Improving Corporate Governance: Character Education as a Supplement to Corporate Ethics Training

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Improving Corporate Governance:
Character Education as a Supplement to Corporate Ethics Training

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Abstract

This thesis explores the hypothesis that ethics training for corporate personnel will significantly increase ethical behavior and thereby significantly reduce the incidence of corporate malfeasance.

For over 100 years the federal government has been trying to curb malfeasance by managers of public corporations and their boards of directors. This thesis examines the history of that legislation and those regulatory efforts, concluding that these legislative and regulatory attempts have met with varying degrees of success, but, on balance, that success has been transitory at best. It also comes to the conclusion that corporate training programs in ethics, in the absence of strong corporate leadership, have not had a significant impact on improving corporate governance.

Since laws, regulations and ethics training have been only moderately effective, the thesis looks to possible alternatives to provide improved corporate character, and shows that character education at the K through 12 level, when properly presented and strongly supported, has had a demonstrably positive effect on character at that level. Extrapolating to the effects in adulthood, the thesis posits that such a program could make a difference to future corporate character, which could arguably result in more ethical and improved corporate governance.
# Table of Contents

**Introduction**

Corporate malfeasance and attempts to control it  
Limited effectiveness of those efforts  
Corporate/K through 12 ethics training and character education  
Hypothesis  
Definitions

**Chapter 1:**

**An Historical Overview of Attempts to Improve Corporate Governance**  
Human nature  
Legislative history  
**A Concise History of Character Education in the United States**  
Colonial times  
19th century  
20th century, including ethics timeline

**Chapter 2:**

**The Inherent Problems of Corporate Governance**

**Recent Case Studies of Corporate Governance Problems**  
Tyco International  
Enron  
Arthur Anderson and the other accountants  
Salomon Smith Barney  
Merrill Lynch and the other investment bankers  
Executive compensation

**Chapter 3:**

**The Sarbanes-Oxley Act of 2002**  
Summary  
Title IV, §404  
Implementation
Chapter 4:

Contemporary Attempts at Reform
Arthur Goldberg
Arthur Levitt
John Carver and Caroline Oliver
The Sarbanes-Oxley Act
Scott Newquist
William Donaldson

Other proposals
NASDAQ
The Conference Board
IRS unannounced audits
Commonalities

Current status with respect to corporate governance
Legislation and regulation only partially effective
Transition to chapter 5 and K-12 character education

Chapter 5:

Current Programs in Character Education
Values common to all
The Character Education Institute of San Antonio, Texas
The Josephson Institute of Ethics
Too Good for Drugs and Violence
Lions Quest Skills for Adolescence
Connect with Kids

Character education in New Jersey
Recent funding
Current status

Chapter 6:

Measuring Effectiveness of Character Education in the Schools
Effectiveness can be measured
New Jersey
Center for Child and Family Policy at Duke University
Center for Health Policy Studies
Florida
South Carolina
U.S. Department of Education evaluations
Chapter 7: Current Programs in Corporate Ethics Training

Positive fallout from corporate malfeasance
Sarbanes-Oxley Act
Amended Federal Sentencing Guidelines
Increased attempts at ethics training

Ethics training for MBA candidates

Ethics training in the workplace
Codes of conduct
ExxonMobil
Morgan Stanley
Bear Stearns
Others

Chapter 8: Findings

Summary
Character education in the schools
Legislation, regulation and ethics training pertaining to public corporations
Current behavior

Chapter 9: Conclusions and Directions for Further Study

The elements missing from corporate ethics training
Short exposure limits the effect of the training
Corporate culture created by company’s leadership is key to effectiveness

Hypothesis disproved
Results indicate that corporate ethics training is frequently ineffective

Directions for further study (Appendix B)
Improving Corporate Governance:

Character Education as a Supplement to Corporate Ethics Training

Introduction

It was a typically hot and steamy July in the nation's capitol in 2002, but the bill that was signed into law by a staunchly pro-business Republican president that month was anything but typical. In fact, the Sarbanes-Oxley Act (SOX), that was passed by an equally pro-business congress earlier that year, has since been condemned as downright draconian by many members of the business community. The Act, of course, was the result of the many corporate scandals, including instances of fraud and other malfeasance by executives of public corporations, which had recently come to light at that time.

