

Editor's Note: The challenges of today's business world test the character of individuals daily. Exposing students to real-life decisions gone wrong, like those of Barry Minkow, author of "Cleaning Up – One Man's Redemptive Journey Through the Seductive World of Corporate Crime," Northwood's Omniquiest selection for the winter semester, provides invaluable lessons in making ethical choices. Minkow, along with several other experts on ethics, shared his insight on maintaining integrity in the current business environment.

Barry Minkow never intended to swindle investors when he started up a carpet cleaning business while still in high school. By the time Minkow was 19, his company, ZZZZ Best Co., went public, and the company's stock value soon soared close to \$300 million. In the aftermath of the investigation, it was revealed that the true value of his company was less than \$50,000. The rest was a

FRAUD

Living Ethics

A **true** test of character

Minkow was heralded as a financial whiz kid in the go-go 1980s, a savvy entrepreneur with a knack for making money. But Minkow's fledgling business empire in southern California was built on a mountain of deceit. There were falsified profit statements, shell companies, insurance fraud, phony contracts, all wound together with a web of lies that federal investigators finally untangled.

Minkow's star crashed in 1987 when he was indicted on charges of securities fraud.

Minkow, now a pastor and a national expert on business ethics, paid dearly for his misdeeds, spending seven years in federal prison – far longer than better-known

white-collar criminals such as Michael Milken or Ivan Boesky. Following his release from prison, Minkow began assisting federal authorities to help uncover millions in fraud, using his knowledge to put a stop to a slew of financial scams.

This summer, Minkow's Fraud Discovery Institute helped unmask the fraudulent investment scheme run by a company called Rainmaker Managed Living, which was offering a 25 percent return on investments. Minkow was hired by a wary investor this July to investigate. Minkow discovered that the company took investments from new customers to pay dividends to the corporate

officers and selected investors in what's called a Ponzi scheme. By late August, the Securities and Exchange Commission had shut down the operation.

Minkow's story is detailed in his recent book, "Cleaning Up: One Man's Redemptive Journey Through the Seductive World of Corporate Crime." Profits from the book are given to victims of his fraud. An anonymous donor recently gave Northwood 1,000 copies of the book for students considering a business career.

"I wanted to do what's right when I was in business, but I was prepared to do what is wrong," says Minkow, pastor of Community Bible Church in San Diego, Cal. "Nobody starts their business with the intention. But with untimely downturns and economic pressures, you can get your head turned in the wrong direction."

Minkow's message – that people in business must remain vigilant to withstand the temptation to cheat – is an important one in today's corporate environment, which has seen accounting scandals bankrupt corporations such as Enron and WorldCom and put the Arthur Anderson accounting firm out of business. Other corporate executives, like WorldCom President Bernard Ebbers and Tyco President Dennis Kozlowski, have been sentenced to prison terms.

Retired auto parts executive Edward Rosebach, who teaches ethics at Northwood's University College in Troy, Michigan, says these corporate scandals show the need for ethics training for today's younger managers who may become tomorrow's senior executives.

"It's critical today because I believe our national sense of morality and ethics have diminished over the years," he says. "There's a sense of arrogance or entitlement at some companies, a sense that executives can cheat a bit and they'll never be held accountable. The focus seems to be on not getting caught instead of good corporate governance. The ethics culture in corporate America was sliding and needed a wake-up call. Hopefully some of the more prominent indictments and convictions of business executives recently have been that call."

Tougher accounting standards, required through the federal Sarbanes-Oxley Act of 2002, have made top executives more accountable for the financial statements issued by their companies.

