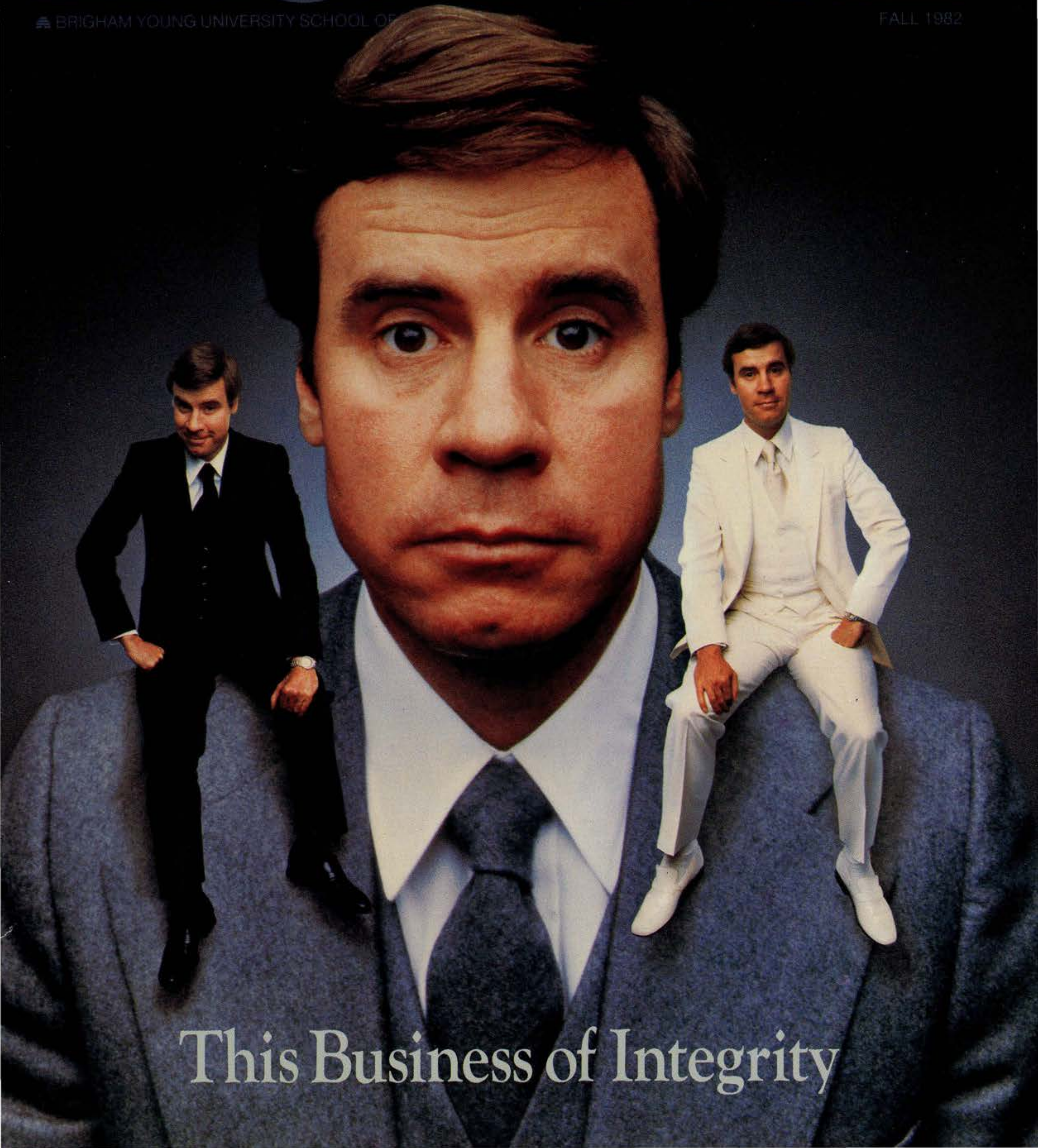
EXCHANGE

BRIGHAM YOUNG UNIVERSITY SCHOOL OF

FALL 1982



This Business of Integrity

INTEGRITY

"We all know, or say we know, that honesty is the best policy. It's probably written in your company's code of ethics. But what most of us fail to do is to talk about it enough in our boardrooms, stockholder meetings, lunchrooms, or hallways in ways that make a substantial difference. The same is true in education. I fear as a profession we've been unconscionably negligent in stressing morality, integrity, honesty, and ethics. In a recent survey of 131 U.S. business students, nearly all expected to face pressure toward unethical behavior, and fully one half of them anticipated not resistance, but accommodation and compromise. We simply must do better."

—BYU President Jeffrey R. Holland

"Many are unwilling to pay the price to be free from the chains of lies. Some individuals may be very aware of the value of honesty and yet be unable to come up with the down payment."

—Elder Marvin J. Ashton

"There's one way to find out if a man is honest; ask him. If he says 'Yes,' you know he's a crook."

—Groucho Marx

"Yea, they are greedy dogs which can never have enough, and they are shepherds that cannot understand: they all look to their own way, every one for his gain, from his quarter."

—Isaiah 56:11

"We must make the world honest before we can honestly say to our children that honesty is the best policy."

—George Bernard Shaw

"The choice to serve God, worthily made, does not necessarily preclude a home or sufficient money or income, or the things of this world which bring joy and happiness, but it does require that we must *not* turn away from God and the teaching of Jesus Christ while in the pursuit of our temporal needs."

—President N. Eldon Tanner

"The just man walketh in his integrity: his children are blessed after him."

—Proverbs 20:7

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EDITOR'S CORNER

"U.S. Losing Battle against Con-men," "Investment Fraud Skyrockets as Economy Plunges," "Commodity Swindlers Prey on People's Good Nature." Are these the kinds of headlines you have been seeing in your newspapers lately? If you have, you're not alone.

According to investigators from various consumer and government agencies, fraud and general dishonesty within the business community appear to be running rampant. Hundreds of millions of dollars are being lost by investors every year. So-called "Ponzi" schemes, where yesterday's "investors" are paid "dividends" with money collected from new victims, are emerging everywhere. Daily, uninformed consumers fall victim to organizational dishonesty and misrepresented would-be money making "opportunities." For many people, personal integrity is too often set aside when that golden chance to "make a bundle" rears its head.

In this issue of EXCHANGE magazine, we'll be dealing with "this business of integrity." Articles focus on questions like these: Can we really be successful in business and maintain total personal and organizational integrity? Should different standards apply in our personal lives and our business careers? How can we avoid being victimized by the unscrupulous operator?

We feel strongly that the BYU School of Management must stand for integrity in business. We are committed to providing for the world of private and public management, competent, professional people who adhere to high and uncompromising standards. We offer to you, the reader, this issue of EXCHANGE magazine as a statement of our ongoing commitment to "this business of integrity."

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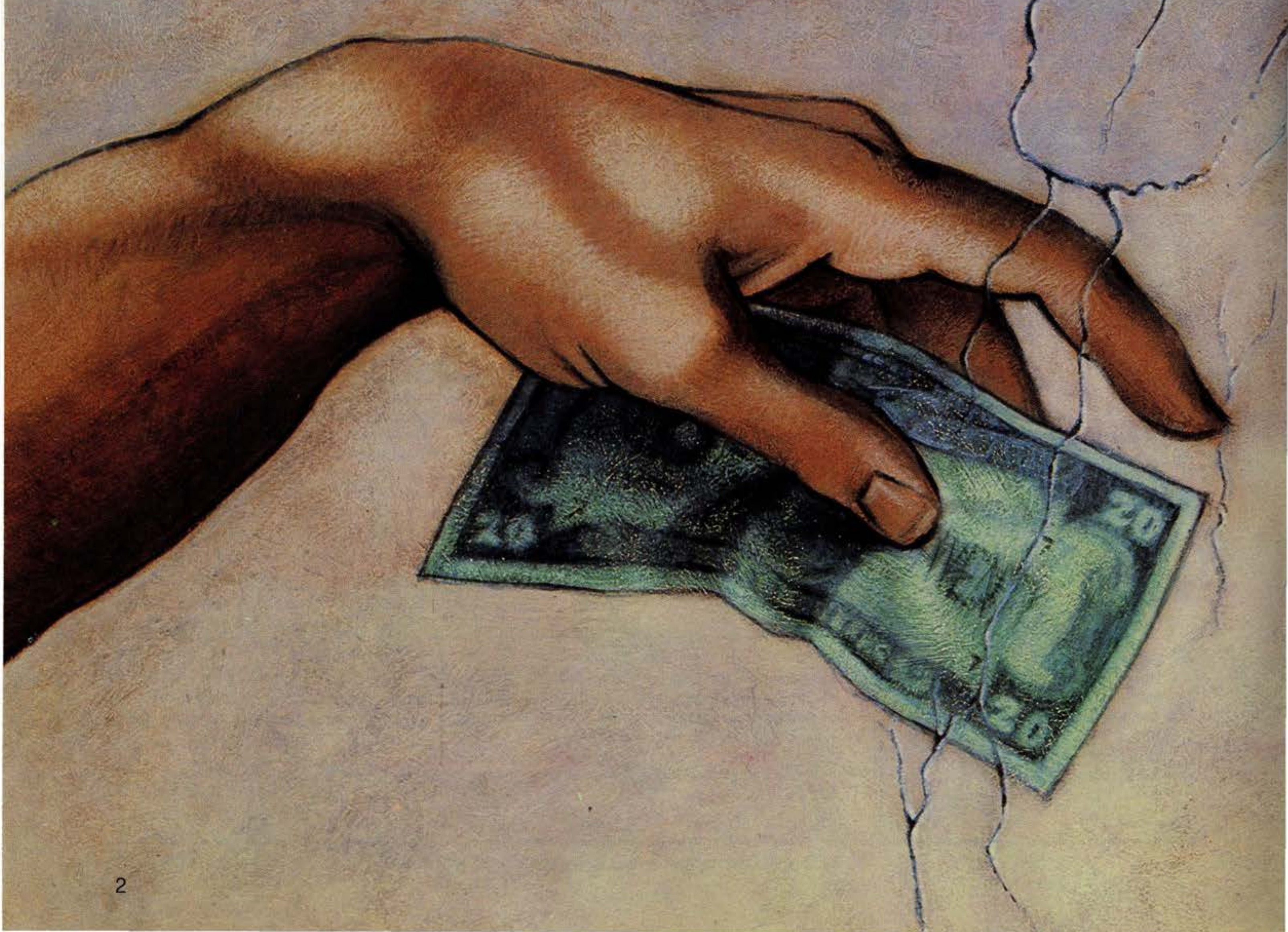
Cover photograph by Thomas Pratt, Gerald Bybee, and George Gruber.

Welcome to the Church of Hakeem

Recognizing Frauds and Scams

Stephen D. Nadauld



It would have to be the Church of Hakeem. Yes, I'm sure of it. Without a doubt the Church of Hakeem is my favorite fraud. Why?

Well, there are several reasons: first, it is so incredibly outrageous; second, it is simple—there are no frills, no embellishments that obscure the inner workings; and, finally, it so vividly depicts some basic motivations that make it and other frauds like it successful.

Picture yourself in the ornate Paramount Theater in Oakland, California.[1] It's 1978. You have been invited to a "worship" service of the Church of Hakeem. Enter Hakeem. He is tall, handsome, and nobly attired. His sermon begins: "Brothers and Sisters—do you believe for one minute that you were born to be poor? Do you suppose God intended for you to scrape and struggle all your life and have nothing to show for it? Are you destined to be destitute? Foreordained to financial failure? I say to you—NO! That is *not* God's plan!"

"Bring forward your ten dollars and your hundreds of dollars and your thousands of dollars. Bring them to God—exercise your faith and trust in him and he will pay—a dividend! Yes, he will reward your faithfulness with an increase—perhaps 50 percent, perhaps 100 percent—bring your money to God, and receive your just reward. Which of you will taste of the sweetness of life? Who will dare to be rich? Who will receive God's dividend?"

An elderly man in the front row goes forward and gives to Hakeem an envelope. Inside is $100. Others come forward and offer envelopes—$500, $1000—the greater the amount, the greater the faith and trust.

"Bless you my brothers and sisters. You shall surely be rewarded. When we meet again next week God will assuredly declare you a dividend!"

