

USING DISASTERS TO TEACH ETHICS IN ACCOUNTING AND BUSINESS

Miriam Gerstein

Brooklyn College, City University of New York

Hershey H. Friedman

Brooklyn College, City University of New York

Key Words: business ethics, disasters, sinking of the Titanic, Bhopal, Rana Plaza, credit default swaps, sustainable business, triple bottom line

JEL codes: D18, E43, G33, M41, G21

Abstract

This paper describes a method of teaching accounting ethics that can easily be incorporated into any course. This approach focuses on disasters that resulted from a disregard of ethics. This paper posits that examining the consequences of unethical behavior and providing real-life examples can make a course in business ethics more valuable and interesting to students. This paper examines several kinds of disasters that resulted from disparate causes such as defective products, nuclear accidents, and accounting fraud. The consequences of these disasters range from the deaths of innocent people to the loss of pensions to the loss of one's home. What do all these cases have in common? The answer is greed. When executives are more concerned about bonuses, profits, compensation,

and/or growth they are more likely to cause harm to others.

INTRODUCTION

The financial crisis of 2008 may have been the worst business disaster since the Great Depression, but it is clear that the corporate world has been engaged in predatory capitalism for at least 25 years. The canary in the coal mine that should have warned us that many CEOs were motivated by greed and did not care about the welfare of their companies or the well-being of the United States was the Savings and Loan crisis which occurred between 1986 and 1995 and cost U.S. taxpayers about \$124 billion (Friedman, Lynch, & Herskovitz, 2013). The accounting scandals of 2000-2001 (e.g., Enron, Worldcom, Tyco International, Global Crossing) were also indications and harbingers of CEOs gaming the system and having no scruples in their endeavor to enrich themselves. Sadly, many of the individuals responsible for many of these ethical lapses held MBAs and had taken courses in ethics. Accountants and auditors who are supposed to be the watchdogs were responsible for many major bankruptcies. They allowed all kinds of accounting irregularities at firms such as Lehman Brothers (whose demise constituted the largest bankruptcy in history), Washington Mutual (WaMU), Worldcom, and Enron. This may not be so surprising given that the directors of public companies rarely speak to shareholders. This in-group cares more about enriching itself than about the long-term needs of the organization. This may change now that a group of shareholders representing \$10 trillion in assets is demanding that boards open up and start speaking with shareholders (Sorkin, 2014).

One thing the Dodd-Frank act was supposed to accomplish was to ensure that the country would never have to go through another crisis like the Great Recession of 2008. Many politicians recognized that as long as we have financial institutions that are “too big to fail” there is a reasonably high probability that we may have another financial debacle. Bankers do not mind taking huge

risks if they know that the government will step in to bail them out if they get into trouble. It is now becoming clear that we still have institutions that are too big to fail and Dodd-Frank did not go far enough (Nocera, 2014). As far as using “dubious structured financial products,” that is still going on. A Senate investigation is alleging that hedge funds such as Renaissance Technologies have been using “basket options” to avoid paying taxes as well as to “bypass safeguards that protect the economy from excessive bank lending for stock speculation” (Stevenson, 2014). CEOs and bankers have not learned any lessons from 2008 about taking on huge risk with dangerous financial instruments such as credit default swaps that nearly destroyed the financial industry.

Corruption is so prevalent in state government that one study estimates that in the ten most corrupt states (Mississippi, Louisiana, Tennessee, Illinois, Pennsylvania, Alabama, Alaska, South Dakota, Kentucky, and Florida) it costs Americans \$1,308 per year which is equivalent to 5.2% of those states’ average expenditures (Matthews, 2014). Governor Cuomo of New York promised to clean up Albany and when he was elected created an independent commission, the Moreland commission, in July 2013 to eradicate corruption. According to the *New York Times*, Cuomo worked behind the scenes to prevent the commission from doing its job, especially when it involved his office. The Governor quashed a subpoena to the Real Estate Board of New York which consists of many of his financial backers. He also quashed a subpoena to Buying Time, a media-buying company whose client he was. In April 2014, less than a year after its creation, Cuomo abruptly and without advance notice disbanded the commission for dubious reasons. One newspaper that conducted interviews with staffers and officials and sifted through internal documents concluded that Cuomo and his subordinates sabotaged the panel’s operation when it threatened his supporters or his own reputation. In response Cuomo stated, “It’s my commission,” he says. “I can’t ‘interfere’ with it, because it is mine. It is controlled by me.” (Retrieved from

http://www.nytimes.com/interactive/2014/07/23/nyregion/timeline-of-the-moreland-commission.html?_r=0#/time3368846.) This statement shows the utter lack of his seriousness in combating the governmental corruption that he vowed to take on.

Clearly, it is imperative to teach ethics to all players in the private as well as public domains. Ethics starts at the top of the organization; this is why if the corporate culture either in government or private industry encourages dishonest behavior, very few people will resist the temptation to bend the rules (Bowden & Smythe, 2008; MacDonald, 2007). Several researchers claim that ethics cannot be taught in a classroom (Altmyer, Yang, Schallenkamp, & DeBeaumont, 2011; MacDonald, 2007; Friedman, Fogel, & Friedman, 2005; Etzioni, 2002; Stape, 2002). Despite this emerging consensus that courses in business ethics cannot ensure long-term ethical behavior, ethics courses do help students know themselves and their own moral values; improve their ethical sensitivity and awareness; and attain confidence and courage in making ethical decisions that can then provide them with the ability to question decisions that have ethical implications (Bowden & Smythe, 2008; MacDonald, 2007; Williams & Dewitt, 2005).

There are many methods that can be used to teach business ethics. The traditional way relies on case studies and ethical theories from philosophy. Such methods of teaching ethics focus on normative applied ethics employing the major theories of philosophers such as Aristotle, Mills, and Kant. Students typically learn that there are two key systems of ethics: deontological and utilitarian. The deontological approach focuses on whether the action itself (e.g., killing or lying) adheres to a set of rules whereas the utilitarian approach is more concerned with consequences.

Tapscott (2011) argues that traditional educational methods have become obsolete and should be revamped in the face of new realities. The traditional lecture approach does not work for today's students, who learn primarily from digital communities. In his words:

This new generation comes home and they turn on their computer and they're in three different windows and they've got three magazines open and they're listening to iTunes and they're texting with their friends, and they're doing their homework.

Friedman, Lynch, & Herskovitz (2013) demonstrate other ways to teach ethics such as music, speeches, YouTube videos, film, television, as well as literature. Cases are limited to facts and therefore cannot normally arouse emotions the way films, videos, speeches, and literature do (Friedman, Lynch, & Herskovitz, 2013). Friedman & Lynch (2014) posit that the Book of Psalms with its rousing, inspiring hymns can also be used to help transform an organization into one with spiritual values. Lynch & Friedman (2013) argue that lawyer jokes can be a useful tool for teaching business ethics. There are certainly many ways to teach ethics and there is no reason for educators to limit themselves to one approach. Using tools familiar to the Net Generation have the added bonus of containing auditory and/or visual stimuli that enhance students' awareness of the importance of ethics.

One ancient device to teach ethics was fables, a notable example of which is *Aesop's Fables*, which is probably over 2,600 years old and is still an effective way of teaching valuable lessons. Berk (2009) provides a comprehensive review of the literature on learning and concludes that using video clips from movies, television, and YouTube "provide a best fit to the characteristics of this *Net Generation* of students and a valid approach to tap their multiple intelligences and learning styles." Berk (2009) discusses 20 potential learning outcomes that can be attributed to the use of videos in teaching. These include outcomes such as making learning enjoyable, creating memorable visual images, enhancing creativity, fostering deeper learning, motivating and inspiring students, and decreasing anxiety.

This paper will discuss a different approach to teaching business ethics that can be easily incorporated into any course, a

focus on colossal disasters that resulted from a disregard of ethics or gross negligence. It posits that demonstrating the calamitous and far-reaching consequences of unscrupulous and irresponsible behavior through the examination of real-life cases can make a course in business ethics more striking and relevant and hence perhaps more effective in leaving students with a stronger and longer-lasting impression of the significance of their ethical choices. Whereas some cases used in business ethics courses aim to do this, this paper proposes the use of very brief vignettes to show the massive consequences of unethical and negligent conduct and to delineate the common thread of the pursuit of profit at the expense of humane considerations that runs through them all. The best way to understand the consequences of immoral actions on the part of management is to examine a large number of situations where managerial decisions based on greed had horrific consequences.