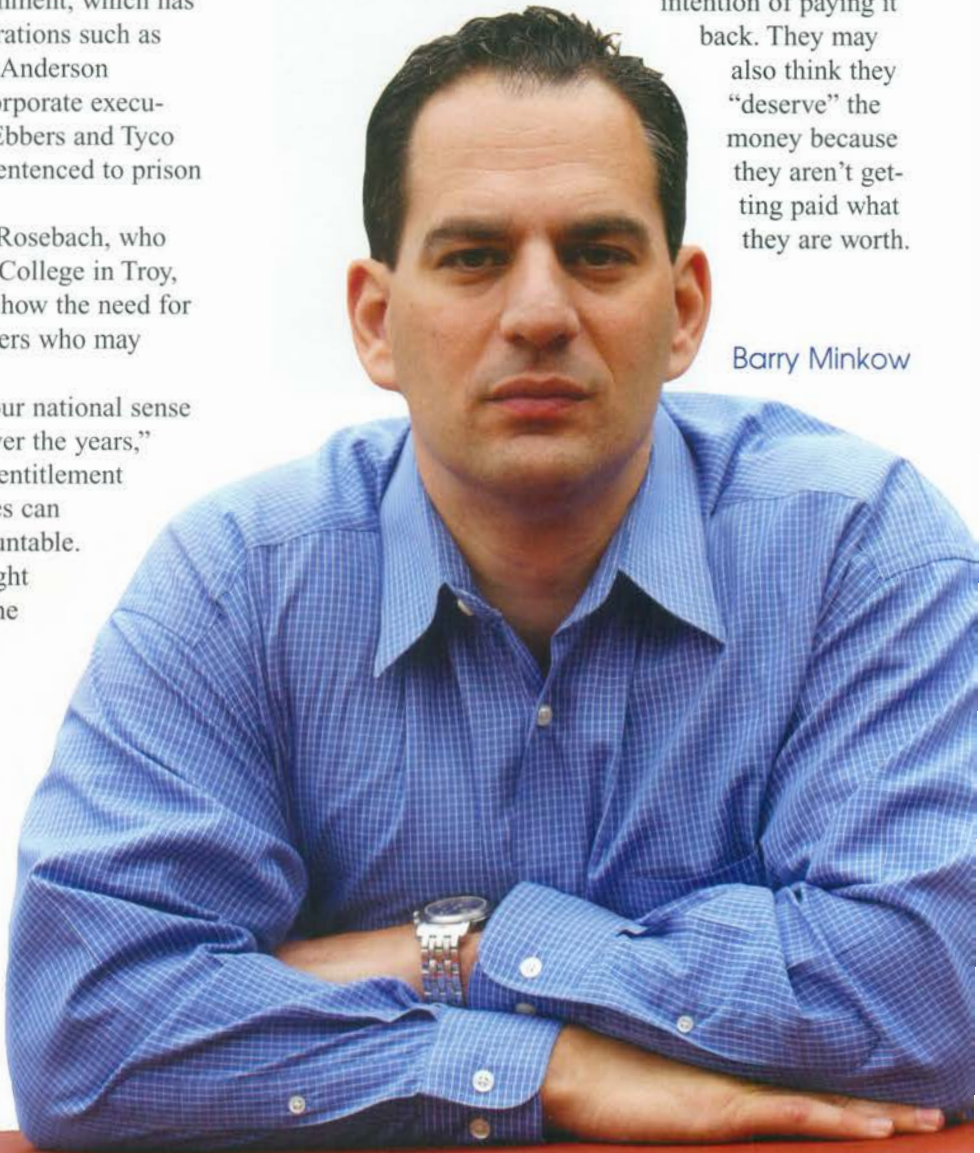
But forensic accountant Thomas Golden warns that the flood of corporate crime cases shows that no one in a

company – from the mailroom clerk to the chief executive officer – should be exempt from monitoring. Golden, who investigates corporate fraud for PricewaterhouseCoopers and resides in Chicago, Illinois, says one's most trusted business partner could be the guy with his hand in the till.

"Those who defraud you most likely will be those who you know and trust," says Golden, who spoke on business ethics earlier this year on Northwood's Texas campus. "Many managers feel that if you just hire honest people, you can be done with it. But that's not true. My message to students, managers and executives is that you have to maintain a professional level of skepticism about everyone."

Golden says many white-collar criminals are just ordinary citizens who get caught in a financial pinch, and may rationalize that they can "borrow" some money from their company as a bridge through the financial crisis, with the intention of paying it back. They may also think they "deserve" the money because they aren't getting paid what they are worth.