Indeed, Hakeem's church had a "worship" service the next week. And the heavens did indeed pour out blessings, and God did declare a dividend—to some. To the lady who had given $100, Hakeem gave back $200—God had declared a 100 percent dividend! To the man who had proffered $1000, Hakeem gave $3000—a 200 percent dividend (obviously in direct proportion to the demonstrated faithfulness). But some had not been so faithful, and their dividends were delayed. Not to worry. God was only testing their faith, and the dividend would come—in time.

"Now Brothers and Sisters, do you not believe? Put away your doubt, cast off your negative thoughts—come and worship—double your faith—double your dividends."

Illustration by Mark Robison.

An important feature of every fraud is that the first few promised payments are always made.

I can just imagine what the Hakeem worshippers were thinking. A 200 percent return in one week! Just think what we could do with the money, Mabel! Why, we could take that $10,000 in our savings account and in a week it would be $20,000.

And so the money poured into Hakeem's church, and the auditorium was filled to overflowing, and last week's faith offerings were used to pay next weeks dividends—until one week—you guessed it . . . Hakeem forgot to come to church. Well, it wasn't exactly that he forgot. It was rather that he was indisposed, sort of on vacation. Oh well, we might as well face it, Hakeem took millions of dollars and then he took a powder!

Hakeem-type Schemes Invade the Intermountain West

I can hear you now: "Why that's the dumbest thing I ever heard of! No one in his right mind would fall for anything as stupid as that!" It certainly does seem foolish with the details spelled out on paper. With the benefit of 20-20 hindsight, it appears totally ridiculous.

However our recent experience in the state of Utah suggests that not all "investment opportunities" are as readily transparent and that thousands of individuals have lost tens of millions of dollars on schemes that, in the end, look very much like the Church of Hakeen. Indeed, state officials have recently reported that in Utah alone investors have lost $165 million in phony "deals." Nationwide, the losses run into the billions.

Of course investment frauds and bogus schemes are not entirely new phenomena.[2] Just what current conditions are responsible for the sudden proliferation of fraudulent schemes? Are there special circumstances that make the people of Utah easy marks? A careful reading of newspaper reports, visits with state officials, and conversations with victims have led to some interesting observations.

First, Utah experienced throughout the '70s a period of rapid inflation, as did the rest of the nation. This general inflation, coupled with the state's real growth, produced particularly rapid price increases in various sectors of the economy, especially in real estate. The price increases in real estate were not restricted to a few savvy developers. Everyone who owned real property enjoyed some appreciation. And some benefited spectacularly. The belief that prices would continue to rise, combined with the success of virtually everyone who ventured into real estate, created a major speculative boom. The profits were large and easy to obtain.

Expertise and analysis were seen as far less important than vision, action, and daring. In short, the real estate market appears to have produced a speculative fever whose seeds were scattered throughout the populace.

The problem this creates is subtle. It has to do with the way people think. The notion that you can get something for nothing is normally anathema to the ordinary individual. But when an economic phenomenon produces "easy" money for an extended period, the standard wisdom is drawn into question. The vivid descriptions of excited neighbors, the exortations of well-meaning friends, and the sudden appearance of Cadillacs, motorboats, and motorhomes are seductive and unbalancing influences.

Portrait of a Fraud Victim

If general conditions sow the seeds, individual thoughts and motivations provide fertile soil. It is extremely interesting to talk with people and observe some general characteristics of those who fell victim to fraudulent schemes. Several common threads emerge from their comments:

- Almost all, in retrospect, admit to the desire of making money fast and in excess of the "normal" returns. With reflection, the admission is to being "greedy," but, before the fact, the notion was more aligned with "getting a good deal," or, as one man put it, "something I could brag about to my buddies"
- A somewhat surprising but very pervasive thought was that, "I'm a decent guy, and I deserve to have something work out." More specifically, LDS Church membership is a fairly common denominator among Utahns, and some individuals admitted to feeling because they had paid their tithing and been faithful in their Church service, they would be blessed
- Almost all admitted to having little or no expertise in the proposed investment vehicle
- Many realized after the fact that they were ignorant of standard investment procedure. Numbers were not verified, documents were not carefully examined or even used, and references were seldom checked
- A particularly universal and vexing problem centered around the issue of "trust." Most felt initially that they were dealing with someone they could trust. When pressed about why, the answer referenced Church

affiliation or position in the hierarchy, or zeal in the performance of religious duty. These individuals typically thought of themselves as optimistic, observed that it was not in their nature to be skeptical or cynical, and felt it was somehow not right to display mistrust or "lack of faith"

- A lesser number of individuals expressed that their behavior stemmed from a new-found "power of positive thinking." They implied that they had been exposed to the general concept and desired to apply it in their investments

- Deep despair was cited by some as a powerful motivating factor. They had concluded that their only hope for the future was to take a chance and "pray" that things would work out.

What Makes a Good Scam Tick?

Perhaps more interesting than the traits of deceived and disappointed investors are the characteristics of the deals that are put together to deceive such folks. The universal characteristic of every scam is the promise of high return. Nay, not just *high*—usually astronomical. You would expect that the clever scam artist would pitch a percent return per year that would be high enough to draw interest but still seem plausible to the would-be investor. In fact, one of the longest running schemes based on commodity investments did just that. The return promised was 2 percent per month if investors wished a monthly check or 30 percent per year for money left in a whole year.

Most con artists are not that subtle. A favorite number is 10 percent per month or higher. For example, a diamond-based scheme centered in Salt Lake City promised investors 30 percent a month or 360 percent per year. A young man who had invested $500 in the scheme stated, "I was promised that if I was in the business 19 months, I would get a return of $292,000."[3]

If the notion of turning $500 into $292,000 in 19 months isn't mind-boggling enough in dollar terms, it should be noted that in percentage terms the return being promised is over 1300 percent per year. At that rate, if one were a little more patient, at the end of another 19 months the original $500 would be worth $1.5 trillion or half the total gross national product!

Many frauds are promoted by claiming association with reputable individuals in the community.

An important feature of every fraud is that the first few promised payments are always made. There are several obvious reasons for this. The first has to do with advertising and promotion. It's virtually impossible for the average person to be involved in a "deal" that's "working" and not tell someone about it. Promoters rely heavily on this trait of human nature. There is also the element of time. It takes time to build the pyramid, and early investors must be kept happy and gregarious while new layers of investors are added.

Many frauds are promoted by claiming association with reputable individuals in the community. The Utah version usually involves the implied endorsement of religious leaders. In a particularly blatant and deceptive example, a promoter invites an investor into his office where he places a phoney telephone call to a member of the LDS First Presidency and holds a totally fictitious conversation concerning the "business" at hand. The obvious implication is that because he is on a personal basis with a respected religious leader he is honest and can be trusted. A less blatant, but still harmful, situation occurs when an unwitting local Church leader such as a bishop or high counselor allows his home to be used for an "introductory" meeting or finds his participation being referenced as good reason for involvement by others.

Similarly, promoters may reference their or someone else's faithfulness in Church service. Kay Brooks, senior FBI agent in a Better Business Bureau luncheon speech stated: "If you are approached for investment by someone who makes sure you are certain of his strong ties with a certain religious group, and if strong ties are used to build your confidence, or the person lets you know how faithful he is in his temple attendance, or church position, get a good hold on your wallet."[4]

Of particular interest in some schemes is the purported altruism of the principles. In one case a young woman investor was told that Mr. "Z" was "a wealthy philanthropist who was trying to spread wealth around among the common people."[5] In another example, when a promoter was asked why he didn't use a particular money making technique himself he wrote, "I do use it. It's made lots of money for me. I can also make money by selling it to you, so why should I be selfish?"[6]

The successful scams are not limited to a few special vehicles. Recent frauds have been structured around gold refining, commodity investing, diamond purchases, accounts receivable factoring, and land development. The only necessary ingredient is that a story can be told which may seem opaque

The ideal scam is a concept that people have heard of vaguely, but know little about.

and complex to the investor but is totally "understood" by the promoter. Indeed, the ideal vehicle for a scam is a concept that people have heard of vaguely (and therefore seems plausible) but know so little about that they cannot formulate useful questions. The artful promoter usually embellishes the story with words or phrases like "arbitrage" or "risk hedge" or "tax" followed by "shelter," "exempt," or "deferrable" depending on his perception of the audience.

But, It Started Out So Legitimately

While frauds and scams are usually premeditated and formulated from the beginning as such, it is not unusual for a venture that starts out as a would-be legitimate business to become a so-called "ponzi scheme," where new investor dollars are used to pay dividends to earlier investors. For example, commodity investing transpires in very volatile markets which can provide high return, but also at very high risk. A money manager may believe he can invest wisely in these markets, raise a pool of funds, and begin operating. If his decisions are right the profits are there, and a reasonable return is paid out to investors. The problem arises when some trades are made at a loss. The temptation is great to continue accepting new investor money, use it to pay returns to old investors, and hope that the next set of trades will show a profit.

Under such conditions it requires honesty and integrity to admit to bad business judgment. A recent scheme involving 900 accounts and $5 million of investor losses "never showed a profit in one single month of its operation."[7] That did not stop the firm from accepting money from investors right up until the day before declaring bankruptcy. Just before the devastating announcement, the firm's principals used over $85,000 of the company's funds to pay legal fees necessary for their own defense. Such action is certainly immoral if not criminal.

Sniffing Out Fraud

An obvious question is how can one tell the difference between an outright fraud, a concept that could become or perhaps already is a ponzi scheme, and a legitimate business venture. Unfortunately there are no litmus tests that are quickly and easily applied. It takes time, effort, and some expertise to analyze financial statements, call banking references, verify facts, and understand business structures well enough to render an informed opinion. There is, nevertheless, a kind of analysis that can be done by anyone. It's quite simple and has to do with two very basic economic concepts.

The first concept to keep in mind is that, with one exception, high promised returns will *always* be accompanied by high risk. (The exception is described in concept two below.) Anyone who says otherwise is simply not telling the truth. There are some very credible high return opportunities for investors, but they are made legitimate by spelling out very explicitly, and in great detail, the risk that is associated with the high return.

The second concept relates to those occasional circumstances which allow (usually for a limited time) the existence of *above average* return for average risk. Such a situation may occur when a firm is in a monopoly position due to economies of scale, regulation, patent protection, or when there are temporary advantages from production or marketing strategies. These kinds of investments are the exception rather than the rule.

Thus, if a venture offers high returns but also spells out in detail the equally high risks, it is probably legitimate. It may not be *prudent,* but that's another matter. If the venture is touted as having high returns, no or low risks, and lacks a simple, understandable, and straightforward explanation of the economic reason for the disparity, the chances are that it will soon become the next ponzi scheme to be reported on the six o'clock news.

Financial fraud, like death and taxes, will always be with us. Unlike death and taxes, it is not the inevitable lot of every investor to be defrauded. Every investor would do well to consider three short questions:

- What is my motivation in this transaction?
- What are the characteristics of "the deal?"
- Does it square with simple economic principles?

After all, who among us wishes to become the next convert to the Church of Hakeem. ≡

Notes

[1] *Wall Street Journal.* January 23, 1979.

