—General Re deal was accounting fraud and an apparent effort to deceive shareholders and analysts.

During the time of this hedge fund scandal, leading the team at AIG in the seemingly, unethical dealings was Hank Greenberg. People had characterized him as charming but he was also tough, demanding, impatient, focused, tireless, and tenacious (Leonard, 2005). Greenberg was also infamous for his harsh treatment of employees, customers, and competitors. He was considered very tough and his managing style was a strong dose of centralization. This helped him become one of the most feared CEOs in American business, as he was consistently manufacturing an atmosphere of constant crisis. He was a screamer and was especially hard on those who showed signs of weakness (Leonard, 2005). He also kept the company shrouded in secrecy. During his time as CEO he persuaded everyone that nothing happened without his knowledge (Leonard, 2005).

During Greenberg's time as CEO, the corporate culture of AIG was one of a continual drive for top performance. The constant challenge was to push AIG to become bigger and better. The goal was to produce spectacular results; but no one could really understand how these results were happening. For example "one employee even described a meeting about the matter at which Greenberg had asked: Are we legal? However, when an employee responded: If we were legal, we wouldn't be in business, Greenberg began laughing, and that was the end of it" (Leonard, 2005). Under his reign, the company had a do whatever it takes to make the numbers mindset. Even his defenders have stated that they "don't deny that he may have played games with AIG's numbers to embellish the company's financial results, but argue that any such accounting moves didn't constitute criminal acts" (Leonard, 2005).

But even after Greenberg's departure, his successor as CEO, Martin Sullivan, responded simply: "We did what was right." In the future, he added, AIG will prosper "with the right controls and checks and balances in place, and the right level of compliance--as well as candidly adding--those goals are not mutually exclusive." A new era has begun at AIG, he said: "I have a different style. One of my abilities is to get the best out of people, in the right way. It's the parts that make up the whole. It's not a one-man band" (Leonard, 2005).

The Aftermath of Unethical Behavior

In the specific case of AIG, after the hedge fund scandal they implemented a corporate governance manual, employee code of conduct, and an overseeing audit committee. While the measures taken were a step in the right direction, recent media coverage about AIG suggests that these measures weren't enough to prevent a breakdown in the ethical code of executives within the firm. Indeed, it appears that codes of conduct may only be as good as the people charged with enforcing them.

Federal Guidelines

In the aftermath of corporate scandals in the 1960's, 1970's, and 1980's, some companies adopted and encouraged codes of conduct, while others adopted them as a matter of good public relations (Their Corporate Codes, 2003). Then, in the 1990's the Federal Sentencing Guidelines for Organizations, provided that if a company was found guilty of criminally liable because of the its employees' actions, the company would be able to reduce its penalties by showing proof that they have an established ethics program to prevent and detect violations of the law (Their Corporate Codes, 2003). Further, having a code of conduct may help to facilitate good behavior and may prevent misconduct that could make the company ultimately liable.

Formal corporate codes of behavior, codes of conduct, and ethics training have been highly accepted by legislatures during times of corporate scandal and crisis. Most recently, the Sarbanes Oxley Act of 2002 was legislative response to the corporate crisis surrounding Enron and others (Their Corporate Codes, 2003). The enactment of Sarbanes-Oxley intended to allow for way to have more effective monitoring of publicly traded companies, their employees and contractors by clarifying the standards of corporate governance and disclosure of information.

Managerial Decision Making

According to Premeaux (2009) there has been a significant change in managerial decision making. With the convictions and jail sentencing of executives from companies like Enron, AIG, and General Re there appears to be a shift in the decision making activities by management. Premeaux (2009) also suggests that business scandals of the past did not really impact ethical behavior much.

Tenbrunsel and Messick (2004) suggest that ethical numbing in some management decision making occurs because of repeated exposure to ethical dilemmas that never resulted in a negative outcome. However, the public aforementioned convictions and jail sentences have impressed on managers that now they must start to incorporate ethics into business decisions.

Corporate Ethics Programs

There are varying schools of thought on the effectiveness of corporate ethics programs. Some organizations use a reactive approach to ethics training, where it is a defense mechanism to help the organization avoid legal ramifications of a perceived wrongdoing. Then there is the proactive training, which consists of an ongoing ethical training program that typically impacts the entire organization and staff. The ultimate goal of any ethics program is to create a culture where everyone knows the importance of doing the right thing, even if it means losing money for the company.

It would seem that the sacrifice from losing profits is worth the long term benefits of having an ethical culture that is embraced by all. The ultimate question is; do ethics programs really work? If so, how does the organization get buy in from all stakeholders to embrace the ethics culture? It proves to be of importance to stakeholders that when it comes to ethics programs that the organization will actually live up to the rhetoric and actually walk the talk.

Arguments for Ethics Programs

Ethics training programs have grown substantially in the last twenty years, with the rise of public corporate scandals. Although, the depth of ethics training is modest, about a half day or so a year, West and Berman (2004) found that organizations are focusing on the reinforcing management priorities. Stansbury (2009) found that standardization and some codification of norms may be necessary to help in management decisions. For this argument, Stansbury (2009) suggests that many managers often encounter problems that there is no specific guidance or corporate policy to guide them through. In light of those types of instances, a strategic ethics program is needed to ensure that all decision makers have the tools needed to make ethical decisions without question.