Barry Minkow



eth•ic: 1. A principle of right or good conduct.



Thomas Golden's message to students, faculty and executives on NU's Texas campus when he recently spoke as part of Founder's Day celebration, 'you have to maintain a professional level of skepticism about everyone.'

ny's purchasing department a \$200 dinner or an expensive gift just before they placed a major order.

"Expensive gifts or dinners aren't gifts," says Rosebach. "There's a difference between a well meant gift to show appreciation, and one with an expectation of something in return. The gift with a quid pro quo isn't a gift, it's essentially a bribe."

Ethics issues can also arise in the global economy, as American companies increasingly look to Latin America or Asia for manufacturing goods. Rosebach says students in his classes are urged to rely on home country and company ethical values when operating in a foreign land. He says that was especially important in the automotive supply business.

"The business community is getting smaller and material comes from all over the world," he says. "Managing a competitive and profitable business on a global scale can be a constant session of mental gymnastics – is it OK to do in Mexico City, Mumbai or Shanghai what I can't do in Detroit? If it's accepted

behavior there but not at corporate, should I do it? I believe the only way to act is using your home country and company policies. Short term you may be at a disadvantage when compared with local suppliers, but longer term you win while strengthening your company's ethical culture and business conduct policies. Companies enjoy making the front page of the *Wall Street Journal* with success stories, no company wants to be on it for ethical and business conduct transgressions."

Northwood instructor John D'Alessandro says teaching ethics gives him the opportunity to share his experiences selling real estate and owning his own business while engaging students in discussions about the issues of right or wrong in the business world.

"Many of these corporate criminals are good people at heart who rationalize that it will be OK," he says. "They say their workload has doubled, they lost their old job and their new job pays less, and they rationalize that they deserve it. Then they go out and do something inappropriate."

In the case of a corporate executive, he might withhold negative information about his public company, fearing that its release would reduce the stock price, and hurt investors and stakeholders. The first lie to the public, or the first small fraudulent loan, can lead to bigger problems down the road, Golden says, when circumstances take a turn for the worse, bigger lies, or bigger loans are needed to cover the initial deceit.

"It usually starts quite small, and very innocently," he says. "And before you know it, the executive is spinning a tangled web of deceit that just keeps getting worse and worse. Many times, it's the lying that does them in. It's the cover-up that gets you into big trouble."

At Northwood, business majors take an ethics class in their sophomore or junior years so they can learn how to cope with the temptations that are sure to arise in the rough-and-tumble world of corporate America. Adjunct Professor Rosebach says one of the areas he covers is the difference between giving a token gift of appreciation—like a \$20 box of chocolates for the plant manager's secretary and staff at Christmas – and buying someone in a compa-

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t's critical today because I believe our national sense of morality and ethics have diminished over the years. There's a sense of arrogance or entitlement at some companies, a sense that executives can cheat a bit and they'll never be held accountable.

Edward Rosebach
University College Professor,
Northwood University College

mor•al: 1. Of or pertaining to the principles of right and wrong.

When he first broke into the field, D'Alessandro recalls he made some quick sales, but then saw his business tail off as his reputation in the field soured. He found out the hard way that doing right by his customers in suburban Pittsburgh boosted his bottom line. When he told his customers about a house's defects, they had full disclosure on what they were buying, and came to trust him. "Today there are specific rules governing the laws of agency that were not available when I started selling homes," he said.

"At the start, I'd do anything to sell a house," he says. "I would not out and out lie, but I certainly did not tell the whole truth. I'd look in the mirror and all I saw were dollar signs. My sole purpose was to make money and nothing else mattered. It became obvious after time that no one was sending me any customers. When I finally treated people right, I sold houses to people who had friends, and they became my best advertisement. My business boomed."