[2] For example, consider The South Sea Bubble, Tulipmania, Charles Ponzi, Bernard Cornfeld, and Texas Gulf Sulfur. A fascinating description of the first two is found in *Extraordinary Popular Delusions and the Madness of Crowds.*

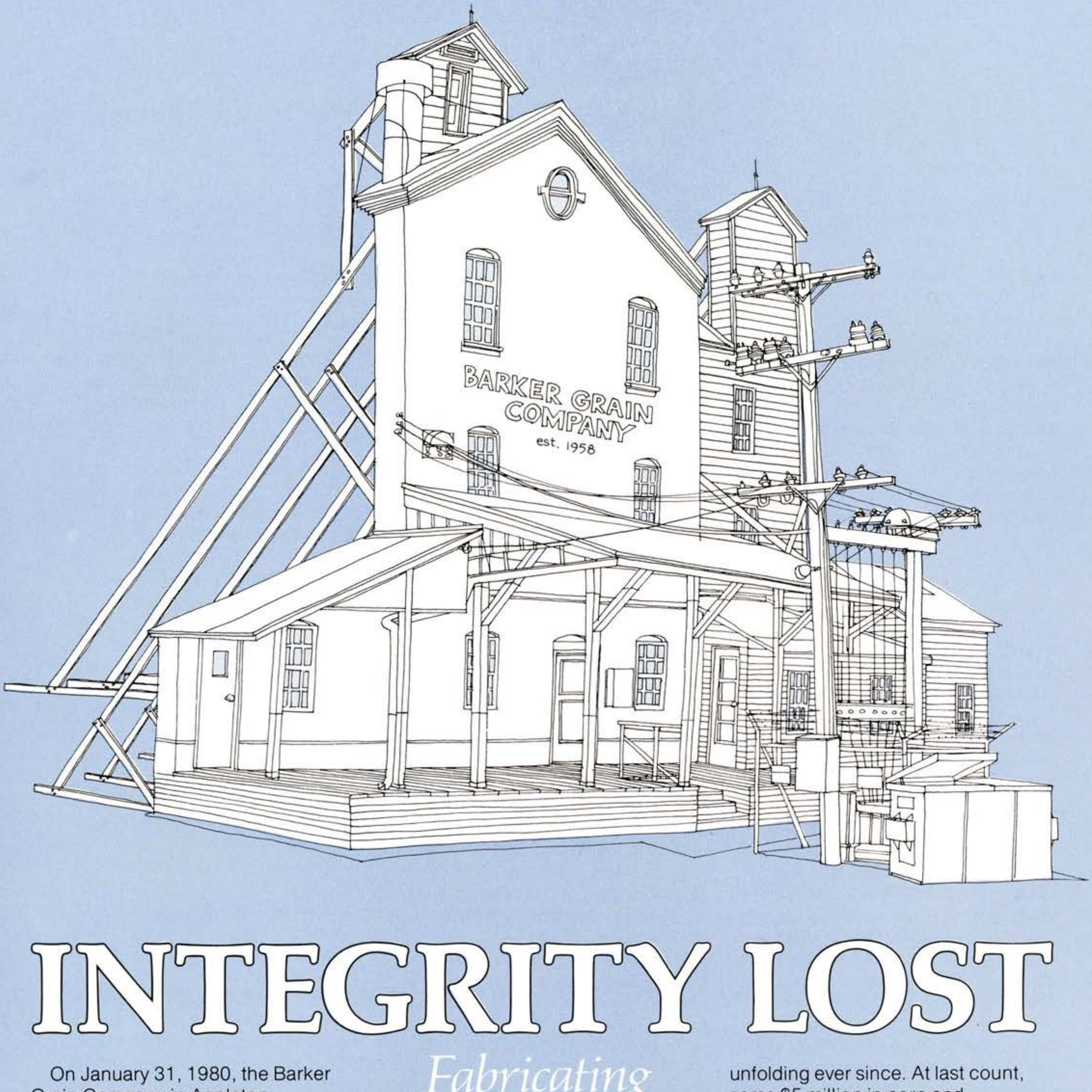
[3] *Provo Daily Herald,* November 17, 1981.

[4] *Provo Daily Herald,* November 15, 1981.

[5] *Provo Daily Herald,* November 17, 1981.

[6] Circular mailed to author in March, 1982.

[7] *Provo Daily Herald,* November 15, 1981.



INTEGRITY LOST

Fabricating the Great Deception

W. Steve Albrecht
and
Marshall B. Romney

On January 31, 1980, the Barker Grain Company in Appleton, Kansas, received an unexpected visit.[1] A state auditor had come to inspect the financial records. A couple of hours later Joseph Barker, operator and owner of the grain elevator, climbed into his pickup truck, drove seven miles outside of town on a gravel road and put a bullet through his head.

The story of the largest grain scandal in Kansas history has been unfolding ever since. At last count, some $5 million in corn and soybeans stored by farmers at Barker Grain was missing. A number of banks and other creditors are seeking an additional $3.4 million owed them by Mr. Barker. The financial collapse of Barker's grain elevator shook the tiny town of Appleton with its population of 340. What made the demise of the Barker Grain Company so baffling is that Joseph Barker was the town's

Illustration by Brent D. Burch.

Many people who claim to be honest citizens have found themselves involved in fraudulent activities.

leading businessman, a devoted churchgoer, and a friend of nearly everyone for miles around.

Joseph Barker was the local boy who made good. He started out driving a coal truck, bought the grain elevator in 1958, and made it a thriving business. Then he really struck it rich in the early '70s when he made a bundle trading grain on the commodities market. He moved to a nearby town and built a lavish house on a bluff overlooking the Des Moines river. The house had an indoor swimming pool, a sauna, and a three-car garage. Not many people begrudged Mr. Barker his wealth. He worked hard—sometimes from 5 a.m. to 11 p.m. during the harvest. He was generous, always extending credit to farmers in a bind and doing favors for others. In fact, in 1979 Mr. Barker, who attended the Christian church in Appleton, sent the pastor and his wife on a trip to the Holy Land. Most Appleton residents guess that Mr. Barker lost his wealth playing the commodities market and was then forced to embezzle the grain to cover his losses.

This story of Joseph Barker is not unique. While the circumstances and situations differ, frauds, embezzlements, and other forms of dishonesty are all too commonplace in our society. Recently, in fact, many people who claim to be honest citizens have found themselves involved in fraudulent activities. This has been especially true where people have used the name of their church or their associations with well-known people, schools, and businesses to perpetrate crimes. Most of these perpetrators are not hardened criminals, but are first-time offenders who have respectable backgrounds.

This image of fraud perpetrators as being very similar to other members of society has been confirmed by recent white-collar crime research.[2] In comparing fraud to other property offenses (bank robbery, burglary, etc.), we found that fraud perpetrators are generally older, more likely to be married, have a stable family life, have more children, have a higher education, and are more active church members. They were less likely to be divorced or to have used drugs or alcohol. We also noted that they have more self-control, higher self-esteem, are more optimistic, self-sufficient, achieving, socially conforming, kind, and more empathetic than other property offenders. In summary, fraud perpetrators have personal characteristics very similar to those you would like to see in an employee, a friend, or a community or religious leader.

Why Otherwise Honest People Commit Fraud

Given these positive personal characteristics, why do such people commit fraud? Our research has shown that it is the interaction of three factors that lead one to commit fraud: a difficult situation, a great opportunity to commit and conceal the dishonest act, and a level of personal integrity that allows rationalization of the act (in other words, a "rubber conscience"). A person with a high level of personal integrity and limited opportunity or little pressure to commit fraud will most likely behave honestly. But fraud becomes increasingly likely as individuals with less personal integrity are placed in situations where there are increasing pressures and greater opportunities to commit such crimes.

An interesting philosophical question is whether a person's personal characteristics which make up the trait of honesty can ever be so high that he or she is beyond the point of being overcome by excessive situational pressures, convenient opportunities, and temptations to commit fraud. A related, practical question is whether the opportunities to commit fraud can ever be so tightly controlled by a corporation that fraud will be prevented regardless of the level of personal honesty and situational pressures. Let's take a look at each of these three factors in more detail.

Tough Pressures Leading to Fraud

Pressures leading to fraud usually involve the intense need to obtain money to cover financial losses, to get even with an employer, or to satisfy one's personal greed. Basically, pressures can come from three levels: society, work, and personal experiences. One example of an economy-wide pressure is inflation. Inflation takes wealth away from some wage earners and gives it to others (the government and property owners). Even though most people have had seemingly significant increases in wages over the past few years, many have not kept up with inflation. The result is that they have less purchasing power today than they did a few years ago. With less purchasing power, they either stop buying the things they used to buy or find a way to make up the deficiency.

Examples of pressures that come from work and personal experiences are a heavy load of personal debt, extensive speculation, excessive gambling, greed, and illicit sexual involvement. Other pressures arise from high family, company, or community expectations, excessive use of alcohol or drugs, perceived inequities in an organization, resentment of superiors, and frustration with the job. To illustrate how demanding these pressures can be, consider these confessions by reformed gamblers:

When I was at the blackjack table my wife could have been home dying from cancer, and I could not have cared less.

I'll never forget coming home from work at night looking through the window at my family waiting for me, and then leaving to place a couple of more bets. I was crying the whole time but had simply lost all control.

I stole vacation money from the family sugar jar. I spent every waking hour thinking of getting to the track.

Gambling was the ultimate experience for me: better than sex, better than any drug. I had withdrawal tortures just like a heroin junkie.

After I woke up from an appendectomy, I sneaked out of the hospital, cashed a bogus check, and headed for my bookie. I was still bleeding from the operation.

Tremendous psychological pressures build up within people who often feel powerless to cope with their feelings or situations.

Businesses condone and possibly even encourage dishonesty by not prosecuting fraud perpetrators.

Opportunities That Lead to Fraud

Like pressures, opportunities to commit fraud can also come from society, from the work place, or from our personal experiences. Businesses condone and possibly even encourage dishonesty by not prosecuting fraud perpetrators. It is usually much less expensive to merely terminate an employee rather than prosecute and suffer possible embarrassment or risk a malfeasance, libel, or slander suit.

The way that the criminal justice system operates also indirectly encourages dishonest actions. Most offenders who are prosecuted aren't sent to jail. To understand why, place yourself in the position of a judge. Today you've heard four criminal cases. The first three involved people who robbed a bank or burglarized a service station, using a gun or a knife, and maybe even inflicting bodily harm on somebody. The fourth case involves an individual whose children go to school with your children, who is an outstanding member of the community, who belongs to the Lions or Rotary Club, who is active in church, and who has never before committed a crime. He or she just happened to steal $100,000 using some investment scheme or a computer. You give the first three offenders ten years in prison and the last one two years of probation.

Members of society perceive a "better opportunity" to get away with their dishonest schemes when they see that most fraud perpetrators are not prosecuted, or when prosecuted, not sentenced or incarcerated. Many other opportunities relating to work or personal experiences exist, some of which are poor internal controls, lack of internal security, inadequate accounting records, too much trust in others, and poor communication between managers and employees.

Personal Integrity and Fraud

What causes some people to be honest and others dishonest? While there are many factors that impact personal integrity, psychologists have found that honesty is best learned in childhood when parents (1) label situations as either honest or

Most white-collar crime offenders who are prosecuted aren't even sent to jail.

dishonest, and (2) consistently reward or punish children for their behavior. If honesty isn't taught by example, labeling, and reinforcement, children grow up being honest at times but dishonest at others. They become "situationally honest." They will learn that it's all right to break speed limits or to cheat on taxes, but not to rob a bank. Later they may find it easy to rationalize a fraud that involves manipulation of records or doesn't pose a physical threat to someone, but they still will not vandalize a home. Since honesty is not now being taught as much in churches, schools, or homes as it once was, we expect more people to be situationally honest in the future. And, when this decrease in honesty training is combined with increased pressures and increased opportunities, there will surely be more fraud.

Joe Barker's Pressures and Opportunities

With this background on the causes of fraud, let's now see how Joseph Barker became a fraud perpetrator. Barker's pressure came from involvement in the commodities market. He speculated and lost. And, since he couldn't borrow the money to cover his losses through normal credit channels, he felt he had no alternative except to steal.

With respect to opportunity, Joseph Barker's grain company was a one-man operation. He had access to the grain, access to the cash, no controls to override, and no one to suspect his criminal activities. His creditors and grain suppliers trusted him to the extent that they didn't take precautionary steps when extending him loans or having him store their grain. Faced with the possibility of losing everything he owned, the opportunity to cover his losses through embezzlement was apparently too good to pass up.

With respect to his personal integrity, Joseph Barker had been honest his entire life. He had never before committed a crime; he was a pillar in his community. He no doubt fully expected to recover his losses and replace the stolen grain and soy beans. His situation was similar to that of many other fraud perpetrators who never intend to steal, but only borrow temporarily. Like most perpetrators, Joseph Barker had many things he valued: his prestige in the community, his church membership, his family, his personal pride, his company, and his integrity. When faced with a situation where one of these had to be sacrificed, he decided that it was easier to forsake his integrity than the other factors, especially since he didn't think that he would be caught and that he would recover his losses and pay back the farmers.