Unfortunately, SOX is only the most recent attempt to legislate an improvement in the moral and ethical conduct of our corporate leaders. Similar efforts have repeatedly been made for over 100 years, and that we find it necessary to continue to enact new laws to control what is essentially greed and a desire for more and more power, illustrates how ineffective these laws have been in the longer term.

That is not to say that regulatory legislation has been completely ineffective. Each law and resultant regulations has provided at least some benefits, and in many cases significant ones. But, as this thesis will show, these benefits have been limited and often transitory. As Frederick Kelly, dean of the School of Business Administration at Monmouth University said about a month after Sarbanes-Oxley was passed, “Congressional action will not restore investor confidence in Corporate America.

Congress will establish more rules. These will lead to the discovery and development of more accounting loopholes and more legalistic arguments, leading to more frustration for the investing public."²

This thesis will touch on how well known philosophers viewed the way in which human beings seem to behave towards one another. It will review the history of the legislation mentioned above, and in what ways that legislation has been effective and in what ways it has not. It will discuss the systemic problems that exist in the way our public corporations are run and the way in which they are monitored.

Tacitly acknowledging Kelly’s remarks cited above, many businesses have begun training their executives in ethics. This thesis will examine some of these training programs, and compare them to character education programs that are being used in many K through 12 school systems throughout the United States.

Specifically, this thesis will endeavor to prove or disprove the hypothesis that: attempts to infuse a full range of moral dimensions, such as is present in the successful character education programs taught in grades K through 12, into executive training programs, and integration of this “enriched” ethics training into management’s daily routines, has enhanced the effectiveness of the training and thereby has helped reform the corporate environment.

Some definitions are appropriate. First, corporate governance: Although there are other definitions, the one that will be used here, because it is both succinct and comprehensive, defines governance as the system by which companies are directed and

² Frederick Kelly, as quoted in The Star Ledger (Newark, NJ), 5 September 2002, Business sec., 1.
controlled from within. That system depends upon how the board, management and shareholders relate to each other. It is “a culture of relationships. Whether or not it works depends on how its participants behave and interact with each other.”

Second is character education: The New Jersey Character Education Commission defines character education as “a deliberate effort to develop values, attitudes and behaviors that are essential for the individual and beneficial for society.” A more detailed definition is provided by the What Works Clearing House, established in 2002 by the U.S. Department of Education's Institute of Education Sciences:

“Character education is an inclusive concept regarding all aspects of how families, schools, and related social institutions support the positive character development of children and adults. Character in this context refers to the moral and ethical qualities of persons as well as the demonstration of those qualities in their emotional responses, reasoning, and behavior. Character is associated with such virtues as respect, responsibility, trustworthiness, fairness, caring, and citizenship. Character education programs are activities and experiences organized by a provider for the purpose of fostering positive character development and the associated core ethical values (also described as moral values, virtues, character traits, or principles).”

We will discuss these definitions of character education as they relate to how character education is taught in our schools as opposed to how the subject of ethics is taught to corporate executives.

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4 David W. Smith, President, American Society of Corporate Secretaries, interviewed by the author, 20 July 2004.
Third is a combination of terms, whose definitions often seem to overlap. **Ethics**, for example can be confused with **values**, and both can be confused with **morality**. According to Michael Josephson, director of the Joseph and Edna Josephson Institute of Ethics, “**Ethics** is concerned with how a moral person should behave. [It] refers to principles that define behavior as right, good and proper.”⁸ Josephson then goes on to define **values** as “the inner judgments that determine how a person actually behaves. Values concern ethics [only] when they pertain to beliefs about what is right and wrong.”⁹ One may value one’s health, for example, but that “value” has nothing to do with ethics.

Gertrude Himmelfarb, however, refers to Friedrich Nietzsche’s definition of **values** as “connoting the moral beliefs and attitudes of a society,”¹⁰ which sounds very much like Josephson’s definition of **ethics**.