D'Alessandro, who teaches ethics at Northwood's Texas campus, says students learn ethical concepts rather than just a list of rules. The second and most important aspect of teaching ethics is the fact that students have to apply what they learn in the book to real life situations. For example, when Delta Airlines decided to close most of their gates at DFW airport earlier this year, D'Alessandro taught his students about the responsibility companies owe their employees and the community when they decide to

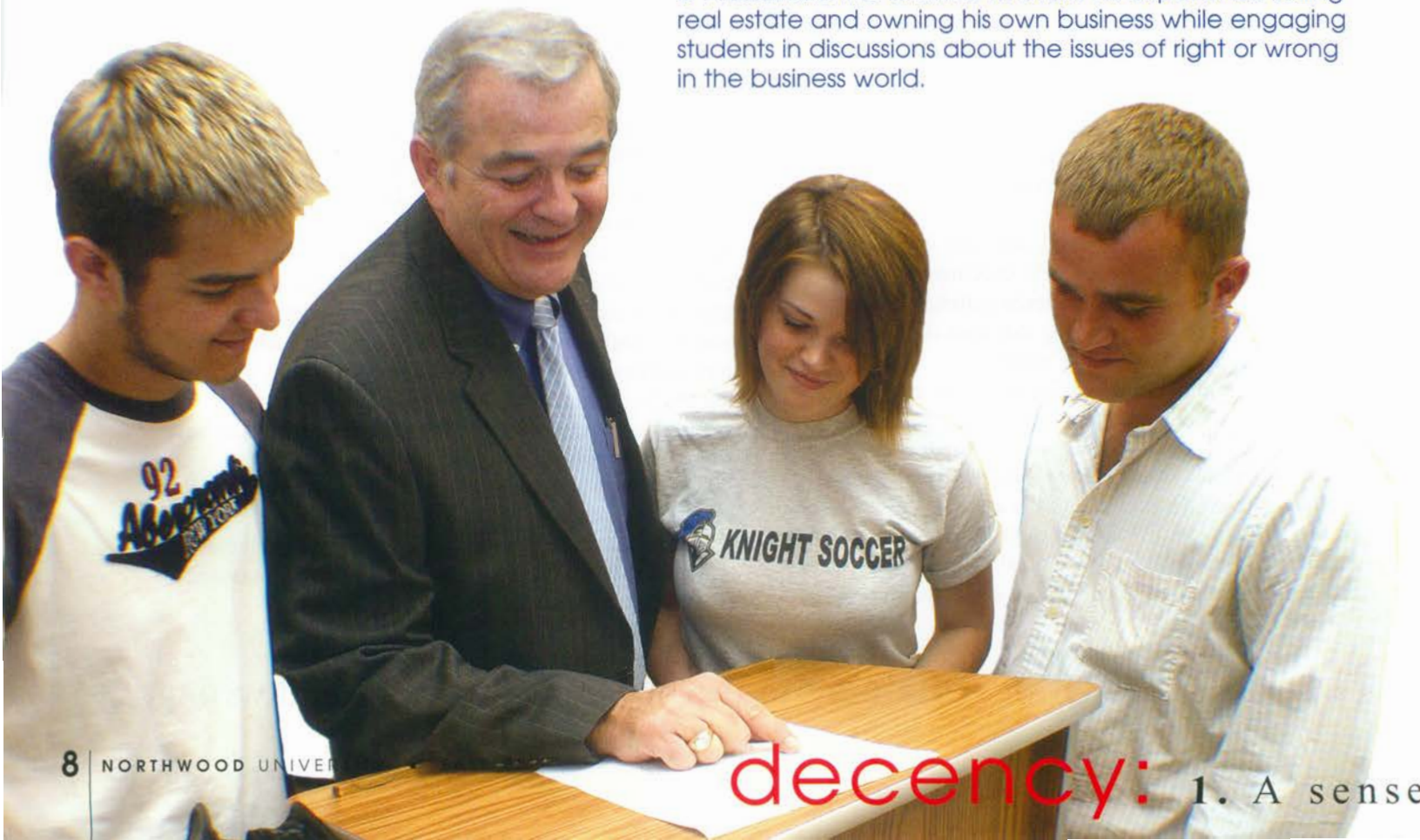
close up shop. "Students were then to take a stand one way or the other on whether or not Delta followed ethical guidelines. Their stance had to be written and clearly justified by what they had learned in class. This practical approach to teaching ethics demonstrates the importance of basing any decision on clearly defined ethical principles. I remind them that as managers they will be faced with decisions daily, and they must base their answers on accurate, relevant, and complete information, and above all they must be consistent in their actions." D'Alessandro finds this approach to teaching ethics more interesting to his students. He says, "It's not difficult to find topics for class. Each day there is more and more written about ethics or the lack of it."

