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Effect of Unethical Practices in Corporate World: A Case Study in WorldCom

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ABSTRACT

Introduction: *There are some common unethical business practices in corporates like Misleading Product Information, Unfair Competition, Mistreating Employees, Manipulating Accounts, bribery etc. that many companies around the world are guilty of adopting for success. This paper shows how the WorldCom Company used unethical ways for its functioning. Any sort of unethical trade practice in any kind of business activity have serious consequences which hinders the business and most of the time it is not able to stand in the market as before.*

Objective: *The paper is an attempt to throw light on the unethical practices being carried out by the WorldCom a leading telecom company. The way in which these unethical practices impact the reputation of the company and also its stockholders is also discussed here. It is a lesson for other corporates across the globe with measures to improve the business which is conducted on a international platform. It is just a paper that shows the conditions of businesses who uses such unethical ways for their business activities.*

Approach: *The paper deals with the concept and case study investigation performed with reference to the effect which WorldCom's unethical practices had on its investors.*

Findings: *Regrettably, in the current scenario, it is noticed that a there are umpteen cases of unethical practices in corporates / organizations when it comes to dealing with finances. On deep analysis of WorldCom's case study, the point to be noted is that due to company's involvement in manipulating their books of accounts to deceive investors, lenders and end-consumers people lost the trust in WorldCom Company and hence the brand reputation of WorldCom was crashed. The case study sets an example for other companies if they involve in getting unprofessionally accomplished success and hence devise regulatory setups which will be of help to prevent such occurrences in future.*

Limitations: *This research paper is conceptualized and is purely based on published reports.*

Keywords: *unethical, credibility, stakeholders, unprofessionally.*

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I. INTRODUCTION

The main aim of doing any business is profit maximization within the framework of social obligations as well as other reasons. Ethnicity, gender, level of education, socio-cultural environment etc. are human features and aspects like strength of legal, business regulations affects ethics in business. There is often a struggle between the quest of profit and the applying ethical conduct in business as executives chase profit to maximize earnings of stockholders and often to maximize their own self-interest. Carr (2004) argues that "most executives, from time to time, are almost compelled in the interests of their companies or themselves, to practice some form of deception when negotiating with customers, dealers, labor unions, governmental officials, or even other departments of their own companies". Ahmed (2009) describes this as anethical exposure that arises when administrators are attracted to act in their own self-interest and not for the equity and debt investors. However, stockholders are no longer considered to be the only stakeholders in business organizations and executives must be aware of the inconsistent interests of other parties such as government, employees, and various other social groups that are affected by business operations and activities. In the present cut throat competitive situation when a free market economy prevails, executives make choices to maximize short-term profit, but to sustain in the long-run, corporates must usually satisfy both profit criteria and allowable rules of ethical business practice. Business ethics has become an international issue because of globalization. The United Nations (United Nations,2003) has released a statement mentioning rules for behavior and operations of global corporations and other business enterprises. These rules include general obligations to endorse human rights as well as recognizing international and national law, include the rights of local people and other susceptible groups like consumers and workers, who have regard for environmental protection. Many countries face a low level of ethics at the socio economic and political fronts. These gaps in business and legal guidelines are responsible for the corruption that has struck like plague on the business operations. There are some common unethical business practices in corporates like Misleading Product Information, Unfair Competition, Mistreating Employees, Manipulating Accounts, bribery etc. that many companies around the world are guilty of adopting for success. The reason that unethical behaviour rises and survives is because people within a company are afraid and hesitant to 'tell on' their co-workers since they would be unsure of whom they can speak. If the culture seems to tolerate unethical behavior, the fear of reprimand or being made an 'outcast' often leads people to remain silent. In order to counter such effects of unethical behaviour on business activities, the company must have strict rules and regulations in place that every employee must be aware and there should be no-tolerance policy for anyone that flouts the norms.

II. LITERATURE REVIEW

Ferrell, Fraedrich and Ferrell (2004) suggest that “business ethics involves moral principles and standards that guide behavior in the corporate world.”To know if a particular behavior is ethical / unethical we can look into the data that gives a glimpse of the public which gets personified in the mass media, business enterprises and the various interest groups and by the individual personal values and morals. Thus, ethics in any business is related to the social values, rules and the corporate developments that take place at the universal level and is harmfully linked to corruption within the society. This paper highlights the social dissatisfaction with the behavior in important business issues that throws light on the unethical practices. Sobhan (2000) argues that “the utmost ethics in any society must be founded on the principle of justice”. By depriving most productive citizens of resources despite of their confirmed integrity in the use of such resources may prolong poverty as well as underdevelopment and may corrode the pillars of a democratic society. Wood (1992) suggests that “ethical actions are not, in the final analysis, the responsibility of the individual alone. Instead, most actions are the result of managers and employees following the norms of accepted behavior in the companies in which they work”.