Another definition of “**morality**” is offered by Jean Piaget. In his 1965 book, *The Moral Judgment of the Child*, he states: “All **morality** consists in a system of rules, and the essence of all morality is to be sought in the respect which the individual acquires for these rules.”¹¹ This definition has particular resonance when discussing student behavior in the classroom.

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⁹ Ibid.
Traditionally, ethical systems have been categorized by scholars in the field into one of three main categories: teleological, deontological, situational. While interesting, these definitions are not germane to our discussion and are essentially beyond the scope of this thesis.

To complicate this matter further, the term “business ethics” is defined by The Institute of Business Ethics as:

“The study of business practice at varying levels and contexts through the lenses of moral philosophy and relevant environmental issues. Issues that lie within these bounds include those concerning the nature of business ethics and its application to business, the responsibility and accountability of businesses, functional questions regarding particular areas of activity, and finally, issues concerning international business and the natural environment.”

In an attempt to simplify (if not clarify) these somewhat contradictory definitions, this thesis will separate character education in the schools from ethics training in corporate settings. The former is concerned not only with the need to obey the rules of society, but with the more broad-based message of the importance of moral behavior. The latter, on the other hand, is primarily concerned with explaining the rules that a company and its employees are supposed to live by, usually laws and regulations, and emphasizing the importance of following them. Although moral issues are considered, they tend to be given less emphasis.

To put the issue more succinctly, character education in the schools is primarily “morality-based”, corporate ethics training is primarily “rule-based”. This contrast will be discussed more thoroughly in chapters 7 and 8.

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Chapter 1

An Historical Overview of Attempts to Improve Corporate Governance

Human Nature

The written history of the concept of human nature goes back to the early Greek philosophers. Beginning with Plato, it includes theories by Aristotle, Rousseau, Darwin, Karl Marx and Sigmund Freud, as well as writings based in all the major religions. Although a lengthy discussion of the topic is beyond the scope of this thesis, a broad definition is in order: "The sum of qualities and traits shared by all humans."\textsuperscript{14} "Qualities and traits" implies not just the substance of humans, but also the range of human behavior.

Aristotle, writing on the subject of human behavior in the fourth century B.C.E., said, "All men are seeking for dominion."\textsuperscript{15} One could argue that certain things have not changed all that much in the last 2,500 years. Certainly other well-respected philosophers who followed Aristotle seem to agree.

Thomas Hobbes, for example, writing in the seventeenth century AD, believed that man lives in a natural chaotic state, "a condition of war of everyone against everyone."\textsuperscript{16} In other words, Hobbes believed that man has a predilection to violence, either physical, verbal, economic or some other form of "dominion", over others.

Is aggressive\textsuperscript{17} human behavior, then, the natural order of things? Are humans “designed” to be aggressive regardless of the consequences? Are men, as the philosopher Karl Lorenz states, “biologically programmed to fight over resources.”\textsuperscript{18}

Having said that it is natural and common for all men to seek domination over others, Aristotle also believed that man could overcome this desire to dominate. He wrote that “moral excellence is the result of habit or custom [and] none of the moral excellencies or virtues is implanted in us by nature...Nature gives us the capacity for acquiring [the virtues], and this is developed by training.”\textsuperscript{19}

Aristotle, in other words, held out hope that, by a concerted effort, we could develop good character in people. Indeed, character education and corporate training in ethical behavior, as practiced currently in our school systems and in the corporate workplace, are attempts to develop Aristotle’s idea of “moral excellence”. Some of these efforts will be discussed in detail in the following chapters. First, it is important to examine the history of legislative attempts to improve corporate governance, so that we better understand their positive effects and their failures to achieve intended results. The need for a greater effort to acquire the virtues to which Aristotle referred will become apparent.

**Legislative History**

With respect to corporate governance in the United States, the need to dominate others, and its resultant anti-social effects, seems to have been the primary reason that

\textsuperscript{17} Merriam-Webster Dictionary [website] defines aggression as “hostile, injurious, or destructive behavior or outlook” and “a forceful action or procedure especially when intended to dominate or master,” accessed 3 February 2007, available at http://209.161.33.50/dictionary/aggression.


laws have been passed which attempted to limit or regulate the activities of the people who run our public corporations. Henry Blodgett, the disgraced former securities analyst for Merrill Lynch, recently wrote an article for New York Magazine in which he argued that reforms, in this case relating to malfeasance by officers of public companies, only happen in response to disasters or near-disasters in the financial markets. Although Blodgett’s argument is extremely self-serving, an analysis of the history of legislative and other attempts to reform corporate governance over the last 100 years or so, reveals that, sadly, he is probably correct.