DISASTERS

There are plenty of disasters to choose from. In fact, instructors can make that an assignment: write about a disaster that resulted from an indifference to business ethics or write about a disaster that was either averted or whose calamitous results were mitigated through judicious and responsible action. It should be noted that the World Trade Center collapse provides a good example of the latter, how concern about safety can result in the saving of thousands of lives. John Knapton, a professor of structural engineering, had the following to say about the design of the World Trade Center.

The steel and concrete structures performed amazingly well. I believe tens of thousands of lives have been saved by the structural integrity of the buildings (Barter, 2001).

Ultimately, nothing could have saved the buildings according to most engineers. The temperature reached 800 degrees Centigrade

because of the aviation fuel in the planes. The twin towers were built in the 1970s and were designed to withstand a plane crash and powerful winds, not the kind of terrorist attack that actually occurred. But in those pre-9/11 days terrorism of the magnitude that subsequently occurred was inconceivable and no tall building was designed to withstand that kind of intense heat. Prior to 9/11/2001, the building codes for skyscrapers focused on “structural stability and routine fire safety” (Craven, 2013). After 9/11 building codes were changed for tall buildings to make them much safer.

The contrary might be said of the Fukushima Reactor Meltdown on March 11, 2011. We do know that the event that triggered the meltdown was a tsunami that occurred as a result of an earthquake. However, one report had the following to say (IB Times Staff Reporter, 2012):

The Fukushima Nuclear Accident Independent Investigation Commission, or NAIIC, the first independent commission ever launched by the Japanese Diet, has roundly condemned the Fukushima nuclear disaster not only as a man-made and avoidable occurrence; it has also labeled the failures that led to it as uniquely Japanese. In a major half-year study, the NAIIC called the disaster a preventable one, caused ultimately by the collusion of a lackluster government tied to an opaque bureaucracy, deferent to business interests, within a general social and cultural climate that failed to call any of those parties into full account. While the report considers the earthquake and tsunami as the proximate causes for the meltdown at the Fukushima Daiichi nuclear plant, it blamed public-private betrayal of the people's safety as the primary factor that created the conditions allowing the disaster to be so catastrophic.

The Chernobyl nuclear power plant accident of 1986 is another disaster with far-reaching tragic consequences that seems to have been due to human error and whose consequences could have been mitigated by timely human intervention. The plant managers were attempting to test the ability of the reactor's subsystems to remain operational after a core shutdown. An experiment was performed at night when energy needs were lower. This meant that the late night shift operators, who did not have the same training and skills as the daytime operators, were engaged in the experiment. The reactor had to be functioning at a low power level to conduct the experiment, but the reactors were not designed to operate at that power level. This is why the operators had to switch off all kinds of control systems including the safety systems. This was in violation of the safety regulations and caused the reactor to become unstable and ultimately explode. Moreover, there was inadequate containment and the radioactive material escaped into the air. Estimates of the number of extra cancer deaths due to the Chernobyl disaster vary widely, anywhere from 4,000 to 734,000 (Reuters, 2011).

The Kremlin failed to report the explosion until two days after it occurred and only after Sweden, 700 miles away from the scene of the nuclear catastrophe, raised the alarm of dangerous levels of radiation emanating from the Soviet Union. A Ukrainian parliamentary probe of the Chernobyl disaster accused Soviet officials of having delayed publicizing the disaster and covering up its extent, thereby leading to thousands of more deaths and illnesses than the reactor explosions alone would have caused (retrieved from http://articles.latimes.com/1991-12-23/news/mn-710_1_chernobyl-disaster). The Chernobyl disaster has been credited as serving as the catalyst for glasnost, the unprecedented Soviet openness that led to reforms which in turn paved the way for the fall of the Soviet Union.

This paper is concerned with disasters that were the result of negligence, dishonesty, and/or disregard for others. In most cases, the true cause of the disaster was greed.

Triangle Shirtwaist Factory Fire

This infamous fire on Saturday, March 25, 1911, was the deadliest industrial disaster in New York City history and the 146 human lives that it consumed resulted to a large extent from a pursuit of monetary gain by the factory owners that was blind to the ultimate welfare and safety of their workers. The Triangle Shirtwaist Factory occupied the top three floors of the Asch Building in Manhattan and employed recent immigrant women aged 16 to 23. The owners had locked some of the doors to the stairwells and exits to prevent pilferage and only one of the four elevators leading to the factory floors worked. There was only one narrow fire escape, which city officials had allowed the factory owners to substitute for an otherwise required third staircase, and it collapsed from the fire and overload killing around 20. Of course, there were no sprinklers and the fire hose was worthless since there was insufficient pressure on the higher floors for them to work. The owners of the factory, Harris and Blanck, were tried for manslaughter, with the prosecution charging that had the door to the second stairway not been locked, many of the workers on the ninth floor would have survived. The jury found the owners not guilty, because the prosecutors failed to convince the jurors that the owners knew that the doors had been locked. The owners did lose a subsequent civil suit for compensation. The venality and immorality of at least one of the owners boggles the mind in light of the fact that he was arrested two years hence for again locking the door in his factory during working hours (retrieved from <http://sago.com/the-worden-report/2014/02/26/the-triangle-fire-of-1911-a-story-of-greed-control-and-sadism-in-business/>)

But the fire did spur subsequent reforms in working conditions. Linder (2002) avers that

The public outrage over the horrific loss of life at the Triangle Shirtwaist Factory led to the creation of a nine-member Factory Investigating Commission. The Commission undertook a thorough examination of safety and working conditions in New York factories. The Commission's recommendations led to what is called "the golden era in remedial factory legislation." During the period 1911 to 1914, thirty-six new laws reforming the state labor code were enacted. One member of the Commission was Frances Perkins, who later would become Secretary of Labor in the Roosevelt Administration (Linder, 2002).

Perkins had the following to say about the fire and its subsequent impact on safety regulations:

Out of that terrible episode came a self-examination of stricken conscience in which the people of this state saw for the first time the individual worth and value of each of those 146 people who fell or were burned in that great fire...We all felt that we had been wrong, that something was wrong with that building which we had accepted or the tragedy never would have happened. Moved by this sense of stricken guilt, we banded ourselves together to find a way by law to prevent this kind of disaster...It was the beginning of a new and important drive to bring the humanities to the life of the brothers and sisters we all had in the working groups of these United States (Linder, 2002).

Sinking of the Titanic

This is a disaster that everyone is familiar with thanks to the film starring Leonard DeCaprio. The maiden voyage of the

Titanic, the world's largest ship, took place in 1912. What people may not know is that more than 1500 people drowned because there were not enough lifeboats on the ship when it struck an iceberg, a total of 20, which could hold only a third of those on board. According to The Engineer (2013), this was the reason:

It is believed that safety took second place to aesthetics in the ship's design. The original design included two rows of lifeboats on the deck, but one row was removed allowing more space and a better view for passengers with first-class berths. This was not against the Board of Trade regulations which covered only ships up to 13,000t and not the 46,000t Titanic.

Substandard rivets were also used along the length of the hull. They popped out when the ship hit the iceberg allowing water into several of the watertight compartments (The Engineer, 2013).

Automobile Recalls -- Ford

Sauter, Hess, & Weigley (2013) describe the biggest car recalls in history. Number one on the list was Ford for its notorious "park-to-reverse" transmission defect. This defect allowed a car that was ostensibly in "park" to suddenly go into reverse. Ford built 21 million vehicles between 1970 and 1980 with this defect in the automatic transmission. When the government finally acted in 1980, there were "more than 23,000 complaints and reports of 6,000 accidents and 1,710 injuries, with 98 attributed to the defect" (Sauter, Hess, & Weigley, 2013). Ford refused governmental orders to recall cars with this problem. The final settlement reached with Ford allowed the company to send customers a warning sticker that could be placed in the car (Sauter, Hess, & Weigley, 2013).