How to Avoid the Joseph Barker-Type Snare

As previously explained, people who commit dishonest acts seem to have three factors in common: a difficult situation or pressure, a perceived opportunity to commit and conceal their actions, and a "rubber conscience." To avoid becoming a Joseph Barker, we must control each of these three factors.

Controlling Situational Pressures. A first step in avoiding involvement in dishonest acts is to eliminate as many of the pressures and motivations as we can. We should then exercise as much control over the remaining pressures and motivations as possible. For example, we should adhere to sound financial principles to avoid monetary strains and pressures. Studies have shown that financial problems are, without a doubt, one of the greatest motivators of dishonest acts. We should put our financial affairs in order so that we live within our income, stay out of debt, avoid speculation and gambling, develop and use proper budgeting techniques, upgrade our employment where advisable, and apply principles of sound financial management to our personal affairs. We should also learn to control and eliminate from our lives the feelings of resentment, frustration, or revenge that might cause us to want to "get even."

Minimizing Fraud Opportunities. Eliminating all opportunities for involvement in dishonest acts isn't possible. If it were, we would lose our free agency. This doesn't mean, *We should always strive to behave honestly so that our actions don't cancel the impact of our teachings.*

however, that we shouldn't shun tempting opportunities and refuse to openly court them. We should. And we should also help our children and associates to do the same. As employers, we need to institute effective control procedures, security measures, and strive to promote open communication between managers and employers.

Developing Personal Integrity. There are at least four steps that can be taken to develop and strengthen our personal integrity. First, we should carefully examine our lives to identify the situations where honesty has not been rigorously defined. For each situation, we should determine honest behavior and change our actions to conform to the clarified definition. We should then resolve to respond in an honest manner in the future.

Sometimes determining honest behavior in specific situations is not easy. We live in an imperfect world in which people and institutions have varying and sometimes conflicting values. We are sometimes confronted with situations that are unclear or uncertain, making the distinction between right and wrong very difficult. These kinds of situations require a great deal of thought, help from trusted advisors, and soul searching. Consistent application of sound ethical principles can greatly help in determining appropriate behavior.

Second, we should conscientiously strive to teach our children to be honest. As mentioned previously, parents must (1) consistently reward honest behavior and punish dishonest behavior, and (2) consistently tell their children what is right, or honest, and what is wrong, or dishonest. If parents don't consistently follow both practices, their children will likely be honest in some situations and dishonest in others. It is extremely important that children internalize, or personally accept, a steady standard of honesty.

Third, we should realize that society often encourages or condones dishonesty. When people are dishonest and not prosecuted, dishonesty is indirectly encouraged. This is especially true when the person is prominent, and the situation is given coverage by the mass news media. Our criminal justice system at times also indirectly encourages dishonesty. Prominent lawbreakers are all too often given very lenient sentences. Movies and television often glamorize dishonest people and make folk heroes out of them. This glamorization can easily teach us and our children that dishonest acts are not wrong.

Awareness of such influences poses opportunities to teach correct principles.

Finally, we should carefully evaluate the effect that our own personal example has on others. In many people's lives, honesty is continually being defined and redefined as parents, associates, and employers label situations and reward behavior. We should always strive to behave honestly so that our actions don't cancel the impact of our teachings.

What Can You Lose?

In summary, all of us are capable of committing dishonest acts. All of us will, from time to time, be confronted with difficult pressures and opportunities to commit fraud and other forms of dishonesty. All of us will be tempted to "stretch" our conscience in order to rationalize unacceptable behavior. We should remember that even though it may seem easy to commit "minor indiscretions," those who have good reputations have the most to lose from dishonesty. When hardened criminals commit their "umpteenth" offense, they have nothing to lose except temporary freedom. If we rationalize and commit our first major dishonest act, we stand to lose everything we value—our families, our prestige, our reputation, and even our own self-worth. And, even if not caught, we still lose—we lose the freedom of a clear conscience.

Notes

[1]Although this is an actual case, the names and location have been changed.

[2]For the past four years, we have been conducting research on white-collar crime and fraud. The results of our studies have been published in numerous academic journals and in a book *How to Detect and Prevent Business Fraud,* recently published by Prentice-Hall.

Business Ethics & Consumer Protection

F. Neil Brady

A Florida firm built a home for us. The walls are cracking, the floors are buckling, the sink is pulling away from the wall, and a number of other things have gone wrong that would take a book to write about. They promised to repair the floor that was buckling, then they tell us they are not going to do anything.

In July 1973, I purchased a washing machine. In slightly more than two years, that symbol of American productivity is worthless. A company representative advised me that the problems with my washer, including the transmission, pump, extension shaft, clutch, timer, etc., were probably caused by "the humid climate in upstate New York!"

Today I returned my car to the dealer to have the clutch fixed for the nineteenth time. Also, the brakes were to be repaired again. After waiting almost three hours for one of the managers to tell me what was wrong with my car, I was told my car was ready. As I drove home I realized that the clutch was made worse, and the brakes were exactly the same.[1]

Too many of us have had experiences like those—although hopefully not as severe. We ventured into the marketplace expecting to find goods and services which would make our lives better and happier, only to find major purchases that frustrate and disappoint. Theoretically, the free market is likened to a cornucopia of objects which satisfy our needs and wants, providing everything from education to titillation. But more often than we like, the market cornucopia spews forth hollow promises or deformed and inferior objects, instead of useful fruits of production.

What can and should business leaders and consumers do about the effects of shoddy goods? Can consumers be better protected? Can reputable businesses avoid the stigma of the unscrupulous? To what degree should government be involved? These questions are at the heart of consumer issues today.

Self-Regulation Versus Imposed Standards

For the most part, private businesses and corporations have been very good at regulation through self-imposed standards of quality and service across their industries. Unfortunately, reputable businesses are often tainted by the few unscrupulous operators—those who create unfair competition and bad publicity by marketing unsafe or inferior products to the uninformed consumer. Not only are consumers denied the wise and efficient use of their money through such fraudulent or unethical business tactics, but the industry as a whole suffers. The reputable business helps foot the bill for the unscrupulous. In this respect, consumer fraud is no different from shoplifting or other forms of theft.

Consumers and producers are not the only people hurt by unethical business practices: the government is also interested in "third-party effects." Here we are talking about possible harm to persons other than the consumer or producer. Automobiles are a classic example. One person's decision to buy a car that has a high risk of performance failure may result in an accident causing damage or injury to a "third party." Another example is smoking, which causes discomfort and creates health hazards for persons other than

Typography by Bryan Peterson.

the smoker. So, more people than those who are directly involved in market exchanges seek protection from harmful consequences.

Furthermore, the market is often ineffective in providing equity across the board to all consumers. Many individuals are simply unable to pay for or even make use of the same valuable information regarding products as other consumers in less vulnerable circumstances. For the aged and uneducated, "shopping around" may be an undue burden, and they may provide themselves with comparatively little information, resulting in less protection than afforded other consumers.

Third-party effects and impaired opportunities to make wise buying decisions are circumstances where some forms of government or other collective intervention on the consumer's behalf can be best justified. "Let the buyer beware" is not a viable strategy in such cases.

A Short History of Governmental Action Protecting Consumers

The history of government involvement in consumerism is a long one. Spurred on by the publication of such "muckraking" novels as Upton Sinclair's *The Jungle* (1905), the U.S. Congress passed the Pure Food and Drug Act in 1906. In 1938 that act was made stronger, and many state and national laws were passed to protect the consumer.

The last two decades, though, have witnessed an explosion of consumer protection legislation in response to rising public consciousness regarding the effects of mass production. In 1957 Vance Packard wrote a book called *The Hidden Persuaders,* which exposed the advertising tactics of certain industries which play upon the fears and desires hidden in the human mind. Other works exposed consumer hazards, such as pesticide use in Rachel Carson's *Silent Spring* (1962); the funeral industry in Jessica Mitford's *The American Way of Death* (1963); David Caplovitz's *The Poor Pay More* (1963); Marine Neuberger's *Smoke Screen: Tobacco and the Public Welfare* (1963); broadcasting in Richard Harris' *The Real Voice* (1964); and Ralph Nader's famous attack on the auto industry, *Unsafe at Any Speed* (1965).

In response to the growing public awareness of consumer problems, the U.S. Congress passed an avalanche of legislation in the '60s designed to protect the consumer.

Major acts regulated such concerns as drug prices, packaging and labeling, automobile safety, child protection, flammable fabrics, fraudulent land sales, etc. The list goes on.

During this same period, the country's leading politicians seized upon consumer problems as significant national policy questions. While campaigning for office in 1959, John F. Kennedy stated, "The consumer is the only man in our economy without a high-powered lobbyist. I intend to be that lobbyist." In 1962 he sent a message to Congress identifying "four rights" of consumers:

(1) **The right to safety**—to be protected against the marketing of goods which are hazardous to health or life.
(2) **The right to be informed**—to be protected against fraudulent, deceitful, or grossly misleading information, advertising, or labeling, and to be given the facts needed to make an informed choice.
(3) **The right to choose**—to be assured, wherever possible, access to a variety of products and services at competitive prices.
(4) **The right to be heard**—to be assured that consumer interest will receive full and sympathetic consideration in the formulation of government policy.

So presidential leadership, together with consumer-oriented legislators, product testing programs, direct consumer action, social critics, consumer organizations, and professional agitation combined to produce an outpouring of legislative and regulative actions for consumers during the '60s and '70s that was unprecedented in the history of the United States.

The Limitations of Government Involvement

Despite the obvious gains obtained by government activity in consumer affairs, there are reasons to expect that, in some instances, the public sector will fall short and that voluntary, not-for-profit, or nongovernmental action may yet have a major role to play in consumer protection.

The problems of bureaucratic red tape are well known. Less well known is the influence businesses have over the agencies created to regulate them. Producers are usually well situated and better motivated than consumers to transmit their demands to the public sector. Thus, producers are more likely to find it advantageous to organize and to represent their view to governmental legislative or regulative bodies.

Historically, as government agencies mature, associations of producers emerge to influence the development and enforcement of regulations. In response to governmental administrative action on the behalf of consumers, firms can often devote substantial resources to delay and defend against regulations they see as detrimental. Consumers, on the other hand, are seldom directly represented in the formulation of regulations, in the enforcement of laws, or in the prosecution of violations.

It is reasonable to expect, then, that governmental action will in some cases fail to provide consumers with the kind of protection they seek.

Where to Get Help

general	1) Local Better Business Bureaus
general	2) Office of Consumer Affairs* 330 E. 400 S., Salt Lake City, UT Tel. (801) 533-6441
appliances and repairs	3) Major Appliance Consumer Action Panel 20 North Wacker Drive Chicago, IL 60606 or 4) Manufacturer of the Specific Product
auto repairs	5) Corporate Headquarters
door-to-door sales	6) "Cooling Off" Federal Trade Commission Washington, D.C. 20580
insurance	7) Insurance Department* 326 S. 500 E., Salt Lake City, UT Tel. (801) 533-7900
real estate (out-of-state)	8) Office of Interstate Land Sales Registration Department of Housing and Urban Development 451 Seventh Street, SW Washington, D.C. 20410
securities	9) National Association of Securities Dealers 1735 K Street, NW Washington, D.C. 20006

*States other than Utah usually have similar offices.

How Do I Get Help?

Despite the limitations imposed on organizations designed to protect consumers, there is a large and growing collection of sources of consumer help.

A complete list of places to lodge complaints or get help would be lengthy, but a select list of consumer offices, public and private, appears in the adjacent box.

The issues of consumer protection and the role of government will continue to be controversial ones. Ultimately, the answers lie in satisfied customers and clients who genuinely feel that they are receiving fair return for their invested dollars. ≡

Notes

[1]"America's Angry Consumers: What They're Telling Officials Now," *U.S. News and World Report* (May 10, 1976), pp. 56–57.

[2]See, for example, U.S. Senate, "To Establish an Independent Consumer Protection Agency," p. 175.

Striking a Balance in Our Business Careers

The following is an excerpt from an address made at the Spring 1982 Convocation of The School of Management. Mr. Willis graduated number one in his class of 125 MBAs. He has accepted employment as a consultant with Bain and Company, a Boston-based consulting firm.