There have been many attempts since 1890 to regulate company officers who work hard at lining their own pockets at the expense of their investors and the general public. A look at some examples of that history is instructive in several ways. Although the system has steadily evolved, meaningful changes have, indeed, occurred only as a result of abuses, either of omission or commission. In addition, there is dogged resistance to change and the pace of change is painfully slow. Following are some highlights:

1890: “Passage of the Sherman Antitrust Act of 1890, which prohibited companies engaged in interstate commerce to act in restraint of trade and which marked the first time Congress acted “in opposition to the concentration of economic power in large corporations,”

1912: “Congress conducts the Pujo hearings, an inquiry into J. Pierpont Morgan and his bank’s domination over American industry through board representation and financing agreements.

1914: [Primarily as a result of the Pujo hearings] “Congress passes the Clayton Act, which among its provisions prohibits a person from serving as
a director or officer of a competitor. It is an extension of the federal anti-trust legislation that began in 1890 with the passage of the Sherman Act. "Publication of Other People's Money and How the Bankers Use It, by lawyer Louis D. Brandeis, a work attacking monopolies, interlocking directorates, and the centralization of financial power. It would be influential in the passage of anti-trust legislation.

1924: "Barnes v. Andrews, a consequential ruling on the director's duty of care. The case addresses the linkage that must be established between director inattentiveness and corporate loss in determining liability.

1933: "Passage of the Securities Act of 1933, which among its historic provisions for a more rigorous regulation of the securities markets is the imposition of civil liability on directors for material defects in a registration statement for a public offering.

1934: "Passage of the Securities Exchange Act of 1934, creating the Securities Exchange Commission to diligently regulate the securities markets and to be the 'investor's advocate,' in the words of former Supreme Court Justice William O. Douglas, one of the first SEC commissioners.


1935: "The New York Times publishes names of individuals receiving particularly large compensation. Such 'hit lists' will proliferate in the media and governance community in years to come.

1939: "The National Industrial Conference Board, an organization of senior corporate executives founded in 1916, issues its first report on governance, 'Prevailing Practices Regarding Corporate Directors.'" Renamed the Conference Board in 1970, the organization becomes a close observer of governance practices through frequent research reports, board surveys and seminars.

1940: "The SEC recommends the establishment of audit committees – specifically that shareholders elect the auditors at the annual meetings and that a committee of non-officer directors nominate the auditors.

1942: "In a seminal action, the SEC adopts the Shareholder Proposal Rule, requiring companies to put shareholder resolutions to a vote.

1947: "SEC v. Transamerica, a court ruling which held that governance-oriented resolutions could not be excluded from the company's proxy as management had requested."

1967: “The American Institute of Certified Public Accountants advocates the widespread establishment of audit committees – recommending that ‘publicly owned corporations appoint committees composed of outside directors...to nominate the independent auditors of the corporations’ financial statements and to discuss the auditors’ work with them.’ [see 1940]

1972: “Former U.S. Supreme Court Justice Arthur Goldberg, elected to the board of Trans World Airlines, proposes that boards have their own office, staff and budget for independent fact finding into a company’s affairs. (His proposal denounced, the distinguished jurist resigned from the board.)

1973: “Founding of the Financial Accounting Standards Board (FASB), a private-sector organization whose setting of financial reporting standards will not always be to the liking of management and directors.

1974: “The SEC requires disclosure in proxy statements of whether or not a corporation has an independent audit committee. [again, see 1940]

“Passage of the Employee Retirement Security Act of 1974 (ERISA), which imposes strict liability standards of conduct for the management of pension plans.

1976: “The boards of a flock of companies, including Lockheed Aircraft Corp. and Exxon Corp. are embarrassed to learn of undisclosed payments to foreign agents for business contracts.