Trevino and Nelson (1995) define “ethics as the principles, norms and standards of conduct governing an individual or group”. It is mentioned that the two aspects that encourage ethical behavior are characteristics of the individual and the characteristics of the organization. Trevino and Weaver (1997) have related this to be great concern and pointed out three factors on ethics in business: a) moral failures weaken reputation; b) enunciating moral standards now makes it easy to answer to criticism later; and c) adoption of moral standards is a hallmark of a profession. Shafique (1996) commented that “ethical behavior appears to be largely influenced by a range of factors including the law, government regulation, social pressure, industry sector, ethical codes and personal standards.”According to his observation, banking despite of being a vastly organized sector has also got struck by ethical crisis. Issues of stealing, misappropriation, misuse of inside information, a chase for profit at the expenses of the client, money laundering and insider- loans have been recorded as unethical practices prevalent in the banking sector. Boatright (2004) observes that “the financial services industry still operates largely through personal selling.” Through personal selling one can generate innumerable opportunities for misuse and although finance experts take pride in the misconduct that occurs. Shaw (2007) stresses that "if people within business are to shape their reputes on integrity and have a deep sensitivity to the ethical dimensions of their verdicts, they must be steered by complete ethical standards".

III. Objective

The paper is an attempt to throw the light on the unethical practices being carried out by the WorldCom a leading telecom company. The way in which these unethical practices impact the reputation of the company and also its stockholders is also discussed here. It is a lesson for other corporates across the globe with measures to improve the business which is conducted on a international platform.

IV. Approach

The paper deals with the concept and case study investigation performed with reference to the effect which WorldCom's unethical practices had on its investors.

(A) Outline of the case study

A company by the name WorldCom was established in 1983 under the name Long Distance Discount Services (LDDS). The company dealt in providing phone services and was considered to be third largest telecommunications in the USA. The elected President and CEO Ebbers lacked in technical education and the expertise required running a company that was centered on technology. Despite of these Ebbers was successful enough to make the company a lucrative by the year 1998. The company had begun with a capital of $ 650000 and had incurred a debt of $ 1.5 million. It had successfully merged with 60 companies. These mergers had a value of more than $ 70 billion and the largest of this which was completed in September, 1998 with MCI Communications Corporation ("MCI"), had a value of $ 40 million.

WorldCom had thousands of government contracts, customers over 20 million and was the world's largest Internet backbone. People preferred investing in its stocks and in June 1999, the stock rose to an implausible $ 64.51. Ebbers was given the credit of taking the company to new heights of success and the Forbes listed him as the one of the richest Americans with a net worth of $ 1.4 billion. Analysts greeted Ebbers and Scott Sullivan as industry leaders. In the year 1999, WorldCom was successful in acquiring a company called Sprint, but this proposal was rejected by for legal reasons in the year 2000. Unfortunately, this initiated the collapse of the largest industry of the time.The rejected by Sprint made the top leaders of WorldCom realize that acquisitions and mergers is not the formula for sustainable growth.

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The stock of WorldCom which was trading in $ 64.51 fell miserably and became worthless by January, 2004 and dropped to $ 0.50. The CEO Bernard Ebbers was compelled to resign after the crash of the stock. The huge debts and due to the pressure from the investors due to the crash of the stock Ebbers finally resigned in April 2002. Later on, when John Sidgmore took over as the CEO the facts about the unethical activities of Ebbers and his team came to light. The new financial auditors – KPMG, who were appointed by Sidgmore took up the task of auditing the records of the company with a fine comb and scoured through them to find the loopholes. The secrets that were disclosed by them were shocking. The targets that WorldCom made were unrealistic and presented a wrong impression over the public about these targets being achieved. The accounts were handled inappropriately by Sullivan who used tricks which had no relation to the commonly accepted principles of accounting. David Myers, the Controller at WorldCom supported them in this. It had become a common practice at WorldCom to make false entries which had no permission verbally or through email of any of the top executives of the company. It was sickening to find that the accounts were manipulated to an extent that even the losses were shown as profits in the account statements which were revised. The years 2000 and 2001 where WorldCom claimed a pre-tax revenue of $ 7.6 billion and $ 2.4 billion respectively were the years where the company had actually incurred a loss of $ 49.9 billion and $ 14.5 billion in those years. The company's balance sheet gave an account of assets worth $ 80 billion. The reasons for which company executives' resort to for committing a scam could be numerous, like maintaining the company's reputation before the world, handling the stress which is on them, and to manage their own position in the company. As per the report of WorldCom fraud the rejection at the hands of Sprint compelled Ebbers to present the company in a position through which WorldCom remains in a good financial position before its stakeholders. Regrettably, the executives succumbed to this pressure and began to underreport expenditures and thus reduce the reserve accounts. To show the world that WorldCom is the most successful company the executives had to carry the irresistible amount of weight and that could be the reason to commit the fraud. For example, WorldCom had acquired merger of number of companies in a very short period of time and the company had not enough time to fulfill accounting procedures and this could also be the reason for the misstatements. At the end, to maintain the personal financial status in the society the executives are forced to commit fraud. In the case of WorldCom, Ebbers was worried about the reputation of the company and also afraid of his individual financial status that was another reason for the fraud. If the stock price of WorldCom increases the salary of Ebbers increases.