Stansbury (2009) is of the notion that discourse ethics, a form of collective moral deliberation, has a positive impact on ethics programs. His argument states that ethical arguments within organizations are ever-changing due to societal changes and technology. In light of these ever present changes, discourse ethics should be a tool used in the implementation and the updating of codes of conduct, behavioral standards, and formal ethics training programs.

It is indeed an excellent and fundamental point to consider. Corporations can be seen as having codes of conduct or ethical guidelines to follow; however, if such measures and policies are only there as a cover or exist merely as an exterior ornament required by whatever regulatory board or agency, then the letter of the ethical and moral law may be followed, but certainly the spirit of it is not.

Company employees who may have received little or no education on the value and importance of ethics may have to adopt these principles over time. This will hopefully follow if the corporate culture is successfully transitioned into more of an ethics and morals-first approach. However, for young aspiring business professionals, an ethics education early on in their professional career certainly helps to indoctrinate these values in them, to an extent that may not be as easy to assimilate years or decades later, when a person is already firmly entrenched in whatever career path they find themselves in.

Arguments against Ethics Programs

For every argument in favor of formal ethics training and programs, there is a compelling argument against the validity of such training. Tensbrunsel and Messick (2004) argue that ethics training is ineffective because it has a narrow focus. In fact, they argue that because typical ethics training has the standard overview of ethical theory, principles and applications, that it leaves out the major human component. The notion of self-deception is left out of the equation, where a manager may not see all aspects of a moral decision. Ethical fading, is the process by which morals are skewed and an ethical decision is void of moral implications (Tensbrunsel & Messick, 2004).

Nevertheless, when looking at the specific case of AIG, it appears that their ethical improvements may have only been for legal requirements that they were forced to comply with and not improvements based on a change of overall philosophy. According to Verschoor (2005), taking the legalistic and ethical approach may allow an organization to reach compliance but it doesn't hit the crux of the issue. Employees, vendors, and investors must have ethics as a core operating value.

There have also been concerns amongst researchers that, inconsistencies between ethics committees pose problematic. Ashford, Edwards, and Kirchin (2004), found that some inconsistencies among ethics committees are bad because they are based on irrationality, conflicts of interest, or carelessness. However, they found that in certain fields a certain amount of variation could be a good thing. Consistency amongst ethics committees will only prove to be consistent when all regulatory and governance processes are in agreement (Ashford et al, 2004).

Perhaps, the biggest argument against ethics training is the lack of management understanding for why they are being formally trained in ethics and anti-corruption. West and Berman (2004) found that in city entities that did not have a real ethics strategy that involved ethics audits and needs assessments had sub-par outcomes. When all organizational members aren't clear to the why the training program exists and aren't given the appropriate tools to succeed, there is typically a lack of buy in resulting in a failure to embrace the intended audience.

Conclusion

This analysis of the important issue of the ethical, decline in corporate America has sought to discover some of the main causes of such behavior, and what measures can be adopted to try and create more of an ethical and moral corporate culture. The effects of such behavior have been particularly devastating to company stakeholders, stockholder, and society members in general in recent years. The crisis of poor ethics in corporate America has jeopardized public trust, caused an erosion of organizational cultures, created human suffering, caused unemployment, and profit losses. These ethical issues may also cause a loss in corporate competitive standing, erosion of the American economy and standard of living (Turner, 2006). Obviously, this is a serious issue; one that impacts many Americans. It's equally serious then, that society's response to this corporate ethical and moral dilemma is well planned and executed.

Beyond the specific example of AIG used in this work, what does society really need to do to try and counter this decline in moral and ethical values in corporate America? The answer seems to involve both business leaders and educators. Organizational leaders and educators should help make a proactive change toward ensuring high ethics within the area they lead. Some of the largest firms in the U.S. have allowed several individuals within the culture to rationalize their values and it has ended with disastrous results. It is up to organizational leaders to turn this around and create ethical workplace cultures.

Overall, it is the goal of this paper to help stimulate a dialogue on how the decline of ethics in corporate America can be stemmed. From analyzing and discussing a sampling of the current research, as well as critically examining the case study surrounding the history, hedge fund scandals at AIG, one can gain a good sense of where a lot of the problems lie. The research of this paper suggests that an ethical awareness in the boardroom is of critical importance to a fundamental reshaping of our corporate culture. If the United States is to maintain its position as being a relevant economic player as well as a leader in world business and corporate affairs, more of a sense of ethical mindness approach should be consistently taken. Large corporations should be held up as an example of industry efficiency, effectiveness, and championing an ethical and moral business culture to people both in the United States and around the world that may be watching.

America cannot continue to suffer this rash of high-profile corporate scandals or the very essence of the United States Corporation will be looked upon in an extremely negative light. Corporate America has to get back to the ideals of steady and long-term growth, instead of fostering this notion of instant results and rewards. The case can certainly be made that the ethical and fair approach to business will benefit everyone directly or indirectly involved in the long run. There are a number of strong arguments supporting the view that ethics should be brought into business. Taken together, the arguments—some philosophical and some more empirical—suggest that businesses are shortsighted when they fail to take the ethical aspects of their activities into consideration (Thomas et al., 2004).

Ethical practices have a vital role to play in corporations. Through education and leadership by example, strive to infuse small businesses and large corporations with these important principles. All have seen the huge social, financial, and cultural cost of not doing so by the major corporate scandals in the last ten years. Hopefully, the next decade and beyond will reflect a paradigm shift to a more ethical corporate America.

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