"What do you do if your boss tells you to falsify a report?" he asks. "It's easy to say that you would do the right thing and report your boss. But, when your back is up against the wall, and you have a wife, four kids, and a house payment that's due, it can be hard to do the right thing."

Doing right extends to the Northwood classroom, where the possibilities for cheating have grown with today's computerized age, which offers the temptation of sending text messages during a classroom test or lifting a term paper off the Internet.

A recent study by The Center for Academic Integrity found that 70 percent of college students admitted to some

Teaching ethics at NU's Texas campus gives John D'Alessandro the chance to share his experience selling real estate and owning his own business while engaging students in discussions about the issues of right or wrong in the business world.



heating in the past year, with half admitting to one or more instances of serious cheating on writing assignments. Internet plagiarism was also a growing concern, with most students saying that using a sentence or two without attribution wasn't an issue.

One way D'Alessandro guards against plagiarism is by having his students write an in-class essay on the first day of semester, to give him a sense of how his students write. If a student struggles to write complete sentences, and then turns in a perfect couple of paragraphs on a subsequent paper, using elevated vocabulary, D'Alessandro starts asking questions.

"They might copy a word from a book and never take the time to look it up," he says. "I'll ask them innocently what the word means. If they don't know it, I'll question them further. If

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John D'Alessandro
Ethics professor,
Northwood's Texas campus

feel they have copied from a text, and not doc-

umented it, they will fail that paper. All you need to do is catch one student copying without proper documentation, and the others know they can't get away with it."

Figuring out what's right may not be easy in a world where many decisions are colored grey, not black and white. D'Alessandro says you might begin by considering the Biblical Golden Rule — "Do unto others as you would have them do unto you." But, he said, that standard only works if both parties in the transaction believe and practice their faith. Personally, I believe in the Biblical ethic.

One day I will stand before my maker and I do not want money and material things to be reasons for the way I acted and treated others either in a business deal or in life in general."

"The problem with the Golden Rule is that not everyone follows it," he says. "You might think a salesman is treating you like you would treat him, but you could easily end up a victim."

Forensic accountant Tom Golden uses what might be called the *Wall Street Journal* Rule when advising clients on thorny issues that lie on the fuzzy borderline of ethical conduct.

"I tell them to imagine what you are about to do will appear on the front page of tomorrow's *Wall Street Journal*," says Golden. "I ask them if they'd be embarrassed. If the answer is yes, then they probably shouldn't do it." • David McKay Wilson

priety or rightness.

the **Tri**angle

Forensic accountant Thomas Golden, told students, faculty and administrators during Founders' Day celebration, he looks for what he calls "the fraud triangle" when investigating white-collar crimes. The triangle includes three essential ingredients for financial impropriety.

The Need: Every white-collar criminal has a need that he or she thinks can be satisfied through improper business practices. They may be in financial straits, so they take a short-cut to make a quick profit. They may want the recognition that comes with piles of money, so they lie or cheat to get to the top.

The Opportunity: To do something wrong, an employee needs to have the opportunity to do something wrong. And people who have access to a company's books have such opportunities. For example, they might fake journal entries, set up fictitious vendors, and write bogus checks that end up in their pockets.

The Rationalization: White-collar criminals have to justify their devious actions in their minds. They might lie on a loan application to raise money for their business, intending to pay it back, only to find that they've fallen further behind so they have to take more fraudulent loans. For big hitters, Golden says it can be the lust for money and the desire to beat competitors, and expectations of performance in the market.



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