1977: “In response to the firestorm caused by the foreign payoff disclosures, Congress passes the Foreign Corrupt Practices Act, which requires that publicly held companies maintain even stricter accounting controls.

“Harold M. Williams becomes chairman of the SEC. He will be a strong advocate of the accountability of corporate power and of a concept of the ideal board: composed entirely of independent directors, with only the CEO as the sole management board member, and with the chairman and CEO roles separated.

1978: “The NYSE adopts a rule that its listed companies must have an audit committee composed solely of directors independent of management.

“Publication of two major documents: The Role and Composition of the Board of Directors of the Large Publicly owned Corporation by the Business Roundtable, and the Corporate Director’s Guidebook by the
American Bar Association. [Outlines, for the first time, what the duties and responsibilities of boards and their members should be.]

1985: “Smith v. Van Gorkum,” a landmark ruling by the Delaware Supreme Court that shocks the corporate world by challenging the standards of “informed” decision-making by boards. As a result of the ruling, boards develop more elaborate processes of deliberation.


1987: “The California Public Retirement system (CalPERS) sponsors shareholder proposals seeking rescission of poison pills [In the event of a hostile takeover attempt, the potential takeover party would be subject to onerous penalties, thereby making such an attempt almost impossible to succeed.] at 30 companies. This is the first year that public pension funds sponsor governance proposals (as opposed to social-issue proposals).

The National Commission on Fraudulent Financial Reporting (the Treadway Commission) issues its final report which, among its recommendations, calls for an enhanced oversight role for the audit committee.

1991: “CalPERS CEO Dale Hanson sends a letter to the General Motors board members inquiring as to their succession planning for the pending retirement of Roger Smith and for their plans for future investor input. It is an attention-getting governance communiqué.

1992: “In a full page ad in The Wall Street Journal, Robert Monks names the directors of Sears, Roebuck & Co. and calls them ‘Non-Performing Assets’. Monks, the president of the Institute for Research on Boards of Directors and a Sears shareholder was waging a campaign for several governance proposals, including chairman and CEO separation and share ownership requirements for directors, and a proposal that the board conduct a study of spinoffs of non-merchandising businesses.


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“The IRS rules that compensation committees must have at least two outside directors, a response to growing shareholder criticism that CEOs are being overpaid for performance.

“The U.S. Labor Department advocates an activist role for pension plans: It issues clarifying guidelines urging pension plan managers to vote their proxies and to actively monitor the management of companies in which they invest.

1995: “Director compensation starts flashing on the shareholder activist radar screen: companies begin dropping director pension plans and increasing the stock component of board pay.


1997: “The Business Roundtable issues its ‘Statement on Corporate Governance,’ revisiting and updating its views. A key view: ‘...The substance of good corporate governance is more important than its form; adoption of a set of rules or principles or of any particular practice or policy is not a substitute for, and does not itself assure, good corporate governance’.”

2002: Passage of the Sarbanes-Oxley Act which attempts “to restore investor confidence in America’s financial markets by providing sensible protections for investors and employees, and demanding accountability of corporate leaders.”

In addition to Smith v. Van Gorkum (see 1985, above), according to Elson (cited earlier), there has also been a mass of case law developed over the past century that “has shaped the universal parameters under which those seeking changes in corporate governance must operate in both the procedural and substantive arenas - from corporate purpose to the actual exercise of shareholder authority.”

26 Elson.
So, primarily in response to man’s greed and desire for power, we have been trying for more than a century to exercise some sort of governmental or quasi-governmental control over the way public companies function. Congress, the courts and prestigious individuals have written volumes about how companies and their boards of directors should perform so that they maximize investor profit, and also operate in such a way that their performance is in the best interest of the general public.

Later chapters will discuss efforts, other than legislative and regulatory, to curb corporate malfeasance. Since that discussion will compare programs being utilized in the corporate world to character education programs being used in our schools, it is appropriate to first look at the current state of character education in the United States.