Ford Pinto

In 1978, Ford recalled the Pinto, a very popular compact which had a design flaw in the fuel tank that caused it to rupture,

leak fuel, and catch fire in the event of a rear-end collision. The recall followed months of legal wrangling with the government. *Mother Jones* magazine ran a controversial article entitled "Pinto Madness" that sought to light the infamous method of using cost-benefit analysis to determine whether to make a product safer by spending extra money or to produce a cheaper but less safe car that could increase the rate of accidents but produce sufficient profits to pay off resulting lawsuits. Apparently, Ford could have spent \$11 per car to make the fuel tank safer and save 180 lives. It was cheaper, however, for them (so they believed) to pay off any lawsuits that resulted from fuel tank fires.

The company defended itself on the grounds that it used the accepted risk/benefit analysis to determine if the monetary costs of making the change were greater than the societal benefit. Based on the numbers Ford used, the cost would have been \$137 million versus the \$49.5 million price tag put on the deaths, injuries, and car damages, and thus Ford felt justified not implementing the design change (Leggett, 1999).

The public was outraged by Ford's placing of a price-tag on human life. The ethics of doing this are discussed by Leggett (1999):

Critics look at risk/benefit analysis in cases such as the Ford Pinto case as a depravity of morality. The idea is that everyone has the "right" to a safe and healthy workplace, or the "right" to expect product they purchase to be safe. Those who subscribe to this philosophy feel there are some "moral" decisions that must be made no matter what the fiscal impacts may be or what the risk/benefit relationship dictates. Proponents of the risk/benefit analysis counter this "ethical" argument with the idea that these

are not either/or decisions being made, but rather gradations of risk. That is, Ford is not sacrificing all safety features of the Pinto, it is a question of to what degree Ford feels safety features are necessary. It could be argued that the safety question was answered for them prior to the risk/benefit analysis when Ford's earlier advertising campaign based on safety failed. Decisions involving gradation of risks are made every day, just not under such strict scrutiny. Obviously, highways would be safer if the speed were restricted to 25 miles per hour on all roads. However, this must be balanced with the "price" of slower traffic. In choosing 55 or 65 as the speed limit, we are sacrificing lives to make travel quicker and less costly. Therefore, the Ford Motor Company is not morally void for choosing between levels of safety. Auto manufacturers do this every day.

Bazerman & Tenbrusel (2011) use the Ford Pinto case to explain how executives, even those who want to behave ethically, may encourage unethical behavior by providing goals that encourage it. The use of the formal cost-benefit analysis approach without the inclusion of ethical considerations in the decision process, resulted in decisions that were inhumane. Bazerman & Tenbrusel also describe a cognitive bias they call "motivated blindness." People tend to see what they want to see and will be unaware of behaviors that are unethical when it is in their interest to not notice it. Executives at Pinto did not see the ethical implications of sacrificing lives to keep the cars relatively cheap. This is the table that shows the cost-benefit calculations made for the Pinto (Bice, 2013):

Costs: \$137 000 000

(Estimated as the costs of a production fix to all similarly designed cars and trucks with the gas tank aft of the axle (12 500 000 vehicles × \$11/vehicle))

Benefits: \$49 530 000

(Estimated as the savings from preventing (180 projected deaths × \$200 000/ death) + (180 projected burn injuries × \$67 000/injury) + (2 100 burned cars × \$700/car))

Bazerman & Tenbrusel (2011) state that “cognitive biases distort ethical decision making.” They note that “ill-conceived goals” can derail the best of intentions by unintentionally rewarding unethical behavior. This is what happened when President Clinton went to great lengths to ensure that a higher proportion of people in the United States owned their own homes. By the time the smoke cleared, a huge number of people with limited income were living in homes they could not afford because of very low rates for the first few years (adjustable rate mortgages).

Ford, General Motors and Nazi Germany

Ford’s callous indifference to human lives as indicated in the above cases pales in comparison to its founder’s support for Nazi Germany, which perpetrated arguably the greatest human disaster in world history. Hitler was an avid reader of Henry Ford’s anti-Semitic writings, stating to a Detroit News journalist in 1931 that he kept a life-sized portrait of Ford next to his desk because he regarded Henry Ford as his inspiration. Four months after the German annexation of Austria, Ford was awarded and accepted Nazi Germany’s highest medal for a foreigner. Shortly thereafter, a top GM executive, James Mooney, received a similar award for “distinguished service to the Reich” (retrieved from <http://www.washingtonpost.com/wp->

srv/national/daily/nov98/nazicars30.htm.) According to a captured German document, Ford gave the author of *Mein Kampf* 35,000 marks for his 50th birthday (ibid.).

Both Ford and GM were vital to the militarization of Nazi Germany. Albert Speer, Nazi armaments head, has been quoted as saying that without the synthetic fuel technology supplied by GM, Hitler “would never have considered invading Poland.” (ibid.) Both GM and Ford consciously continued to do business with Nazi Germany after its annexation of Czechoslovakia. GM chair Alfred Sloan defended this policy by stating that the actions of that criminal regime “should not be considered the business of the management of General Motors” in view of the fact that German GM was “highly profitable” (ibid.).

Poison Gas Leak in Bhopal, India

On December 2, 1984, a storage tank in the Union Carbide pesticide plant in Bhopal, India began to leak methyl isocyanate (MIC) gas into the city. Approximately 3,000 people died immediately and another 20,000 people died over the next 20 years from the poison gas. Even now, there are thousands of people affected by the effects of the leaked gas on the water supply and the air near the plant (Rosenberg, 2014). What caused this disaster?

According to Rosenberg (2014):

Union Carbide India, Ltd. built a pesticide plant in Bhopal, India in the late 1970s in an effort to produce pesticides locally to help increase production on local farms. However, sales of pesticide didn't materialize in the numbers hoped for and the plant was soon losing money. In 1979, the factory began to produce large amounts of the highly toxic methyl isocyanate (MIC), because it was a cheaper way to make the pesticide carbaryl. To also cut costs, training

and maintenance in the factory were drastically cut back. Workers in the factory complained about the dangerous conditions and warned of possible disasters, but management did not take any action.

Other issues included the fact that one of the safety devices that neutralizes the poisonous vapor, a vent-gas scrubber, was turned off. There was also a faulty valve that allowed one ton of water for cleaning internal pipes to mix with the MIC. MIC is not supposed to be combined with water (Broughton, 2005).

A few days after the disaster, Warren Anderson, chairman of Union Carbide, flew to India and was arrested. He fled India when he was released on bail and became a wanted man there for culpable homicide for his role in the Bhopal disaster. India subsequently sought his extradition but the United States refused the request for lack of evidence (retrieved from http://www.nytimes.com/2009/08/03/business/global/03bhopal.html?_r=2&html&.>.)

Versailles Wedding Hall Collapse in Israel

In 2001, the Versailles wedding hall on the third floor of a building in Jerusalem collapsed during a wedding. Hundreds of guests were injured and 23 people died. The ceiling was constructed using the Pal-Kal method, which was a fast, simple, and inexpensive way to put up ceilings invented by engineer Eli Ron. This method did not meet Israeli building standards and Dr. Yoav Sarne, president of the Israeli Association of Engineers and Architects, had warned for years against its use, especially in non-residential buildings where loads are so much heavier (Smolsky, 2011). Another factor that caused the collapse was the removal of a supporting wall during renovations. Ron and three engineers responsible for the construction of the hotel were sentenced to imprisonment for manslaughter and the hotel owners were

likewise sentenced to imprisonment for causing death by negligence (Smolsky, 2011).

There is a chilling video on YouTube that shows the floor collapsing while guests were dancing (<https://www.youtube.com/watch?v=T7wazVmPwIc>). The video demonstrates the horrors that can result from compromising safety to save money.

Hurricane Katrina

Hurricane Katrina wreaked its havoc on August 29, 2005. The levees were breached, which led to the flooding of 80% of New Orleans and the damaging of 70% of its housing. About 1,833 people died and the damage caused has been estimated at \$108 billion (CNN Library, 2013). What caused this huge disaster? We know that the levees were breached by the Katrina's surges. However, there is evidence based on computer models and eyewitnesses that the surges did not overtop the levees. What caused the breaches was "faulty design, inadequate construction or some combination of the two" (Grunwald & Glasser, 2005). In 2009, a federal judge blamed the breach on "monumental neglect" by the Army Corps of Engineers whose job was to "properly maintain a navigation channel." The Army Corps did not do an acceptable job in maintaining the system of levees that were supposed to protect New Orleans from flooding (Burdeau, 2009).