During the spring of this year, hundreds of schools across the nation will hold commencement exercises similar to these during which thousands of students will receive advanced degrees in business-related areas. One article in a recent *Wall Street Journal* stated that over 57,000 MBA degrees *alone* will be granted this year. In addition, thousands of advanced degrees will be offered in the professional fields of accountancy, organizational behavior, and public administration. My question today is this: Are we, as BYU graduates entering these professional fields, distinctly different from the masses of such degree holders? The answer I offer is three-

Illustration by Bryan Peterson.

dimensional—yes, we are; yes, we should be; and yes, we must be.

I do not endorse the attitude exhibited by some graduates of this university that seems to claim spiritual superiority and a revered role in society merely because of their BYU diplomas. On the other hand, though, I am not naive enough to disclaim that BYU graduates are particularly screened and scrutinized by their colleagues. In this light, I will today briefly address one characteristic whereby we can and should be distinct from the crowd. This is the ability to integrate high levels of professionalism with equally high standards of ethics and integrity. This, by all means, is not an idea new to any of us, but I would like to approach it from my own side door today.

One prominent member of our Schools' National Advisory Council recently recounted an experience which occurred when his company was finalizing a joint venture with a large Japanese electronics corporation. As the president of the American arm of the proposed venture, he went with some other company executives to Japan to conclude the agreement. The entire American group, by the way, happened to be members of the LDS Church. As is the usual business custom in that country, the Americans were invited after a long day of negotiations for an evening of drinking, eating, and socializing. As the evening wore on, the Japanese executives were getting more and more under the influence of their beverages. In an impromptu move initiated by their leader, they stood up and announced that they would sing their company song for their American guests. Thereafter, they proceeded to offer a firm and resounding rendition of the Fujitsu company anthem. The American president, quite impressed by this uninhibited display of loyalty, regretted that he and his American colleagues did not have a similar company song to offer in return to their Japanese hosts. Then, in a stroke of genius, he passed the word down the table that they would all stand and join in the first verse of "We Thank Thee, O God, for a Prophet." The English-speaking Japanese executives were undoubtedly impressed by the Americans' appreciation for a healthy bottom line on their company income statement.

With no intent to make light of this inspiring hymn, I venture further into my side door and ask this: Can we, with a sound conscience, pursue a lifestyle that says we are thankful for both a p-r-o-p-h-e-t *and* a p-r-o-f-i-t? I believe that we can. We do not have to disregard one "profit" to follow after the other. This is the distinctive characteristic of BYU graduates to which I earlier referred. We can and should effectively integrate our moral values and religious beliefs (what I refer to as following a p-r-o-p-h-e-t) with the professional competency and high levels of achievement required to realize a p-r-o-f-i-t.

In our modern world, this balance is sadly lacking. Many members of our society totally exclude one prophet in the pursuit of the other. And, I might add, it is easy to see to which end of the spectrum they are generally gravitating. Consider these examples:

- Our forefathers used to *pray* for success and *work* for success. Today, in our modern society, a primary concern is to *dress* for success.
- Our forefathers used to lay out their communities around churches and schools. Today our focus of community planning is the shopping mall.
- The black market used to be forced undercover by the indignation of the population. Today, instead of the underground economy being "undercover," it's "on the cover"—of *Business Week* magazine!

Finally, and more close to home,

- Utah Valley used to be known as the "white shirt and tie capital" of the world. Recently, though, it has been labeled the "white-collar crime capital" of the nation.

In each of these examples, there is no doubt which profit is being embraced and which prophet is being ignored.

Others have adopted views on the opposite extreme of the spectrum, claiming that any semblance of receiving a profit for goods or sevices rendered is a compromise of one's character and religious ideals. The very scriptures that these people endorse, however, emphasize that financial success, no matter what level, is both a blessing and a responsibility. Nowhere can I find record of a people being cursed merely because they had worked and earned their way to prosperity or of an individual being damned because he or she had gained professional recognition in the community. Prosperity and success do not necessarily result form wickedness, even though there are some zealots who seem to profess otherwise.

In our Mormon society, it is sometimes hard to realize that the proper place to position yourself is sometimes near middle ground. High moral values and fervent religious beliefs are hollow—both to ourselves and to the eyes of others—if they *alone* comprise our characters. On the other hand, we disregard our covenants and defame our heritage if we pursue our careers outside the framework of eternal gospel truths. We cannot afford to have one without the other.

It is from the firm middle ground, from a pursuit of both high moral values and equally strict levels of professionalism, from lifestyles which embrace principles of *profit* as well as the guidance of a *prophet*, that we will be most effective in serving mankind and, thereby, in serving our God. It is this balanced approach to our careers and our eternal lives that will distinguish us from the masses and help us become, as Christ admonished, the light of a quickly darkening world. ≡

Illustration by Bryan Peterson

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Tuning Out

Elder Hugh

Several years ago, speaking to a group of business students at Brigham Young University, I was alarmed by the questions two or three of them asked after my presentation. They asked, "Must members of the Church behave differently to be successful in business than they behave in their Church work or with their families?" I assured those young men that their business behavior should be consistent with their moral and religious standards and that this consistency would contribute to greater business success.

Their question has weighed heavily on my mind. They apparently believed they had been taught a double standard in the classroom. I began to wonder how many Church members believe we must have a "split personality" in our behavior. Do Church members really believe they need to behave differently in the

Photograph by Brent D. Burch.

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W. Pinnock

world of business than at church or in their homes? I address that issue.

After graduating from college, I went into the U.S. Army as a Finance Corps officer. Protocol demanded that we attend a round of cocktail parties for the new officers. Before attending these parties, my wife and I committed to keep the commandments we had been taught. We never considered compromising our standards—and we were never asked nor expected to.

We repeated the same experience a few years later in business. Connecticut Mutual, the company I worked for, and other companies, entertained us at various conventions and parties. In fact, my wife and I have attended hundreds of socials where alcoholic beverages were served, and I have been in thousands of business situations where non-Church behavior

Do Church members really believe they need to behave differently in the world of business than at church or in their homes?

would have been acceptable. Not once have I been in a situation where compromising what I believe would have been beneficial.

Why then do we find such dramatic inconsistencies between what we are taught in the Church and what so many do in business or social settings? Utah has been labeled the scam capitol of the world. A number of us have been embarrassed while attending bank board meetings to learn that Wastch Front communities are among the highest in the country in loan delinquencies, check kiting, and other white-collar dishonesties. How has this happened?

First: I believe a big part of our problem lies in the reward system we have been taught. The mistaken belief that we will constantly receive earthly rewards for being Mormons and having worthy goals, can lead us to make a number of unfortunate decisions. This belief can convince Church members that we can get high returns with low risk and little effort or that we will be rewarded regardless of the viability of the investment or venture. Many investments are sold with the promise that they will *guarantee* an ample retirement income that will enable us to devote our time to Church service after our children are grown. Such investments also may promise returns that will enable us to send our children on missions. Nothing, as the mature mind realizes, can be so guaranteed.

Second: As Church members in business, we tend to concentrate upon learning about systems, procedures, programs, and techniques. We feel that we already understand basic moral values and sound ethics. This emphasis is distorted. We must *continue to learn* the absolute necessity of integrity and honesty as the foundation of all we do.

Third: Our Church provides opportunities and encourages use of communication skills as we speak before our congregations. Consequently, our members may be better skilled in verbal communication than other groups. Many of our young men and women are taught convincing and motivational speaking skills when serving as missionaries and while participating in Church programs. These skills enable Church members to sell for a living or as a part-time job. Some do so without realizing the differences in value, services rendered, or quality of their products.

Fourth: Church members are success oriented. We view men and women in leadership positions as "ideals" and try to follow them, often without knowing the hard work they have expended to succeed. Consequently, some of our members take shortcuts in order to *appear* successful. We do not seem to teach effectively that the exchange of real value is vital in any economic transaction. The appearance of success becomes more important than substance in many lives. This leads to future problems such as unwise borrowing and the heartache that debt creates.

Fifth: Church members have learned to seek counsel from their priesthood leaders. Unfortunately, some Church leaders have steered members into unwise investments or inappropriate employment. The naive seek business advice from uninformed Church leaders before looking to genuine experts. All too often, priesthood leaders are eager to give advice even though they know little or nothing about an investment or business transaction. Some leaders, we find, are active participants in the investments on which they give advice. Such advice is not objective or impartial.

Last: I have become progressively more concerned with Mormon authors who use scare tactics to promote a service, product, investment, or economic procedure. Often an attempt is made to convince others that success can come without long hours of effort, years of dedicated service, and absolute integrity. They write that a simple, easy system will provide what others have

We must continue to learn the absolute necessity of integrity and honesty as the foundation of all we do.

had to earn with hard, hard work. Thousands of investors have suffered from the advice of Mormon "experts"—advice riddled with inconsistency.

Some Guidance for the Misguided

The following recommendations may help stem these problems.

1. We need to teach Church members how wealth is created, why certain sales techniques are used, how to recognize a proper markup, and what regulatory agencies to call when questions arise. We especially need to teach that blessings come only after they are earned (D&C 130:20–21). A school of management, such as the excellent school we have at Brigham Young University, could do a great deal to teach correct principles.

2. Our priesthood leaders need to be better informed and up to date on the necessity of holding to constant standards in our business lives and in our family and Church lives. There is no double standard practiced in the life of a true believer.

3. Our Church leaders should never allow the use of their name or ecclesiastical position as an endorsement of a product or service, whether it appears to be legitimate or not.

4. Church members must learn to research any investment or business opportunity carefully before making a commitment. They must also learn never to respond to high-pressure tactics that urge immediate action to avoid losing a "once in a lifetime" opportunity. They should understand that legitimate business opportunities can be considered for a reasonable time, and if one opportunity is missed, another one will come along. There is no "last chance" in the investment world.

5. Church members need to know that when they have been duped, they must give the evidence to government and Church authorities for court action to be taken, if necessary. By providing such evidence, the tide can be turned against the unethical operator.

We do not seem to teach effectively that the exchange of real value is vital in any economic transaction.

Often an attempt is made to convince others that success can come without long hours of effort, years of dedicated service, and absolute integrity.

6. Our priesthood leaders need to learn how to deal with charlatans who bilk members of their resources. Fraudulent schemes are *theft* and obviously violate a number of the Lord's commandments. Unfortunately, most of the Church members who have promoted fraudulent schemes have continued as active, position-holding members. This lack of punishment, of course, gives the appearance of innocence when people are ethically and morally guilty.

7. We all need to continue to turn to the scriptures for guidance. Our members and leaders, by establishing proper priorities (see Matthew 6:38, *Inspired Version*), will be able to automatically avoid many problems of this nature. In 2 Nephi 9:51 we read some advice given anciently that will also help us in today's complicated world: "Wherefore, do not spend money for that which is of no worth, nor your labor for that which *cannot* satisfy." (Emphasis Added) And finally, in Jacob 2:18–19, we find a summation to what I have written in this article: "But before ye seek for riches, seek ye for the kingdom of God. And after ye have obtained a hope in Christ ye shall obtain riches, if ye seek them; and ye will *seek them for the intent to do good*—to clothe the naked, and to feed the hungry, and to liberate the captive, and administer relief to the sick and the afflicted." (Emphasis Added)

I hope that the School of Management at Brigham Young University and other institutions will address themselves even more effectively to the principles of integrity and morality. I hope the faculty will do more to develop members of the Church as individuals who can be trusted, are hard-working, and will not live dual lives: ones of honesty at home and in Church, and different ones of duplicity in their careers or professional lives. ≡


Flexible Flyer

Teaching Honesty Begins at Home

David J. Cherrington and J. Owen Cherrington

Cast your vote. Are you *for* or *against* honesty? A foolish question, isn't it? Virtually everyone is "for" honesty. Indeed, in repeated surveys of peoples' values, honesty ranks consistently as most important.

Unfortunately, as a nation and as individuals, our behavior is not always consistent with our values. Embezzlement, fraud, and theft are serious problems which seem to become increasingly severe each year. The estimates of losses each year increase at a rate far greater than the increase in either population or gross national product. Dishonest business practices appear to be the most rapidly growing sector of our economy.