A Concise History of Character Education in the United States

Colonial times

The early American colonists recognized the need for children to receive moral training beginning at a very early age. Churches were enlisted to promote moral training in the home, and “the Bible became the source book of both moral and religious instruction.”27 This and moral education later in the seventeenth century was invariably based on “the basic doctrines of the Christian faith.”28 The teaching of good moral values, as the colonies developed, was done “through family, church and apprenticeships, but

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28 Philip Fitch Vincent, Developing Character in Students (Chapel Hill: Character Development Publishing, 1999), 4.
[was] also learned through...elders within the community."²⁹ To be sure, the more orthodox and evangelical Christians objected to any relaxation in the teaching of a strict and literal interpretation of the Bible, but there were others who accepted and encouraged "a more relaxed standard and teaching format."³⁰ In both instances, however, moral teachings were extremely important to the colonists. For example, as late as "1776, school textbooks contained 100 percent moral and religious content."³¹

19th century

Soon after the founding of the nation, there arose a serious difference of opinion in the way children should be taught moral values. On the one hand, there was an urgency on the part of many to impart a moral education to children who were emigrating to large cities and the unsettled frontier. "Schools became an ‘agency’ where character development was considered a vital mission."³² The primary focus, of both textbooks and classroom activities, was "on developing the morality of the citizen for both public and private life."³³

On the other hand, a "trend toward separation of church and school developed... [along with] a conflict over the teaching of moral values in the schools."³⁴ "Between 1776 and 1825, there began a transition from a community-based, religiously-oriented education system toward a secular period of education."³⁵ Religious, moral and ethical teachings, while they did not completely disappear from curricula, began to become less

²⁹ Ibid.
³⁰ Ibid.
³² Vincent, 5.
³³ Ibid.
³⁴ Mulkey.
³⁵ Thomas Golightly, the Present Status of the Teaching of Morality in the Public Schools (Nashville: George Peabody College for Teachers), 1926.
emphasized in favor of reading and writing and arithmetic. After 1826 and continuing into the early years of the 20th century, this trend became even more pronounced with the "increasing number of immigrants with varied religious backgrounds who began to settle in the large cities of the east."36

Exacerbating this trend, the establishment of free, tax-supported schools in America by 1870, prompted "the Catholic community [to expect] financial support from the government when they established their own schools, claiming that the public schools based moral teaching on the Bible and, therefore, were Protestant. As a result, a law was passed banning the Bible from the public school classroom."37

Nevertheless, morality remained an important focus of the curriculum, and somewhat surprisingly, its teaching was encouraged by the manufacturers and other business people of the day. "In 1859, manufacturers felt that morality was more important than knowledge and that morally educated workers displayed more orderliness, respectfulness and deportment, as well as a willingness to comply with rules and regulations, than those workers who were not morally educated."38

By the end of the 19th century, the teaching of religion in the public schools had been largely replaced by what was called "moral instruction". In this sense, the difference between "moral instruction" and "character education" became essentially semantic:

"The main theme of early character education was to break from the 'moral idea' approach of the classical humanist version of moral education and take direct aim at the actual conduct of children and adolescents."39

36 Mulkey
38 Ibid.
As Edward McClellan wrote, citing Horace Mann, the goal of moral education in the public schools was to "build up a partition wall – a barrier – so thick and high between the principles of right and wrong in the minds of men that the future citizens will not overleap or break through it."\(^{40}\) Good morals and learning the difference between right and wrong were taught beginning in elementary school and continued to be emphasized throughout a child's school career. McClellan goes on to say: "The nineteenth-century tendency to place personal moral conduct at the core of their hope for social stability and political liberty gave to the common school a significance it had never had before."\(^{41}\)

**20th century**

Although the secular, "practical" subjects referred to above were taught in the 18\(^{th}\) and 19\(^{th}\) centuries, it was not until the 20\(^{th}\) century that these subjects received the lion’s share of attention, often at the expense of a focus on ethics and morality. "Educators began to question whether moral readings and classroom teachers who. . . urged their students to be good would be sufficient to meet the needs of a changing, industrial, scientifically based society."\(^{42}\) Supporting this trend away from character education was a major study\(^{43}\) of the effects of moral education, both secular and religious. This field-based study lasted from 1924 to 1929 and included 10,865 children in grades five through eight across the United States. The conclusions reached as a result were that "character

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41 McClellan, 27.
42 Vincent, 9.
education programs, religious instruction, and moral training had no effect on the moral 
conduct of students.”