Grunwald (2010) states the following about the disaster:

It took a while, but the prevailing narrative is finally starting to reflect that Katrina was a man-made disaster, not a natural disaster, triggered by shoddy engineering, not an overwhelming hurricane. Even the stubborn generals of the Army Corps of Engineers eventually admitted the "catastrophic failure" of the city's defenses.

What has not changed is the failure to “restore the coastal wetlands that once provided natural hurricane protection for Southern Louisiana.” Approximately 2,300 square miles of Louisiana’s wetlands have eroded, which makes New Orleans vulnerable to powerful hurricanes and invites another disaster. Most of this erosion is due to the Army Corps water projects and the oil and gas industry.

Tainted Formula for Babies – China

In 2008, tainted formula adulterated with melamine to artificially boost the protein count killed at least six infants and caused 300,000 to suffer from kidney problems in China. Two perpetrators were executed and several others received huge prison terms (retrieved from <http://news.bbc.co.uk/2/hi/asia-pacific/8375638.stm>). Chinese parents still do not trust domestic formula and spend a great deal for foreign formula (Yan, 2013). The scandals over food quality continue despite a 2009 food law. There have been recent scandals in China involving spoiled meat sold to fast food chains, excessive amounts of hormones in KFC chicken products, fox meat in products sold by Walmart as donkey meat. A hidden camera showed workers at the Shanghai Husi Food company using rotten or expired meat to make Chicken McNuggets and beef patties and picking up meat that fell on the floor and putting it into the processing machines (Moss & Gough, 2014). Chinese officials are talking about imposing much tougher penalties on firms that violate food safety laws.

Deepwater Horizon Oil Spill (also known as BP oil spill)

The Gulf oil spill that occurred on April 22, 2010 was the second largest in world history and the largest *accidental* spill. The largest oil spill had been deliberately perpetrated by Iraq forces in 1991 during the Gulf War to prevent American forces from landing. The amount of oil spilled into the Gulf when the Deepwater Horizon rig owned by British petroleum (BP) exploded

has been estimated at 206 million gallons and eleven people died in the explosion (Moss, 2010). The long-term effects on the ecosystem are unknown but 572 miles of Gulf shoreline were affected.

It is now clear that the use of many shortcuts to speed up operations caused the explosion. Another cause had involved the failure of the cement used to contain the oil and gas at the base of the well which was 18,000 feet deep. A report compiled by the Bureau of Ocean Energy Management, Regulation and Enforcement and the Coast Guard had the following to say about the spill:

The central cause of the [explosion aboard the Deepwater Horizon](#) drilling rig was a failure of the cement at the base of the 18,000-foot-deep well that was supposed to contain [oil](#) and gas within the well bore. That led to a cascade of human and mechanical errors that allowed natural gas under tremendous pressure to shoot onto the drilling platform, causing an explosion and fire that killed 11 of the 126 crew members and caused an oil spill that took 87 days to get under control

The report concluded that BP, as the well's owner, was ultimately responsible for the accident. But it also said that BP's chief contractors, [Transocean](#), which owned the mobile drilling rig, and [Halliburton](#), which was responsible for the cementing operations, shared the blame for many of the fatal mistakes.

The study goes further than previous reports, citing seven violations of federal regulations as factors. Among them were violations of laws that required BP and its contractors to operate in a safe manner, to take measures to contain oil and gas for the protection of health and the

environment, to conduct reliable tests of well pressures and to notify federal regulators of changes in drilling plans (Broder, 2011).

In 2011, a presidential commission blamed BP for jeopardizing safety in order to cut costs (retrieved from <http://www.telegraph.co.uk/finance/newsbysector/energy/oilandgas/8242557/Obama-oil-spill-commissions-final-report-blames-disaster-on-cost-cutting-by-BP-and-partners.html>) and in 2014, a U.S. District Court judge found BP guilty of gross negligence and reckless conduct, a ruling that could cost the company \$18 billion in penalties.

A new report about the disaster indicates that poor maintenance of the blowout preventer -- which had bad wiring and backup batteries that did not work—by Transocean, owner of Deepwater Horizon, played a major role in the oil spill (Mufson, 2014). After the oil spill, the Interior Department tightened the rules and now requires “independent third party verification of the safety and effectiveness of blowout preventers”; “a secondary control system for subsea blowout preventers”; and “new inspection and reporting requirements for blowout preventers” (Chernoff, 2010).

Building Collapse in Bangladesh

On April 24, 2013, 1,132 factory workers died in Bangladesh when the 9-story building housing the factory collapsed. The building —Rana Plaza— was owned by Sohel Rana. Two of the nine reasons that have been cited for the collapse were the facts that the building was constructed on swampy land that could support a maximum of six stories and that the construction materials were sub-standard (Mirdha, 2013). Mr. Rana and several factory owners urged workers to return to work a day after the building was found to be unsafe by an engineer. Formal murder charges were filed against 41 people involved in the collapse (Manik & Najar, 2015). Bangladesh has been a major

exporter of cheap clothing produced under hazardous working conditions such as overloaded buildings. There is no easy solution to this problem. If all Bangladesh factories were upgraded for safety, the price of clothing manufactured there would rise dramatically, making it less competitive in the Western market and driving textile manufacturers to other countries without workplace safety standards.

General Motors Ignition Switch

General Motors has admitted to covering up a defective ignition switch and not recalling cars with the defective part. G. M. knew the part was defective and changed it without changing the part number so that they would not have to recall millions of cars (Wald & Vlastic, 2014). Mary T. Barra, CEO at General Motors, surprised everyone by taking a new approach and accepted responsibility for problems with a faulty ignition switch. So far, 15 employees were fired for this. Apparently, the problem with the switch was known since 2001 and the company made no efforts to repair the defect. The deadly ignition switch defect was in 2.6 million small cars manufactured by G.M. (Vlastic & Stout, 2014). It is now known that about 100 people died because of General Motors' cover-up of a defective ignition switch. The ignition switch would suddenly shut the engine and thus disable the air bag (Vlastic, 2015). According to Vlastic (2015):

G.M. set up the compensation fund last year after its internal investigation showed that dozens of engineers, lawyers and investigators inside the company had known about ignition problems for years but failed to fix them.

Two things that came to light regarding the G.M culture were the

G.M. nod and the G.M. salute:

The GM Nod. As described by Barra, this is a practice of GM managers sitting in a room,

nodding in agreement at steps that need to be taken, then leaving the room and doing nothing. The GM Salute. . . . the habit of employees going through meetings, with their arms folded and pointing outward at others, as if to say that the responsibility lay with them, not with the employee (Maynard, 2014).

Exploding Airbags — Takata Company

There are allegations that the Takata Company concealed results of airbag tests that were secretly conducted in 2004. Apparently, Takata airbag inflators can explode after an accident and harm vehicle occupants by shooting out metal and plastic shrapnel. About 34 million vehicles have been recalled – the largest automotive recall in history (Spector & Nagesh, 2015). Senator Claire McCaskill, chair of the Senate’s panel on consumer protection had the following to say (Beene, 2014):

If these reports are true, they show a company more concerned with profits than the lives of consumers -- a company that needs to be held fully accountable, not just with financial penalties, but also with criminal charges. I trust that safety regulators and Justice Department officials are looking closely at these accusations and considering every tool available under the law (Beene, 2014).

Sinking of the MV Sewol—Korean Ferry

The sinking of the Korean ferry MV Sewol in April 2014 resulted in the deaths of 304 passengers, mostly high school students. This tragedy was also caused by greed that motivated the violation of several safety rules. One of the problems that contributed to the deaths of so many people was that crew members were not properly trained for emergencies and actually told passengers to “stay inside and wait” (Sang-Hun, Fackler,

Cowan, and Sayare, 2014). This is the worst thing you can do when a ship is tipping over and is ready to sink. The more direct causes of the disaster included the redesign of the ferry to provide additional cabins and more exhibition space for an art gallery. This made the ship top heavy, which in turn made overloading a far greater peril than it would otherwise have been. The ferry, however, was routinely overloaded to improve profit margins. To allow more cargo on the ferry, the amount of ballast water was reduced to 761 metric tons, less than half the minimum required. Prosecutors assert that the Sewol was overloaded for at least 139 voyages during the 13 months it was in service and that the ferry company made about \$2.9 million in additional profit by overloading the ferry, or approximately \$9500 for each passenger that died (Sang-Hun, Fackler, Cowan, and Sayare, 2014).

