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Corporate ethics are found lacking once again

By COLIN READ, Everybody's Business

December 28, 2008 03:24 am

— What, another financial scandal?

The manager of one of the world's biggest families of hedge funds has just been arrested for the most massive fraud ever perpetrated by an individual. This is in the wake of Nick Leeson's billion-dollar scandal last decade that bankrupted his employer, and Jerome Kerviel's rogue trading last year that cost his firm almost $10 billion.

Bernard Madoff (ironically enough, pronounced made-off) made off with upwards of $50 billion of other's savings, investments and charitable donations. I know $50 billion does not sound so big when we talk about the tens of trillions of dollars of wealth wiped out in the global financial meltdown. Or, the trillions of dollars devoted to bailouts. A year ago though, we would have thought it a huge sum.

Madoff's Ponzi scheme lasted more than a decade. He used the funds of new investors to pay off earlier investors. We are still unsure where the investment capital went. It just disappeared.

Sure, some lamented that the reported earnings of his hedge funds were just too good to be true. That should have been our first clue. After all, when things are bad, we clamor for investigations and transparency. But when things are just too good to be true, we cash our checks and don't ask any questions.

This conspiracy goes well beyond Mr. Madoff. His funds employed many, some who now claim they had concerns. He had built up a conspiracy of silence among his workers though, through big bonuses and salaries, until the money was almost gone. He even tried to delay his arrest so he could distribute the last $300 million as bonuses to his employees. For years, they too cashed their checks and did not ask any questions. Of course, the Securities and Exchange Commission should have been asking questions all along. But after the resignation of Arthur Levitt years ago, the S.E.C. had its eyes wide shut.

Hedge funds lurk in a nebulous world that permits them to do things without the scrutiny afforded investment banks and mutual funds. The statutory provisions for hedge funds were originally designed to ensure secrecy in the trades and strategies of these partnerships of the super-rich. But with income inflation over 60 years, they also became the shady vehicle of the mere wealthy.

Their ability to trade under the radar and employ strategies that were often illegal, but unenforced, allowed them to reap hundreds of billions over the past decade. Be sure though — they do not create wealth from dust. They pumped up the speculative bubble and even managed to fare relatively well, on average, when the bubble collapsed. Pension and mutual funds owned by the rest of us were once again left holding the bag. And taxpayers bailed out the big banks that were partners in crime with these hedge funds and with Mr. Madoff.

It occurs to me that I too share some responsibility. After all, most all the perpetrators of this crime against the world economy graduated from U.S. business schools.

Earlier this month I was invited to attend a meeting at the U.N headquarters in New York City for business school deans concerned about corporate responsibility and sustainable corporate practices. I found two things fascinating. One was the good work being done by deans in other countries around the world to teach good corporate practices and instill upon our students a sense of professional responsibility.

The second interesting but discouraging thing was that, in an auditorium large enough to seat the world's U.N. delegations, there were only 29 U.S. business school deans. The failure of U.S. business schools to participate in sustainability and corporate responsibility was noted in a discussion forum with U.N. Secretary General Ban Ki-moon.

I was gratified that my campus felt this issue important enough to cover some of my costs of attending the corporate-responsibility conference. And they let me develop a course in Business Ethics and Modern Society and another Seminar in Professionalism at our business school. While we are one of a tiny minority of business schools with such required courses, I think we could still do a lot more. After all, our grads are not immune to scandals.

As educators, do we merely have the responsibility to give our students the ability to make as much money as possible? Or do we accept that educators have responsibilities, not just to our students and faculty, but also to our community and the taxpayers that help pay our salary?

While in New York City, I asked that question of Joel Klein, the former federal prosecutor of Microsoft and MCI/Worldcom, and now the chancellor of the New York City Public Schools. He affirmed that our unique responsibility as educators is, first and foremost, to the society within which we live. This broader interest also invokes social and corporate responsibility over each of our professional agendas. He too ponders whether we are living up to this responsibility in today's atmosphere of special interests and personal agendas.

We must ask ourselves how the individual and self-centered actions of a few hundred could cost the rest of us tens of trillions of dollars. Ultimately though, it is our responsibility to ensure our leaders, public corporations and institutions follow our agenda rather than theirs, and are free of greed, corruption and ineptitude. We have become painfully aware that their actions or inactions today can cost us dearly tomorrow. This will be my last column in my capacity as dean of a school graduating our future business leaders, so it is something I must ponder. Ethics and social responsibility must place society first, and must begin at home, at work, and in the voter's booth, as difficult as that may be.

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