Retail Theft: A Prime Example

Employee integrity is important in every organization, but the adverse effects of dishonest employees are dramatically illustrated in retail merchandizing organizations. The National Retail Merchants Association recently reported that department stores and specialty chains lose approximately 2.2 percent of sales to inventory shortages. Although shoplifting is the most commonly discussed cause of inventory shortages, most experts in the field of retail security generally agree that it is a minor factor when compared to employee theft. These experts estimate that 60 percent of all losses are due to employee theft, 30 percent to outside shoplifters, and only 10 percent to clerical or paperwork errors.

In the summer of 1980, we studied employee theft in 22 department stores which were part of three major retail corporations. The purposes of this study were to (1) examine the relationship between employees' honesty attitudes and actual theft and (2) identify conditions which contribute to a climate of honesty in retail stores. Employees in these stores were asked to complete a questionnaire which measured their attitudes towards honesty and other background characteristics. The employees were also presented with some moral dilemmas and asked to decide what they would do in each situation and what sort of explanations they would use to justify their decisions.

The inventory shortage levels in these three corporations were significantly different, and the results indicated that the levels of shortages were associated with the honesty of the employees and other company characteristics. The company with the lowest level of inventory shortages had employees with the highest average honesty scores, while the lowest honesty scores were reported by the employees of the company with the highest shortages. Where a climate of honesty existed through a well-defined code of ethics, the inventory shortages were lower, and the employees reported greater levels of satisfaction with life in general and with the company.

Honesty and Child Rearing

Hoping to learn something about the way in which honesty is developed, our questionnaire included several items measuring each employee's personal background. These items were largely taken from research on moral development and child rearing philosophies. The results indicated that ten items were significantly related to honesty. The ten background variables were described by the following statements:

- My parents had a very high, well-defined standard of honesty.
- Most of my teenage friends were extremely honest.
- I came from a close-knit, happy family.
- My family expects me to be totally honest.
- My parents strictly enforced family rules.
- My teenage years were filled with a lot of tension. (Reverse scored)
- When my parents told me to do something, I was expected to do it willingly and promptly.
- My parents almost always

Photograph by Thomas Pratt.

is HONesty REALLY the Best POLICY?

explained the reasons behind their requests.

- During my youth, I frequently felt unloved and unwanted. (Reverse scored)
- Religion is a very important part of my life.

The results of our study indicated that honesty is developed in an environment characterized by firm expectations and standards of conduct, reinforcement for correct behavior, disapproval of wrong behavior, the presence of parental love and concern, and an emphasis on the development of discipline and self-control.

Our questionnaire also asked the respondents to evaluate some moral dilemmas and first decide what they should do, and then describe how they justified their decision. When this information was analyzed it was found that the honesty scores were related to the kinds of justifications people used for responding to the moral dilemmas.

In the questionnaire the employees were presented with several alternative justifications for their decisions. An analysis of the responses indicated that some of the respondents based their decisions on what was good for them, while others based their decisions on what was good for society. Furthermore, some based their decisions on a form of situational ethics, while others justified their decisions by general rules and principles regardless of the situation. The results indicated that honesty was related to a *rule-oriented style of reasoning.* Employees who had developed general rules of right and wrong had higher honesty scores. The results were not too surprising, since honesty as a value is a rule-oriented form of behavior.

Whence Cometh Honesty?

Honesty as a moral value has been examined in numerous studies of moral development. For many years it was concluded that honesty was not a general personality trait—that any correlations between honesty in one situation and honesty in another situation could be attributed to the similarity of the situations, not to a stable personality trait. This theory of *specificity* claimed that individuals could be honest in one situation and dishonest in another, depending on the situations—that individuals would behave according to the way they had learned to act under the circumstances surrounding that situation.

Subsequent research identified the *generality* theory of moral behavior, which claims that individuals may acquire a personality or character trait of honesty and behave consistently regardless of the situation or circumstance. This theory supports the conclusion that honesty is a general personality trait for some, whereas the moral behavior of others primarily depends on the circumstances. Consequently, as this research suggests, managers should select honest individuals to occupy positions of trust, *and* create a climate of honesty within the company to encourage others to behave honestly.

Whether individuals choose to behave honestly or dishonestly is determined by a complex interaction between personal integrity and situational variables. A critical social issue is who is responsible for honesty: the individual or society? Most of the recent literature about corporate security either covertly implies or openly asserts that eliminating fraud is the employer's responsibility. Although this literature does not openly excuse employees for their dishonesty, the burden of preventing theft and fraud is assigned to employers.

Managers are told that to prevent dishonesty it is their responsibility to eliminate opportunities for theft, provide more physical security, increase the coverage of surveillance, and more actively prosecute crime. These recommendations are useful, and theft is indeed reduced when there are fewer opportunities to be dishonest and the likelihood of being caught is greater. However, dishonest individuals will create their own opportunities, and organizations cannot assume the full responsibility for personal integrity. Employee theft, fraud, and embezzlement are dishonest acts by individuals, and society will continue to hold individuals responsible for their own behavior.

Promoting Greater Honesty

Although individuals are responsible for their own acts of dishonesty, there are several things which employers and parents can do to stimulate higher levels of personal integrity. Indeed, teaching honesty begins at home, although employers can help overcome parental laxity (or reinforce parental teaching) by applying some of these suggestions:

Provide a general definition of honesty. In addition to describing specific acts as right or wrong, parents and employers should develop a general definition of honesty which encompasses a broad range of acts. A child who takes a candy bar needs to be aware that his or her act goes beyond just taking something from a store without paying for it; it is shoplifting, which is stealing, which is wrong because it is dishonest. Likewise, claiming excessive reimbursements on a travel voucher is more than simply padding an expense account; it is lying, which is a dishonest act.

Provide consistent reinforcement for honest and dishonest acts. Parents and employers should consistently endorse and encourage honest behavior and consistenty condemn dishonesty. Children should not be criticized for lying to parents, but encouraged to lie to theater cashiers, neighbors, or school teachers. Employees should not be punished for padding an expense account, but encouraged to falsify records, financial statements, or tax returns.

Create a climate of honesty. Organizational climate refers to the psychological characteristics that describe an organization. It is the personality or character of the organization's environment. The organizational climate influences the behavior of people in the organization and helps to shape their attitudes and expectations about the organization as well as standards of right and wrong. In a similar way, families also create a climate which influences the behavior of parents and children. A climate of integrity and honor in the home provides the foundation for the development of honesty in business organizations.

Develop a code of ethics. In recent years there has been a significant increase in the number of organizations which have adopted a formal code of ethics. Some organizations have developed fairly elaborate codes and have obtained extensive involvement by their employees in the formulation of the codes. Participation by employees has contributed to a more clearly defined standard of ethical conduct. Families can do this, too.

Involve children and employees in group discussions regarding ethical conduct. Group discussions in which individuals are asked to discuss a question and arrive at a group consensus generally have a large influence on personal values and behavior. Individual behavior is generally influenced much more by group discussions in which individuals participate in sharing their ideas and developing standards of right and wrong than by lectures or written communications.

Communicate expectations. Since expectations have a way of becoming self-fulfilling prophecies, managers need to communicate their expectations to new employees. The organization's standards of honesty and integrity should be clearly outlined.

Carefully design a system of internal controls. Although a carefully designed system of internal controls seems to convey the message that employees cannot be trusted, just the opposite appears to occur. A carefully designed system of controls communicates to employees the message that the organization is concerned about integrity and the proper use of the company's financial resources. Extensive research in child rearing practices has shown that firm discipline and explicit expectations of children's behavior do not create either rebellious/resistive or apathetic/indifferent children. Instead, firm expectations and legitimate family rules contribute to creating socially responsible children with their own system of internalized values and controls.

Set a good example. The behavior of parents and managers is very important in developing greater honesty—what they do speaks much louder than the words they say. Dishonesty spreads like a rapidly-growing cancer in an organization where top management condones dishonesty by cheating on expense accounts, falsifying inventory records, and misrepresenting information on business contracts.

Review company policies and practices to identify unethical procedures. Many organizational practices, such as withholding information, are technically legal but represent unethical conduct. These types of practices need to be identified and either changed or eliminated.

Develop a discipline and grievance system which provides for "due process." Every organization ought to have a well-defined disciplinary procedure for handling problem employees. An effective discipline procedure is necessary to protect the organization. On the other hand, every organization should also have a grievance procedure which protects individuals from unfair company practices or capricious supervisory actions.

When employees are not treated fairly in their work environment, it is inconsistent to expect them to develop basic standards of honesty, integrity, and fairness.

Honesty Is . . .

Like other social values, honesty is not an inherited characteristic; it is a value which must be acquired through a process of socialization. Honesty is important to the financial success of a business organization. At least 5 percent of business failures are directly attributed to fraud and internal thefts. The alarming rise in theft and fraud provides overwhelming evidence of the need for greater efforts within society to teach principles of honesty. According to our research, honesty is developed in an environment characterized by firm expectations and standards of conduct, reinforcement for correct behavior, disapproval for wrong behavior, the presence of parental (or managerial) love and concern, and an emphasis on the development of discipline and self-control. ≡

How Organizations Lose Their Integrity

William G. Dyer and W. Gibb Dyer

LOST: One corporate integrity. Though somewhat fuzzy, it kept things together around here. We really want it back! Our corporate integrity responds to the name "Accepted Code of Values" or sometimes "Honesty." If you spot our lost integrity before we do, please call before it's too late.

On June 28, 1981, the auto giant General Motors was indicted for engine switching. The facts were quite simple. GM was running a major advertising campaign pushing its Oldsmobile car line. As part of the campaign, a lot of fanfare was directed toward the Olds' newly designed engine. Unfortunately, engine production could not keep pace with the demand for the new Olds. To solve the problem, someone at GM made the decision to substitute a Chevy motor and pass it off as the new Olds engine. As the court case testifies, the plan didn't work.

How does an organization as respected as General Motors get itself into such a position? What causes a company to compromise its standards of integrity and honesty? And why would a manager or employee decide to deviate from the corporate norms and company value system? To find out, let's explore a series of reasons that often cause a corporation to lose its integrity.

Failure to Pass On Company Standards

Edgar Schein has written recently about the socialization process in an organization whereby

Illustration by McRay Magleby.

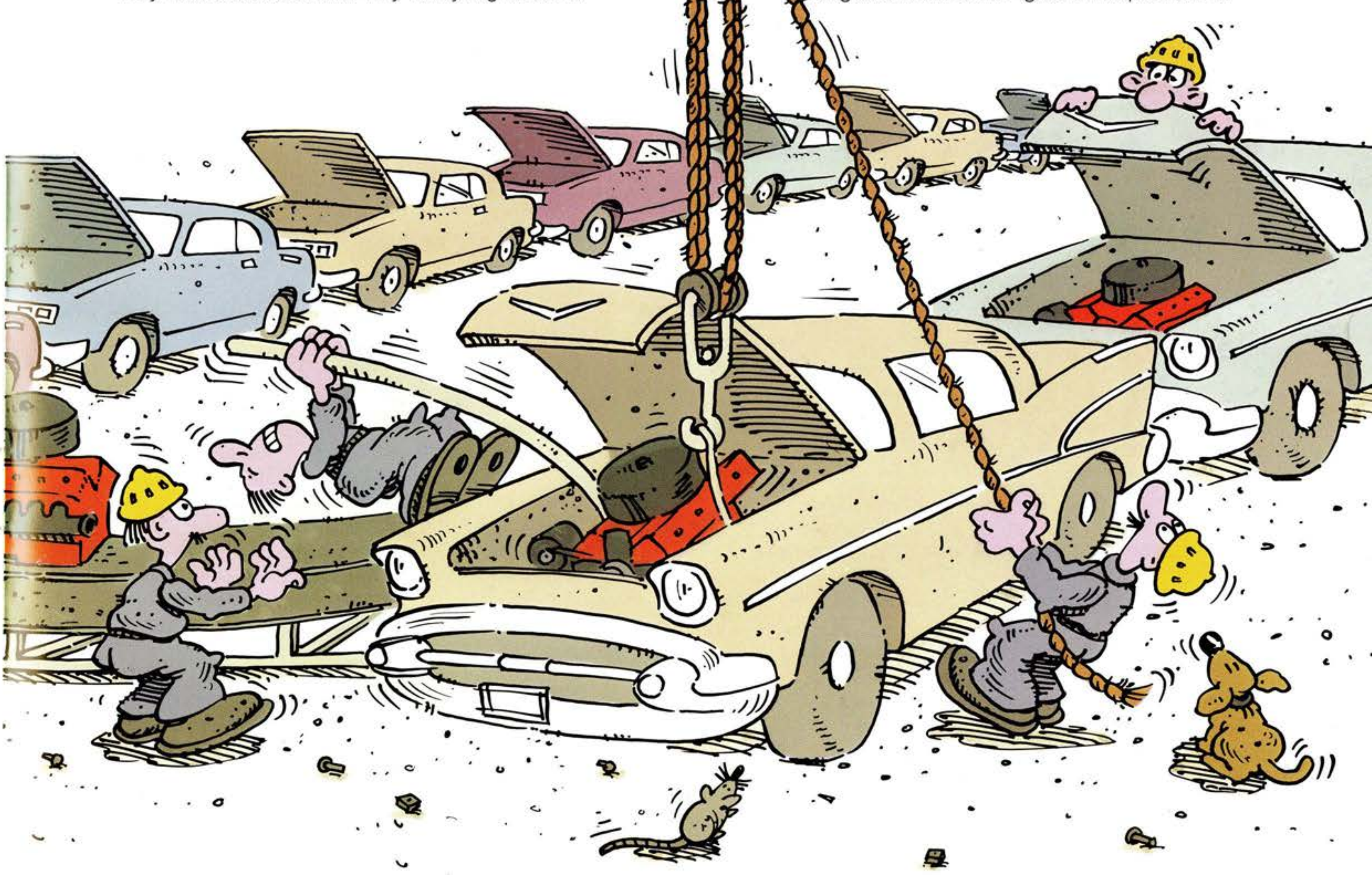
a person learns the expected behaviors.[1] Too often organizations fail to develop adequate or effective socialization processes to insure that corporate standards are passed on to employees. It is not uncommon to hear of incidents where a new employee in a work group is clearly told: "Don't pay any attention to what the manual says; this is how we actually do it out here on the job."