So far, this paper has examined numerous disasters that mainly resulted from greed and caused the death of innocent people. The disasters this paper will now examine are the type that accountants and auditors are guilty of. No one dies directly from these disasters but the consequences can be quite pronounced. This paper will focus on but a few of the numerous such disasters.

Conflicts of interest and the Great Depression: Credit Rating Agencies and Auditors

There are three major credit-rating agencies that rate the quality of securities: Moody's, Standard & Poor, and Fitch. During the early 1970s, credit-rating agencies started charging the issuer of the securities fees for their ratings. Before that, agencies would not take fees from the issuer of the security because of obvious conflict of interest. Instead, revenues came from the investors who purchased the publications of the credit-rating agencies. Taking fees from the issuer of the security results in a conflict of interest since the agency that provided the highest ratings (e.g., AAA) would be the one that the issuers of securities would prefer to retain (Morgenson, 2008). This is exactly what happened and this

scenario contributed greatly to the Great Recession of 2008. In fact, there were emails sent by employees of the credit rating agencies that mentioned “the ongoing threat of losing deals” and the need to “massage the subprime and alt-A numbers to preserve market share” (Krugman, 2010). In addition, providing ratings for complex financial securities (e.g., collateralized debt obligations) was significantly more lucrative than providing ratings for simple bonds; the more complex the instrument, the greater the fees. This explains why about 93% of the subprime mortgage backed securities issued in 2006 and rated AAA by the rating agencies were rated as junk a few years later (Krugman, 2010). Clearly, the above-mentioned conflict of interest played a significant role in the corruption of the entire rating system.

The Financial Crisis Inquiry Commission (2011: xxv) that investigated the causes of the Great Recession stated that:

We conclude the failures of credit rating agencies were essential cogs in the wheel of financial destruction. The three credit rating agencies were key enablers of the financial meltdown. The mortgage-related securities at the heart of the crisis could not have been marketed and sold without their seal of approval. Investors relied on them, often blindly. In some cases, they were obligated to use them, or regulatory capital standards were hinged on them. This crisis could not have happened without the rating agencies. Their ratings helped the market soar and their downgrades through 2007 and 2008 wreaked havoc across markets and firms.

In our report, you will read about the breakdowns at Moody’s, examined by the Commission as a case study. From 2000 to

2007, Moody's rated nearly 45,000 mortgage-related securities as triple-A. This compares with six private-sector companies in the United States that carried this coveted rating in early 2010. In 2006 alone, Moody's put its triple-A stamp of approval on 30 mortgage-related securities every working day. The results were disastrous: 83% of the mortgage securities rated triple-A that year ultimately were downgraded. You will also read about the forces at work behind the breakdowns at Moody's, including the flawed computer models, the pressure from financial firms that paid for the ratings, the relentless drive for market share, the lack of resources to do the job despite record profits, and the absence of meaningful public oversight. And you will see that without the active participation of the rating agencies, the market for mortgage-related securities could not have been what it became.

There is no way to determine how many people were harmed by the Great Recession and it is impossible to put a dollar value on the pain caused by the loss of a job or one's home. One estimate for the monetary cost of the Great Recession in the United States alone is \$12.8 trillion (Puzzanghera, 2012).

The problem of auditor independence and conflicts of interest has been discussed by many researchers (e.g., Moore, Tetlock, Tanlu, and Bazerman, 2006). The comparison of the problem of credit-rating agency conflict of interest with that of the auditor is fitting. One can safely assume that auditors are reluctant to be tough with an important client since it is easy for the client to switch to another accounting firm. In fact, Hilton observes (2010):

Their [the auditors] responsibility is to the shareholders but they are paid by the company

and, though shareholders vote on the appointment of the auditors, if the company board wants to fire the firm it can usually do so without too much difficulty. The method of paying the auditor is therefore not that dissimilar to the rating agency which exists to provide guidance to investors but which gets paid by the company to put a credit rating on its bonds. Since the sub-prime debacle and the credit crunch and the exposure of the failings of credit agencies in their assessment of mortgage-backed securities no one defends the payment model any more, albeit they cannot come up with a better one.

Lehman Brothers

Lehman was the largest bankruptcy in American history. How much harm did the bankruptcy cause? As one observer put it (Kroft, 2012):

It's hard to overstate the enormity of the 2008 collapse of Lehman Brothers. It was the largest bankruptcy in history; 26,000 employees lost their jobs; millions of investors lost all or almost all of their money; and it triggered a chain reaction that produced the worst financial crisis and economic downturn in 70 years.

The program 60 Minutes ran a show about the Lehman Brothers bankruptcy, which points out that no one has been prosecuted despite the fact that there is a great deal of evidence that balance sheets were manipulated to fool investors who were beginning to lose confidence in the firm (Kroft, 2012)..

Ernst & Young, the auditing firm, was sued by investors for the audit it conducted of Lehmann Brothers. Plaintiff's lawyers alleged that the auditors at Ernst & Young did not do a vigilant job when auditing Lehman and allowed the firm to get away with the use of questionable accounting practices. Lehman was able to hide

about \$50 billion off its balance sheet in order to make the company appear more solvent by using a technique known as Repo 105. Ernst & Young paid \$99 million to settle the case. This is what investors claimed (Rapoport, 2013):

In particular, the investors alleged, Ernst & Young gave Lehman's financial statements a clean bill of health even though the firm knew the bank was using an accounting maneuver known as "Repo 105"—repurchase agreements that allowed Lehman to temporarily lower its leverage—to make itself appear healthier than it really was.

In 2011, a judge dismissed some of the claims against Ernst, but he allowed one claim to continue alleging that the audit firm made misstatements in July 2008 about Lehman's compliance with accounting rules when it was aware that the bank was using Repo 105 to temporarily move \$50 billion in assets off its balance sheet.

The conflict of interest in Ernst & Young's auditing of Lehman is demonstrated by the facts that the accounting firm collected over \$150 million from Lehman over the seven years that it allegedly disguised Lehman's true financial status and that during this period two Lehman

CFO's were former Ernst executives (retrieved from http://www.webcitation.org/query?url=http%3A%2F%2Fonline.wsj.com%2Farticle%2FSB10001424052748704259704576033540546160536.html%3Fmod%3DWSJEUROPE_newsreel_business&date=2010-12-22.)

AIG - Credit Default Swaps

Credit default swaps (CDS) were originally developed to insure investors against the default of a security. The default risk for an underlying debt security is transferred to the seller of the

CDS. In a CDS, there is the protection buyer who can use this instrument for credit protection; the protection seller who gives the credit protection; and the underlying security in the form of a specific bond or loan that could go bankrupt or into default. A CDS resembles insurance since the buyer makes regular payments and collects if the underlying financial instrument defaults. However, a CDS is very different from insurance because insured can obtain this insurance without owning the object being insured. If you want insurance on your house, you have to own the house. You cannot purchase fire insurance on someone else's home. With a CDS, a purchaser can use it for speculation purposes, i.e., purchasing it with the hope that a certain security – one not owned by the purchaser of the CDS – will default. If the purchaser of the CDS does not own the underlying security, the instrument is known as a “naked credit default swap.”

Try to imagine a situation where an insurance company is permitted to sell 10,000 people fire insurance on a home they do not own in order to collect premiums. Another important distinction between CDS and insurance is that an insurance company is obligated when selling, say, fire insurance, to set aside reserves in case of a fire. The CDS were sold by companies that did not put up reserves. According to the Financial Crisis Inquiry Commission (2011: 50):

AIG, the largest U.S. insurance company, would accumulate a one-half trillion dollar position in credit risk through the OTC market without being required to post one dollar's worth of initial collateral or making any other provision for loss. AIG was not alone. The value of the underlying assets for CDS outstanding worldwide grew from \$6.4 trillion at the end of 2004 to a peak of \$58.2 trillion at the end of 2007. A significant portion was apparently speculative or naked credit default swaps. Much

of the risk of CDS and other derivatives was concentrated in a few of the very largest banks, investment banks, and others—such as AIG Financial Products, a unit of AIG—that dominated dealing in OTC derivatives. Among U.S. bank holding companies, 97% of the notional amount of OTC derivatives, millions of contracts, were traded by just five large institutions (in 2008, JPMorgan Chase, Citigroup, Bank of America, Wachovia, and HSBC)—many of the same firms that would find themselves in trouble during the financial crisis. The country's five largest investment banks were also among the world's largest OTC derivatives dealers.