V. Research Methodology

The research methodology used here is Historical method as one past case study is referred. The data used is secondary data. This research paper is conceptualized and is purely based on published reports on the WorldCom case study and is used to examine the effect of unethical practices on the business environment.

VI. Consequences of Unethical Trade Practice into Business

Any kind of ethical misconduct in the business activity has very serious repercussions which can cause the name and fame of the company as well as some time and money in order to repair their business reputation and legal problems arising out of it. The breakdown of integrity of the company can cost huge amount of money in millions of the dollars and at times there are chances that in serious cases the businessman can get punishment of imprisonment in serious cases. To avoid any kind of unethical practice into business the top level management need to form a proper plan with zero tolerance level with regard to unethical practices. In order to frame such policies one needs to know the effects that poor corporate ethics can cause to the company to set up the barriers to help something like this occurring. This expert advice will give you the insights on the many factors that affect the ethical misconduct can cause to your company. Consequences of unethical practices will be seen on the company's growth and fame soon or later.Immoral behavior in the form of low-level “discontinuity”, which includes rude behavior, abusive speech, rough language and / or lack of respect for others, is now seen as reaching a crisis stage in our society.

(A) Employee Relationships are affected:

When any business tycoon or director of any company depicts any sort of immoral behavior then he may lose the respect that he used to get from his employees. Without a well-respected leader, the business's success is difficult. Lack of ethical behavior cause tension among employees and some of them are upset by the rules and they still manage to move forward with their service to the company.

(B) Loss of company credibility:

If any company or a business doesn't have ethical standards into the company or business, when the public comes to know about it, that business or company will lose it credibility and goodwill amongst the public. There are businesses who have survived after unethical practices and the public knows about it, by remixing and advertising their business and many of the businesses has lost a major customer base. Even though business recovers from the news about its lack of ethics into business activity, it takes a lot of time and money to regain that trust amongst the customers. Majority of the customers are angry on such companies with lack of morality and ethics and leave that company's products.

VII. Conclusion

Regrettably, in the current scenario, it is noticed that a there are umpteen cases of unethical practices in corporate / organizations when it comes to dealing with finances. On deep analysis of WorldCom's case study, the point to be noted is that due to company's involvement in manipulating their books of accounts to deceive investors, lenders and end-consumers people lost the trust in WorldCom Company and hence the brand reputation of WorldCom was crashed. The case study sets an example for other companies if they involve in getting unprofessionally accomplished success and hence devise regulatory setups which will be of help to prevent such occurrences in future. There are many companies in the market who works on the ideology that their company should earn lots of money rather than follow ethical practices. At the other hand there are many companies who believe that ethical acceptance is the most important factor than making money. Due to unethical action there may be a personal gain which is not morally acceptable to them. By adopting unprincipled trade business, big and successful corporates like WorldCom and TOYOTA have destroyed its reputation and ruined its position in the market. The fundamental assumptions about how corporations are organized and run need to be rethought. Corporate executives must re-learn how to lead. Leadership training must be holistic, focus on personal responsibility and transparency i.e.: continuous, open, information-sharing system. There should be control mechanisms to periodic surprise audit. The important point is to ensure that in-house audits and controls are functioning as planned. It is very important to take the necessary steps to keep the controls working efficiently. It is up to Top Management to send an understandable and realistic message to all employees that good ethics is still the foundation of good business. To sum up corporates should impart training on core values and social principles which are to be implemented in the business to their employees.. It is like company does it deliberately or it lacks in some strict policy with regard to unethical practices. A company must set some goals for itself and its employees, since seemingly unattainable goals have lead the employees to choose shortcuts and money making means to reach such goals. It is duty and need of the each company to frame such a policy that its employees and their functioning should be in favour of the customers without any unethical practices. The consequences of unethical behavior has to clearly foreseen by the company before thinking or practicing it into their business. There is no reason for cheating or for unethical behavior towards customers in business and if companies and its employees continue to do it then they must be ready to face some serious problems for the company and its business.

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