In a recent study of a major industrial firm, one of the authors discovered that organizational standards in the company varied by department and by organization level. In many instances there seemed to be a lack of overarching standards, goals, or values that employees could clearly identify as the company position. As a result, some employees felt little responsibility for maintaining the integrity of the company since they were not sure what that integrity was.

The study also showed that new employees may have a set of values and ethics that are quite different than those espoused by the company. How to effectively transmit the company's values and standards to new employees is a key issue for the firm's top management. Moreover, seasoned managers in the firm report a concern that if they are unable to indoctrinate large numbers of new recruits, the company standards and values may eventually become distorted or lost. One manager describes the situation this way:

I always worry that the ethics of the company that were very well articulated and very firmly ingrained in everyone five or ten years ago . . . have been diminished. I'm concerned that as the population [of the company] gets larger and larger that it's harder to know whether some of the basic ethics are being maintained around honesty. . . . Specifically, [some managers have] done something from an accounting or inventory standpoint in their own part of the business to make their numbers look good—which, by the way, doesn't help the company at all, because you merely have transferred the problem to someone else. I question whether we're maintaining the ethics around those types of transactions. . . . I just had a case of this yesterday . . . Someone got worried about his own personal set of numbers and felt he could transfer this inventory to another part of the company . . . and he believed that I would never find out about it and that his numbers would look good. . . . As the company gets larger and larger, the sense of unity for the company will diminish, and concern for individual departments will increase—and that concerns me.

In every organizational situation some kind of socialization is going to occur. That is, every person will learn from someone, in some way, what the company does or does not stand for, what is allowable behavior, and what actions will be rewarded or punished. Some organizations try to establish a clear, well-defined socialization program to insure the inculcation of appropriate standards into the thinking of employees. Other organizations either ignore this process or



assume a one-day orientation program is going to accomplish the task. But, clearly, one reason people begin to behave at variance with company standards is that they have never learned what the standards are (or they have learned that compliance with standards is not an essential part of appropriate employee conduct).

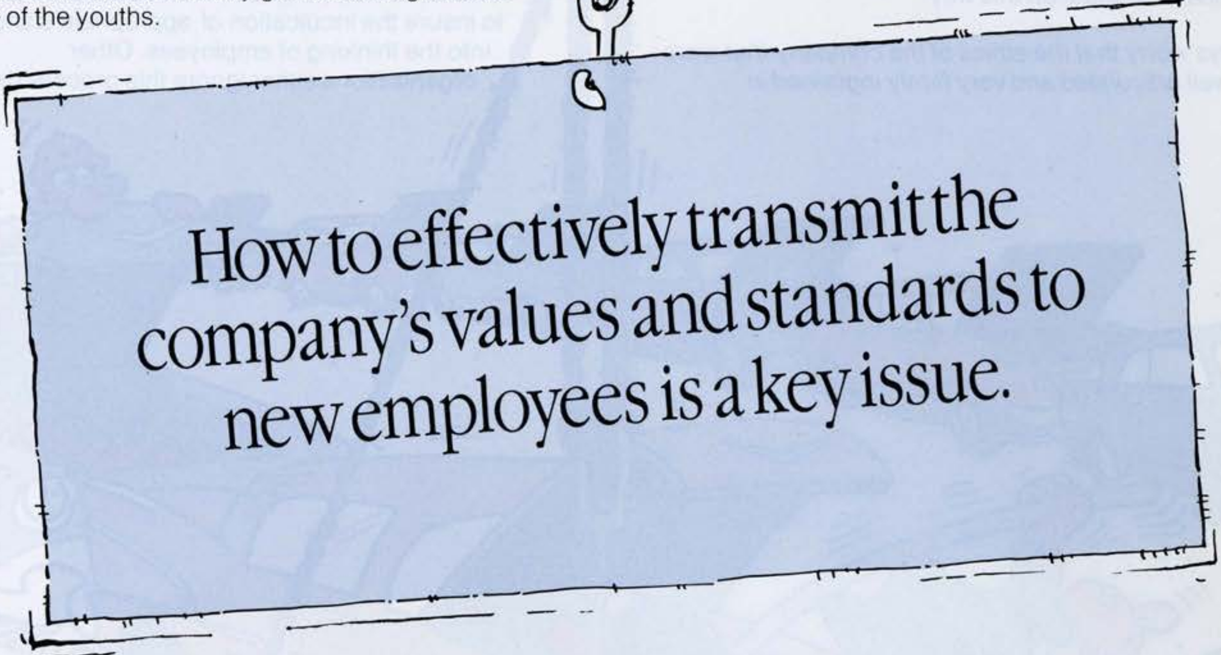
Reluctance to Label Deviant Behavior

For an organization to maintain certain standards, inappropriate behavior must be recognized, labeled, and remedial action taken. However, studies of deviance have indicated that members of a group are generally reluctant to label a given behavior as deviant and may treat deviations from a given standard of behavior as an acceptable norm.[2,3] Joan Emerson describes numerous cases of people witnessing totally bizarre and deviant behaviors and acting as if nothing unusual was going on.[4] Emerson uses the following newspaper report to illustrate this point:

Their Story Just Didn't Hold Up

Stockton—The worst possible fate befell two young masked robbers here last night. They tried to hold up a party of thirty-six prominent, middle-aged women, but couldn't get anybody to believe they were for real.

One of the women actually grabbed the gun held by one of the youths.



"Why," she said, "that's not wood or plastic. It must be metal."

"Lady," pleaded the man, "I've been trying to tell you, it IS real. This is a holdup."

"Ah, you're putting me on," she replied cheerfully.

The robbers' moment of frustration came about 9 p.m. at the home of Mrs. Florence Tout, wife of a prominent Stockton tax attorney, as she was entertaining at what is called a "hi-jinks" party.

Jokes and pranks filled the evening. Thus, not one of the ladies turned a hair when the two men, clad in black, walked in.

"All right now, ladies, put your rings on the table," ordered the gunman.

"What for?" one of the guests demanded.

"This is a stickup. I'm SERIOUS!" he cried.

All the ladies laughed.

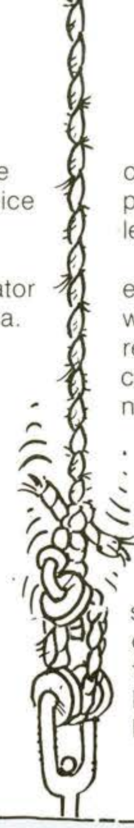
One of them playfully shoved one of the men. He shoved her back. As the ringing laughter continued, the men looked at each other, shrugged, and left empty handed. (San Francisco Examiner, April 4, 1968.)

Emerson concludes that there is an intrinsic bias toward *not* applying labels of deviance—particularly in those situations like the party described in the newspaper article where it is difficult to determine whether certain behaviors are appropriate or inappropriate. Similarly, an organization's integrity may be compromised by an unwillingness on the part of members of the organization to label an act as being deviant and to take action against the offender.

Situational Pragmatism

While interviewing managers and administrators about the degree to which they deviate from an agreed-on standard, we have discovered that one of the most compelling factors pushing them to vary from a standard has to do with the demands of the situation. The immediate situation presses for an action at variance with the standard, and many people indicate they vary from the standard as a way of coping with situational pressures.

One college administrator recalled the situation of a student who came the day before graduation and asked for a special waiver of credit so he could graduate. It was just a few hours of credit, he argued, and besides



To maintain standards, inappropriate behavior must be recognized and remedial action taken.

his family had travelled from outside the country to be present. It was clear that the student had made a choice not to finish the credit and chose to pressure the administrator instead.

Faced with the situational demands, the administrator gave in and allowed the student to receive his diploma. The administrator readily agreed that were he in his office alone, dealing with the facts of the waiver, he would have made a different decision. However, once the decision has been made to vary from the standard, it is very easy and natural to develop a set of rationalizations as to why the variation was a "good" decision.

Situational demands often put a person into a conflict of values. Making a purely objective, private decision about granting a waiver that is not consistent with the university standards is rather easy. However, holding to that decision when it meant disappointing a whole family who had come innocently expecting to see a son graduate involved another value of dimension that had a strong impact on the administrator. In the name of compassion, the administrator had allowed the standards of the university to slip. Had the student innocently failed to meet the standard, granting the waiver may have been justified, but in this case it seems the student used his family to manipulate the college official. Organizational integrity suffered.

Role Modeling

In an earlier study of ethical behavior, it was cleary shown that the number one influence on executives in making unethical decisions was the behavior of their superiors.[5] Another strong influence was the example of one's peers or colleagues. This was tied with a perceived lack of a company policy about the issue in question. (It is difficult to help employees internalize a standard if the standard has not been made known to them.) However, if the example of one's superiors and peers tends toward lowering a standard or compromising a position, then clearly this role is a powerful factor in influencing a person to "follow the leader."

David and Owen Cherrington's study of retail stores emphasizes the same point. They found some stores with a higher climate of honesty than others. They report: "The questionnaire items which comprised the code of ethics describe some of the conditions that are necessary to create a climate of honesty:

- Top management in this company has a very high, well-defined standard of honesty.
- The company has a very explicit code of ethics.
- The leadership in this organization has not been guilty of several dishonest decisions.