The market for derivatives and CDS became unregulated thanks to the Commodity Futures Modernization Act of 2000. This law was pushed by the financial industry in the name of free markets and deregulation. It also made it virtually impossible for states to use their own laws to prevent Wall Street from doing anything about these financial instruments (Kroft, 2008). Kroft (2008) asserts:

It [credit default swaps] also produced a huge transfer of private wealth to Wall Street traders and investment bankers, who collected billions of dollars in bonuses. A lot of the money was made financing what seemed to be a never-ending housing boom, selling mortgage securities they thought were safe and credit default swaps that would never have to be paid off.

Eric Dinallo, the insurance superintendent of New York State, explained what this caused (Kroft, 2008):

As the market began to seize up and as the market for the underlying obligations began to perform poorly, everybody wanted to get paid, had a right to get paid on those credit default swaps. And there was no 'there' there. There was no money behind the commitments. And people came up short. And so that's to a large extent what happened to Bear Sterns, Lehman Brothers, and the holding company of AIG. It's legalized gambling. It was illegal gambling. And we made it legal gambling...with absolutely no regulatory controls. Zero, as far as I can tell.

What happened at AIG? The AIG Financial Products Division was a 377-person office based in London that nearly destroyed the trillion dollar mother company which had over 100,000 employees. This small London office found a way to make money by selling CDS to financial institutions holding very risky collateralized debt obligations. AIG Financial Products made sure that its employees did very well financially. They earned \$3.56 billion between 2001 and 2007 before the firm imploded. Many became millionaires at the expense of the mother company which they nearly destroyed (Morgenson, 2008). When bonuses make up a huge part of how executives are compensated and are based on short-term profits, there should be no surprises when employees are encouraged to take on huge amounts of risk. At the start of the financial crisis, it became quite obvious that there was no way that AIG had enough money to cover the credit default swaps. Without government intervention, AIG would have gone bankrupt and its demise would have had a devastating impact upon the global economy.

Countrywide Financial

The worst American CEOs of all time according to *Portfolio Magazine* were Dick Fuld, CEO of Lehman Brothers at the time of its bankruptcy, with Angelo Mozilo, CEO of [Countrywide Financial](http://www.countrywide.com) until 2008, ranked second (<http://www.cnbc.com/id/30502091>). What did Angelo Mozilo do to earn this distinction? This is what *Portfolio Magazine* has to say about him:

Meet the man who made subprime a household word. Once a symbol of self-made accomplishment—a butcher's son who built the largest mortgage lender in the country—Mozilo became blinded by success and began going after the riskiest and most unsavory of borrowers to boost his company's market share. In doing so, he legitimized a sector that would ultimately bring down the economy.

Millions of people lost their homes because of the deceptive mortgages provided by Countrywide. Until 2003, Countrywide specialized in simple, fixed-rate loans. The following year, however, it started offering mortgages to low-income people. Countrywide Financial was the nation's largest mortgage lender and by 2004 it had revenues of \$8.6 billion. To make the loans affordable, Countrywide was offering poor people pay-option adjustable rate mortgages (ARMs). Mortgage loans were given to individuals without verification of income. These loans, which by 2006 accounted for more than 20% of Countrywide's loans, made it very easy to buy homes since during the first few years since the borrowers paid a small part of the interest and none of the principal. Unfortunately, the ARMs meant very substantial payments after the introductory period. The gross profit margins on those type of mortgages was more than double what Countrywide could make on a standard mortgage (4% vs. 2%). Mozilo sent emails indicating that the company was "flying blind" on the pay-option ARMs (he also referred to them as "toxic") and sold more than 5 million shares of Countrywide stock from November 2006 to October 2007, personally netting more than \$140 million (Morgenson, 2010).

Many acted likewise, providing extremely risky loans with little or no income verification. Wall Street made a great deal of money underwriting securities consisting of bundled mortgages of dubious quality. The riskiness of the mortgages kept increasing but so did the bonuses of the executives. Eventually, the whole house of cards came tumbling down. By 2008, Countrywide was close to bankruptcy because of a huge amount of bad loans, its market value had plummeted 85 percent, and it was sold to Bank of America at a very low price.

A few years ago, Angelo R. Mozilo, former CEO of Countrywide Financial, agreed to settle a civil fraud charge brought by the S.E.C. by paying \$67.5 million and being permanently barred from serving as an officer or director of any public company (Morgenson, 2010). He was accused dishonesty regarding his company's financial condition by promoting his firm's mortgages as high quality and by profiting on insider information regarding mortgages that he knew were toxic.

This is what The Financial Crisis Inquiry Commission (2011: xxii) had to say about the mortgage business:

For example, our examination found, according to one measure, that the percentage of borrowers who defaulted on their mortgages within just a matter of months after taking a loan nearly doubled from the summer of 2006 to late 2007. This data indicates they likely took out mortgages that they never had the capacity or intention to pay. You will read about mortgage brokers who were paid “yield spread premiums” by lenders to put borrowers into higher-cost loans so they would get bigger fees, often never disclosed to borrowers. The report catalogues the rising incidence of mortgage fraud, which flourished in an environment of collapsing lending standards and lax regulation. The number of suspicious activity reports—reports of possible financial

crimes filed by depository banks and their affiliates—related to mortgage fraud grew 20-fold between 1996 and 2005 and then more than doubled again between 2005 and 2007. One study places the losses resulting from fraud on mortgage loans made between 2005 and 2007 at \$112 billion. Lenders made loans that they knew borrowers could not afford and that could cause massive losses to investors in mortgage securities. As early as September 2004, Countrywide executives recognized that many of the loans they were originating could result in “catastrophic consequences.” Less than a year later, they noted that certain high-risk loans they were making could result not only in foreclosures but also in “financial and reputational catastrophe” for the firm. But they did not stop.

Even after the horrific devastation caused by the Great Recession, corruption still seems to be inbred into many organizations. The LIBOR rate is a key interest rate that affects charges on credit cards, mortgages, and student loans. Sixteen major banks have been accused of rigging it in order to increase profits (Raymond and Viswanatha, 2014). Recently, five major global banks pleaded guilty to collusion in manipulating foreign currency prices, a violation of federal anti-trust law. Collusion took place in chat rooms referred to as “the cartel.” These banks also deceived customers about the price of foreign currencies. In the last two years, the largest global banks have paid more than \$60 billion in penalties for their alleged dishonest practices (Viswanatha, 2015; Corkery & Protess, 2015).

CONCLUSION

This paper examined several kinds of disasters that were triggered by causes such as industrial accidents, defective products, nuclear accidents, and accounting fraud. The consequences of these disasters range from the deaths of innocent people to the loss of pensions to the loss of personal homes. What all these brief cases have in common is unbridled greed. When executives are concerned about bonuses, profits, compensation, and/or growth to the exclusion of concern with human welfare they are highly prone to cause harm to others.

Akio Toyoda, President of Toyota, apologized and took personal responsibility at a House hearing for the problems with Toyota that resulted in the recall of millions of Toyota automobiles. The car had a problem with sudden acceleration and caused the death of several people. The company was aware of the problem of sticking gas pedals in Europe a year before the accidents happened in the United States. Mr. Toyoda said: "I have personally placed the highest priority on improving quality over quantity" (Maynard, 2010). That statement succinctly describes the problem that causes disasters: caring more about sales growth and profits than the needs of customers. With automobiles, quality may mean safety as well as satisfaction.

What should be the most important objective of an organization? Jack Welch, former CEO of GE, believed that a firm's objective should be to make high quality, constantly improving products in order to maximize customer satisfaction. He also stated that the corporate objective stressed in all finance courses, that of maximizing shareholder value, was the "dumbest idea in the world" and could actually destroy an organization in the long run (Denning, 2011). It is not only about making the highest quality products but also about creating a culture where employees are engaged and excited about what they do. When employees are interested in what they do, they are less likely to be careless, thereby avoiding accidents, and more likely to be motivated to work for the success of their company. (Crim & Seijts, 2006).

When organizations behave unethically, they also can harm the “economic well-being of our nation” according to The Financial Crisis Inquiry Commission (2011: xxii):

We conclude there was a systemic breakdown in accountability and ethics. The integrity of our financial markets and the public’s trust in those markets are essential to the economic well-being of our nation. The soundness and the sustained prosperity of the financial system and our economy rely on the notions of fair dealing, responsibility, and transparency. In our economy, we expect businesses and individuals to pursue profits, at the same time that they produce products and services of quality and conduct themselves well. Unfortunately—as has been the case in past speculative booms and busts—we witnessed an erosion of standards of responsibility and ethics that exacerbated the financial crisis. This was not universal, but these breaches stretched from the ground level to the corporate suites. They resulted not only in significant financial consequences but also in damage to the trust of investors, businesses, and the public in the financial system.

There is a movement to focus on making a corporation sustainable rather than concentrating solely on profits, a focus that has been referred to as the triple bottom line. This approach uses accounting to measure and assess the consequences of social, environmental, and financial activities (sometimes referred to as people, planet, and profits, or the three P’s.) Sneirson (2011) has the following to say about sustainable business:

A sustainable business should therefore pursue financial goals while at the same time treading as lightly as possible on the earth and its natural

resources, supporting the business's employees and local communities, and developing products, services, and technologies that contribute to larger societal efforts to live more sustainably. This might entail being more than minimally compliant with environmental regulations, more than minimally generous with employees and communities, or paying more for goods and services that are sustainably harvested or produced. Such efforts might sacrifice profits, at least in the short run in that money that might otherwise be distributed to shareholders as dividends is reinvested in the company, environmental efforts, or employees and communities. But such expenditures often benefit the firm, financially and otherwise, over the long run; indeed, several studies have shown that—particularly in consumer-oriented industries, but in the business-to-business context as well—sustainable business practices tend to pay for themselves and frequently turn a profit.

The clear lesson that can be derived from the foregoing litany of disasters is that firms that are concerned about people and our common earthly habitat as well as profits have a greater likelihood of avoiding man-made calamities and surviving and prospering in the long run (Slaper & Hall, 2011).

REFERENCES

- Altmyer, D., Yang, S., Schallenkamp, K., & DeBeaumont, R. (2011). Student ethical awareness and business program matriculation: Evidence from the U.S. *Business Education and Administration*, 3(1), 41-49.
- Balmforth, R. (2011, March 15). Factbox: Key facts on Chernobyl nuclear accident. Reuters.com. Retrieved from <http://www.reuters.com/article/2011/03/15/us-nuclear-chernobyl-facts-idUSTRE72E42U20110315>
- Barter, S. (2001, September 13). How the World Trade Center fell. *BBC News*. Retrieved from <http://news.bbc.co.uk/2/hi/americas/1540044.stm>
- Bazerman, M. H. & Tenbrusel, A. E. (2011). Ethical breakdowns. *Harvard Business Review*, April, 58-65.
- Beene, R. (2015, November 7). Reports of Takata coverup 'require a criminal investigation,' lawmakers say. *Automotive News*. Retrieved from <http://www.autonews.com/article/20141107/OEM11/141109863/reports-of-takata-coverup-require-a-criminal-investigation-lawmakers>
- Berk, R. A. (2009). Multimedia teaching with video clips: TV, movies, YouTube, and mtvU in the college classroom. *International Journal of Technology in Teaching and Learning*, 5(1), 1-21.
- Bice, S. (2013, April 4). [csrconnect.ed – the ACCSR blog](#). My biggest mistake: What we all can learn from the Ford Pinto Case. Retrieved from <http://www.csrconnected.com.au/2013/04/my-biggest-mistake-what-we-all-can-learn-from-the-ford-pinto-case/>
- Bowden, P. & Smythe, V. (2008). Theories on teaching & training in ethics. *Electronic Journal of Business Ethics and Organization Studies*. 13(2), 19-26.
- Broder, J. M. (2011, September 14). Report links Gulf oil spill to shortcuts. *New York Times*, A25.

- Broughton, E. (2005, May 10). The Bhopal disaster and its aftermath: a review. *Environmental Health*, 4(6). Retrieved from <http://www.ncbi.nlm.nih.gov/pmc/articles/PMC1142333/>
- Burdeau, C. (2019, November 19). Katrina damage due to "monumental" neglect, judge rules. *National Geographic*. Retrieved from <http://news.nationalgeographic.com/news/2009/11/091119-us-katrina-AP.html>
- Chernoff, A. (2010, June 10). Blowout preventers: Disasters waiting to happen? *CNN.com*. Retrieved from <http://www.cnn.com/2010/US/06/10/oil.well.preventers/index.html>
- CNN Library (2013, August 23). Hurricane Katrina statistics fast facts. *CNN.com*. Retrieved from <http://www.cnn.com/2013/08/23/us/hurricane-katrina-statistics-fast-facts/>
- Corkery, M. & Protes, B. (2015, May 21). Banks admit scheme to rig currency price. *New York Times*, A1, B2.
- Craven, J (2013). Did 9/11 change the way we build? Retrieved from <http://architecture.about.com/od/structural/a/Did-9-11-Change-The-Way-We-Build.htm>
- Crim, D. & Seijts, G. (2006). What engages employees the most or, the ten c's of employee engagement. *Ivey Business Journal*. Retrieved from <http://iveybusinessjournal.com/topics/the-workplace/what-engages-employees-the-most-or-the-ten-cs-of-employee-engagement#.U9vh-vldUmM>
- Denning, S. (2011, November 28). The dumbest idea in the world: Maximizing shareholder value. *Forbes.com*. Retrieved from <http://www.forbes.com/sites/stevedenning/2011/11/28/maximizing-shareholder-value-the-dumbest-idea-in-the-world/>
- Downs, R. B. (2004). *Books that changed the world*. New York: Signet Classic.

- Etzioni, A. (2002, August 4). *When it comes to ethics, b-schools get an 'F.'* *Washington Post*. B4. Retrieved from <http://www.washingtonpost.com>
- Financial Crisis Inquiry Commission (2011, January). *The financial crisis inquiry report*. Washington D.C.: U.S. Government Printing Office. Retrieved from <http://www.gpo.gov/fdsys/pkg/GPO-FCIC/pdf/GPO-FCIC.pdf>
- Friedman, H. H., Fogel, J., and Friedman, L. W. (2005). Student perceptions of the ethics of professors. *Electronic Journal of Business Ethics & Organization Studies*, 10(2), 10-15.
- Friedman, H. H. & Lynch, J. A. (2012, December 2012). Lessons in ethics, character, and leadership from Psalms. Available at SSRN: <http://ssrn.com/abstract=2194175> or <http://dx.doi.org/10.2139/ssrn.2194175>
- Friedman, H. H. & Lynch, J. A. (2014, June 27). Using the Book of Psalms to transform an organization into a spiritual workplace. *SSRN.com*. Available at SSRN: <http://ssrn.com/abstract=2459990>
- Friedman, H. H., Lynch, J. A. & Herskovitz, P. J. (2013). Using a Comprehensive Multi-Modal Approach to Teach Values and Ethics. *SS International Journal of Business and Management Research*, 3(2), March, 124-143. Available at SSRN: <http://ssrn.com/abstract=2395634>
- Gov. Cuomo's broken promises [Editorial]. (2014, July 24). *New York Times*, A26.
- Grunwald, M. & Glasser, S. B. (2005, September 21). *Washington Post*. Experts say faulty levees caused much of flooding. Retrieved from <http://www.washingtonpost.com/wp-dyn/content/article/2005/09/20/AR2005092001894.html>
- IB Times Staff Reporter (2012, July 5). Report on Fukushima nuclear disaster says it was man-made -- and questions Japanese culture. *IB Times*. Retrieved from <http://www.ibtimes.com/report-fukushima-nuclear-disaster-says-it-was-man-made-questions-japanese-culture-722523>