These items indicate that top management exerts a significant influence on the climate of honesty. If employees think top management is behaving honestly, they will probably think they are expected to behave honestly, and dishonest behavior will not be tolerated. But if the employees perceive (correctly or incorrectly) that top management is dishonest, they will be more inclined to justify and excuse their own dishonesty. The example set by top management through their own behavior plus the specific written code of ethics they claim to follow appears to have a strong influence on creating a climate of honesty."[6]

Organizational Climate

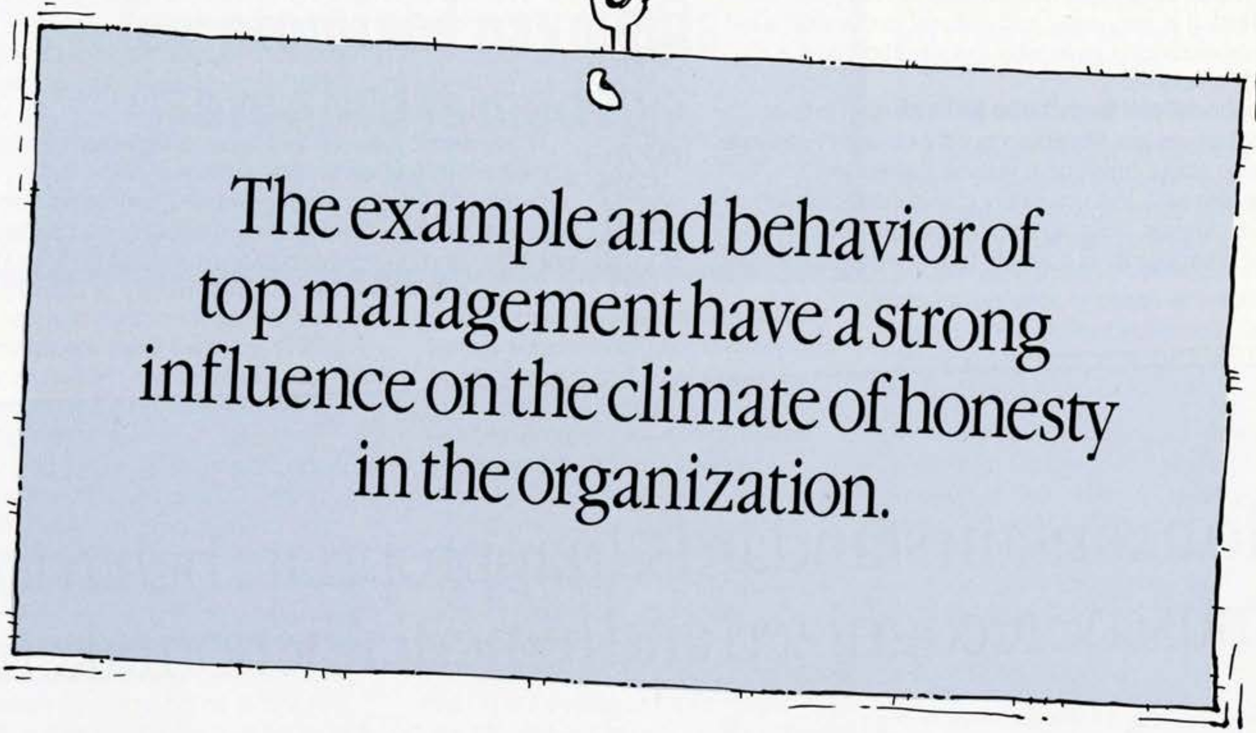
The Cherringtons' study also emphasized the issue of organizational climate as a factor in honesty. They summarize their findings this way:

The organizational climates of the three companies were significantly different. The company with the lowest shortages (or presumed theft) had established a climate of honesty characterized by a high, well-defined code of ethics, a good system of internal accounting controls, and a pleasant work environment. The company with the highest shortages (or greatest presumed theft) had the most dissatisfied employees and seemed to have the most punitive discipline system *in which employees were frequently checked and those who were caught stealing appeared to be openly punished as a deterrent to others.*[7]

It seems that in a climate of mistrust, punitive discipline and no defined ethical standards, the standard of behavior of employees moves away from honesty.

could not ship his product. Huse states, "In the prevailing climate, Foreman B was seen as shrewd and resourceful and Foreman A as having been caught unprepared."[8]

It is difficult to maintain integrity in tough situations—lack of clear standards, group pressure to deviate, negative role models—if one feels that no one really cares if standards are maintained or not. Organizations may sometimes get into a negative response cycle.



Group Pressure

Closely allied to the impact of others as organizational role models is the matter of group pressure. If one's peers either collectively or individually exert an influence on a person to comply with the group standard, there is clear evidence that a large number of people will compromise their own standards to be in agreement with the majority. This tendency to give in to group pressure is a consistent finding from early social psychology studies. This research found people willing to go along with behavior that violates not only their own standards but their personal, emotional feelings if they were told that the legitimate authority gave approval to such behaviors.

Lack of Reward for Behaviors of Integrity

In some organizations not only is ethical behavior *not* rewarded, but it appears that in some cases that unethical behavior is approved and rewarded. Edgar Huse describes a case where two foremen in the same company were in charge of shipping two similar products. Foreman A ordered a railroad car for the next morning. Foreman B forgot to order a car for shipping but secretly, the night before, he took his crew, physically took over Foreman A's car and loaded his material and sent it away. The next day Foreman A

They may ignore certain unethical behaviors or may even punish the blatant offender, but will not reward openly those who consistently engage in ethical responses.

Personal Gain

It would be a mistake to not include as a reason for a person engaging in behaviors that compromise organizational integrity the matter of personal dishonesty or the willingness of a person to deliberately make an unethical decision to gain some type of advantage. There are too many cases of individuals who will falsify reports, juggle books, give favoritism in contacts for personal gain, etc., to ignore this factor.

Lack of a Discipline Program

Most companies have some people who violate the company standards of honesty or ethical performance. When this occurs and it is discovered, what is the company or management response to the infraction? Some companies do not have a standard procedure for dealing with the deviant employee. They may just terminate the employee, slap the wrist, or ignore the situation. Norman Hill describes a process of corrective discipline patterned after the work of Douglas McGregor:

Corporate compromising can often tarnish a business reputation, which may take years to rebuild.

One possible way of dealing with the problem of how to achieve positive discipline is to determine the conditions under which an employee feels the least resentful towards correction. Douglas MacGregor formulated what he called the 'hot stove rule' as a basis for identifying conditions that promote positive discipline. McGregor said effective discipline was analogous to touching a hot stove. When you touch the stove, you know that you have done something wrong; a reaction is immediate, impersonal, predictable, and consistent. All of these characteristics are a part of the hot stove rule. To extend the analogy, when a person touches a hot stove, he or she knows immediately that the stove is hot. The outcome every time a person touches the stove is predictable. A hot stove will not burn a person some of the time and leave that person unburned at other times. It will be impersonal; that is, the stove will not burn one person and not another. It will be consistent. Every time any person touches a hot stove, he or she will be burned.[9]

If there is not a consistent, fair program for dealing with employees who behave dishonestly, this factor may encourage continued undesirable behavior.

Consequences of a Loss of Integrity

What are the consequences of an organization ignoring the issue of decreasing organizational integrity?

- The loss of the truly ethical employee. This type of person will likely leave the organization as he or she comes to find it is losing its standards.
- The loss of valued clients or customers.
- The attraction of people to the organization who find the lack of integrity appealing.
- The slow corruption of individuals in the system. They may find their own integrity slowly eroded under the bombardment of situations around them.
- The ultimate change of the organization's character. It is possible that unless the loss of integrity is checked, an organization that was once highly regarded as one of high integrity could lose this reputation. And once the reputation is lost, the regaining of confidence and respect is difficult to achieve.

Conclusion

Corporate integrity loss continues to make news and, unfortunately, tends to give the corporate community a collective black eye. The result is a decreased public confidence in business and public organizations.

A number of factors contribute to compromised corporate values. Some of these factors include ineffective organizational socialization, reluctance to label deviant behavior, situational pragmatism, and a lack of ethical role modeling. Other reasons include nonconducive organizational climate, a poor reward system, group pressure, and lack of an effective discipline program for integrity offenders. Finally, lost corporate integrity can often be blamed on individuals seeking personal gain at the expense of the organization.

Just as a loss of personal integrity can prove devastating to the individual, so too can lost corporate integrity virtually wipe out an organization. In the long run, corporate compromising and dishonest policies can often tarnish a business reputation that may take years to rebuild. Wise management will make the effort to review its corporate integrity position, and seek to correct causes for decline before it's too late. ≡

Notes

[1] John Van Maanen and Edgar H. Schein, "Toward a Theory of Organizational Socialization," *Research in Organizational Behavior,* Vol. 1 (Greenwich, Conn.: JAI Press, Inc., 1979), pp. 209–264.

[2] Howard S. Becker, Outsiders: *Studies in the Sociology of Deviance* (New York: The Free Press, 1963).

[3] Earl Rubington and Martin S. Weinberg, *Deviance,* 2nd Edition (New York: Macmillan Co., 1973).

[4] Joan P. Emerson, "Nothing Unusual Is Happening," *Human Nature and Collective Behavior* (New Brunswick, N.J.: Transaction Books, 1970), pp. 208–222.

[5] S. J. R. Baumhart, "How Ethical Are Businessmen?" *Harvard Business Review* Vol. 39 (July–August 1961), p. 156.

[6] David J. Cherrington and J. Owen Cherrington, "The Climate of Honesty in Retail Stores," Paper presented before the American Psychological Association Annual Meeting, Division 14 Symposium, Los Angeles, California, August 28, 1981.

[7] Ibid.

[8] Edgar F. Huse, *The Modern Manager* (St. Paul, Minn.: West Publishing Company, 1979), p. 439.

[9] Norman C. Hill, "Counseling Skills: Corrective Disciplines," Unpublished manuscript, 1982.

Before You Invest
CHECKLIST

Investment opportunities come in all shapes, sizes, and flavors. Some investments take a while before they pay off, while others may make you rich overnight (though rare, indeed). Sadly, some investments never pay off at all.

Before you entrust your nest egg to someone else, it pays to do your homework. This checklist should help whether you are investing in stocks, new ventures, or other money-making opportunities. Ask yourself the following questions before you reach for your checkbook:

☐ How much can you afford to invest? How much risk are you willing to take? Remember, there's almost always a direct relationship between risk and return: High risk ventures can pay big returns, but can also result in big losses. Don't borrow money for high risk investing!

☐ Is the anticipated rate of return reasonably in line with similar investments? If not, there is a high probability the return is an unrealistic guess or empty promise, and you could lose everything.

☐ Are you entering the contract because it seems to be endorsed or promoted by a friend, church member, family member, or new business acquaintance (even though you don't really understand how the investment works)?

☐ Is "getting in early" a key promotional feature of this investment? Is there a rush to put up your money immediately? Be wary of excessive pressures to "act now!"

☐ Is the beauty of the proposed investment basically founded on a special tax loophole or tax avoidance scheme? Is there anything that can't be fully disclosed because that is one of the investment's unique reasons for success? Remember, loopholes and tax avoidance opportunities can vanish with a stroke of the Congressional pen.

☐ Is the business a new firm in town? Where did the principals come from, and what was their operation in their previous location? Have any of them been involved in bankruptcy or scandal before? Did you check?

☐ Have you taken the sales presentation at face value, or have you checked many of the appraisal figures and financial claims? Just because a fact is stated or appears in print does not mean it is true.

☐ Does the project depend on kickbacks, multilayered marketing, special concessions to those who have money, or unwritten deals which can't be talked about because of domestic or foreign laws? Beware of such situations.

☐ Are the financial reports audited? For how many years? Is there a chance there has been doctoring of any of the data? Remember, audited statements are only as good as the auditors that stand behind them. Look for statements from reputable experts.

☐ Does the investment assume continued inflation or appreciation in predicting the attractive rates of return? Are these figures realistic, today and over time?

☐ Does the success of the investment depend upon someone's "unique expertise" (such as an uncanny ability to predict commodity prices, unusually good salesmanship, etc.) for financial success? What would happen if that person's special skills were removed from the picture?

☐ For collectibles like gold or diamonds, is the emotional desirability of holding and owning the asset the principal attraction of the investment? If so, how will you actually take ownership or be guaranteed any real return on the collectible?

☐ Is there some form of guarantee promised? Do you have a way of verifying it? Did you, in fact, verify it? Is the sales representative's promise sufficient? Remember, a written promise isn't worth much when a company goes bankrupt.

☐ Does the investment depend on high financial leverage (heavy use of borrowed money) to be successful? Would you as an investor be liable if these debts could not be repaid?

☐ Are the principals in the business living high on the hog even though the business is relatively new? Just because the principals may look successful doesn't mean they are.

☐ Have you asked a financial expert for verification or approval of the investment's plausibility? Would you be hesitant to do so? If you are hesitant, your emotions may be getting the best of you.

☐ If you lost the money you put into this investment, would it matter? Would your lifestyle, your family relationships, or your ego be seriously damaged? If so, avoid the investment. The cost is too high.

If your answers to any of the above questions make you hesitant regarding the investment proposal, we recommend you conduct a thorough investment analysis. Don't jump in on mere enthusiasm, trust, or hope. ≡

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