- Kroft, S. (2012, August 19). The case against Lehman Brothers. *CBS News 60 Minutes*. Retrieved from <http://www.cbsnews.com/news/the-case-against-lehman-brothers-19-08-2012/>
- Kroft, S. (2008, October 26). "The Bet that Blew up Wall Street." *CBS News 60 Minutes*, Retrieved from <http://www.cbsnews.com/stories/2008/10/26/60minutes/main4546199.shtml>
- Krugman, P. (2010, April 26). Berating the raters. *New York Times*, A23.
- Leggett, C. (1999). The Ford Pinto case: The valuation of life as it applies to the negligence-efficiency argument. Retrieved from <https://users.wfu.edu/palmitar/Law&Valuation/Papers/1999/Leggett-pinto.html>
- Linder, D. (2002). The Triangle Shirtwaist Factory fire. Retrieved from http://law2.umkc.edu/faculty/projects/ftrials/triangle/triangl_eaccount.html
- Lynch, J. A. & Friedman, H. H. (2013, July 29). Using lawyer jokes to teach business ethics: A course module. *SSRN.com*. Available at SSRN: <http://ssrn.com/abstract=2302910> or <http://dx.doi.org/10.2139/ssrn.2302910>
- MacDonald, G. J. (2007, March 21). Can business ethics be taught? *Christian Science Monitor*. Retrieved from <http://www.csmonitor.com/2007/0321/p13s01-lire.html>
- Manik, J. A. & Najar, N. (2015, June 2). Bangladesh charges 41 in collapse of factory. *New York Times*, A7.
- Matthews, C. (2014, July 10). The 10 most corrupt states in the U.S. *Fortune*. Retrieved from http://fortune.com/2014/06/10/most-corrupt-states-in-america/?xid=tab_rss
- Maynard, M. (2014, June 5). "The GM nod" and other cultural flaws exposed by the ignition defect report. *Forbes*.

Retrieved from

<http://www.forbes.com/sites/michelinemaynard/2014/06/05/ignition-switch-report-spares-ceo-barra-but-exposes-gms-culture/>

- Maynard, M. (2010, February 24). An apology from Toyota's leader. *New York Times*. Retrieved from http://www.nytimes.com/2010/02/25/business/global/25toyota.html?_r=0
- Mirdha, R. U. (2013, June 27). [Nine reasons for Rana Plaza collapse](http://archive.thedailystar.net/beta2/news/nine-reasons-for-rana-plaza-collapse/). *Daily Star*. Retrieved from <http://archive.thedailystar.net/beta2/news/nine-reasons-for-rana-plaza-collapse/>
- Moore, Don A., Tetlock, P. E., Tanlu, L., and Bazerman, M. H. (2006). Conflicts of interest and the case of auditor independence: Moral seduction and strategic issue cycling. *Academy of Management Review*, 31(1), 10 – 29.
- Morgenson, G. (2008, December 7). Debt watchdogs: Tamed or caught napping. *New York Times*, 1, 40.
- Morgenson, G. (2010, October 15). Lending magnate settles fraud case. *New York Times*, Retrieved from <http://www.nytimes.com/2010/10/16/business/16countrywide.html>
- Moss, L. (2010, July 16). The 13 largest oil spills. *Earth Matters*. Retrieved from <http://www.mnn.com/earth-matters/wilderness-resources/stories/the-13-largest-oil-spills-in-history>
- Moss, M. & Gough, N. (2014, July 25). Food safety in China still faces big hurdles. *New York Times*, B1, B4.
- Mufson, S. (2014, June 5). New report on BP oil spill points to faulty blowout preventer procedures. *Washington Post*. Retrieved from http://www.washingtonpost.com/business/economy/new-report-on-bp-oil-spill-points-to-faulty-blowout-preventer-procedures/2014/06/05/eb3a6fce-ecc4-11e3-93d2-edd4be1f5d9e_story.html

- Nocera, J. (2014, July 22). Did Dodd-Frank work? *New York Times*, A21.
- Puzzanghera, J. (2012, September 12). Financial crisis, recession cost U.S. \$12.8 trillion, report says. *Los Angeles Times*. Retrieved from <http://articles.latimes.com/2012/sep/12/business/la-fi-financial-crisis-cost-20120913>
- Rapoport, M. (2013, October 18). Ernst & Young agrees to pay \$99 Million in Lehman settlement. *Wall Street Journal Online*. Retrieved from <http://online.wsj.com/news/articles/SB10001424052702304384104579143811517891526>
- Raymond, N. & Viswanatha, A. (2014, March 14). U.S. regulator sues 16 banks for rigging Libor rate. *Reuters.com*. <http://www.reuters.com/article/2014/03/14/us-fdic-libor-idUSBREA2D1KR20140314>
- Rosenberg, J. (2014). 1984 - Huge poison gas leak in Bhopal, India. *About.com*. Retrieved from <http://history1900s.about.com/od/1980s/qt/bhopal.htm>
- Sang-Hun, C., Fackler, M., Cowan, A. L., and Sayare, S. (2014, July 27). Greed before the fall. *New York Times*, A1, A12.
- Sauter, M. B., Hess, A.E.M., & Weigley, S. (2013). The biggest car recalls of all time. *24/7 Wall Street*. *24/7 Wall Street*. Retrieved from <http://247wallst.com/special-report/2013/02/01/the-biggest-car-recalls-of-all-time/#ixzz38xetarFA>
- Slaper, T. F. & Hall, T. J. (2011) The triple bottom line: What is it and how does it work? *Indiana Business Review*. Retrieved from <http://www.ibrc.indiana.edu/ibr/2011/spring/article2.html>
- Smolsky, R. (2011, May 23). Waiting for the floor to collapse. *Haaretz*. Retrieved from <http://www.haaretz.com/print-edition/business/waiting-for-the-floor-to-collapse-1.363425>
- Sneirson, J. F. (2011) The sustainable corporation and shareholder profits. *Wake Forest Law Review*, September. Retrieved

- from <http://wakeforestlawreview.com/the-sustainable-corporation-and-shareholder-profits>
- Sorkin, A. (2014, July 22). Investors ask boards, 'can we talk.' *New York Times*, B1, B4.
- Spector, M. & Nagesh, G. (2015, May 19). Takata air-bag recalls expand to 34 million cars in the U. S. *Wall Street Journal*. Retrieved from <http://www.wsj.com/articles/air-bag-recalls-expand-sharply-1432057549>
- Stape, A.L. (2002, April 7). Ethics: Area business schools are not rushing to add courses on ethical behavior as a result of the Enron scandal. *Providence Journal-Bulletin*, F1.
- Stevenson, A. (2014, July 22). Inquiry faults hedge fund tax strategy. *New York Times*, B1, B8.
- Stout, H. (2014, June 30). G.M. to set payouts in crashes with flawed switches. *New York Times*, B1.
- Tapscott, D. (2011, July 14). Rethinking how we teach the 'net generation' *NPR.org*. Retrieved from <http://www.npr.org/2011/07/14/137853462/rethinking-how-we-teach-the-net-generation>.
- The Engineer (2013, February 11). Five biggest engineering disasters. *Engineering.com*. Retrieved from <http://www.engineering.com/Blogs/tabid/3207/ArticleID/5301/Five-Biggest-Engineering-Disasters.aspx>
- Viswanatha, A. (2015, May 20). Global banks to pay \$5.6 billion in probes. *Wall Street Journal*. Retrieved from <http://www.wsj.com/articles/global-banks-to-pay-5-6-billion-in-penalties-in-fx-libor-probe-1432130400>
- Vlasic, B. (2015, May 12). G.M.'s ignition switch death toll hits 100. *New York Times*, B3.
- Vlasic, B. & Stout, H. (2014, July 25). Fallout from recall hits bottom line. *Forbes*, B1, B4.
- Wald, M.L. & Vlasic, B. (2014, June 27). Parts supplier is scrutinized in G.M. flaw. *New York Times*, B1, B6.

- Williams, S. D. & Dewitt, T. (2005). Yes, you can teach business ethics: A review and research agenda. *Journal of Leadership and Organizational Studies*, 12(2), 109-120.
- Yan, A. (2013, July 2). Memories still too raw for Chinese parents to trust baby formula. *South China Morning Post*. Retrieved from <http://www.scmp.com/news/china/article/1273375/memories-milk-scandals-still-too-raw-chinese-parents-trust-formula>