That is not to say, however, that the concept of educating for good character was 
completely abandoned in the early part of the 20th century. For example, William 
Hutchins, a college president, developed the Children’s Morality Code in 1916, which 
extolled the values of “self-control, good health, kindness, truth, sportsmanship, 
teamwork, self-reliance, duty, reliability and good workmanship.” In his book, “The 
Moral Child: Nurturing Children’s Natural Moral Growth,” William Damon goes further, 
explaining that:

. . .morality cannot be excluded from the classroom, no matter how hard one 
tries. It is part of the very fabric of schooling. In their effort to create an 
atmosphere conducive to learning, teachers constantly draw their pupils’ 
attention to the standards of orderliness, respect for others, the work ethic, 
honesty, and responsibility [among other moral values]. In the process, 
basic moral values are communicated to the young. . . . The school provides 
an important training ground for learning and mastering these values.”

Nevertheless, the focus of character development “moved from individual 
accountability to group involvement, [becoming] more activity based.” Scouting, 4-H 
clubs and high school clubs organized with the purpose of community service became 
more and more popular. Increasingly, there was a clear departure from associating 
character education with religion. Teaching good citizenship, which “focused more on 
social and political issues than individual morality”, became the norm in many schools. 
This trend was spearheaded by John Dewey, who wrote in 1934 that a “child’s moral 

44 Mulkey 
45 Mulkey 
1988), 131. 
47 Vincent 
48 Ibid.
character must develop in a natural, just and social atmosphere. The school should provide this environment for its part in the child’s moral development."\textsuperscript{49}

Although it is beyond the scope of this thesis, it should be noted that the educational environment as a whole in the late 1920s and early 1930s saw much experimentation. Process was emphasized with the “activities movement,” followed in the later 1930s by the “progressive education” movement.\textsuperscript{50} All of which were greatly influenced by John Dewey and his “unbelievable record of publications that explored nearly every aspect of education and schooling.”\textsuperscript{51}

In the next decade, as Vincent explains, “Social studies education increased in popularity and importance. By the late 1940s and '50s, the slow but steady retreat of moral education was being facilitated by the demands of greater cognitive development and academic education of students. There was no deliberate attempt to throw moral education out of the curriculum – educators simply felt there was not enough time for character education since students needed more time to master greater academic demands.”\textsuperscript{52} Unfortunately, as will be discussed in a later chapter, this attitude continues to persist in many school districts today.

A decade later, in the late 1960s and 70s, there was significant renewed interest in character education largely because of Lawrence Kohlberg’s “theory of moral reasoning levels and the values clarification theory by Louis Raths, Merrill Harmon and Sidney B. Simon.”\textsuperscript{53} Without going into the specifics of these two theories (the details of which are beyond the scope of this thesis), suffice it to say that both have been found to be either

\textsuperscript{50} Beane, 32.
\textsuperscript{51} Beane, 31.
\textsuperscript{52} Vincent, 10.
\textsuperscript{53} Mulkey, 36.
almost impossible or, at the very least, impractical to implement. As Vincent notes, "Ultimately the values clarification and the cognitive/moral development approach left schools with few ideas to help shape the moral character of their students."\(^5^4\)

As serious discipline and other character-related problems in the schools began to show significant increases, however, the need for effective character education programs became apparent. Drug abuse, juvenile gun violence and juvenile arrests increased alarmingly during the 1980s and 1990s, leading to the installation of metal detectors and other previously unheard of security measures in schools throughout the country.\(^5^5\) In response, several privately funded character education-focused organizations, some for-profit and some not-for-profit, were founded, beginning as early as the 1960s. We will discuss some of these in chapter 6, and, where available, the level of their implementation, in more detail.

By 1996, character education had become a serious consideration for educators throughout the country. It was then that Thomas Lickona published his eleven principle components necessary for any character education program to be effective.\(^5^6\) They are:

1. An effective character education program explicitly identifies and takes a public stand on core ethical values such as caring, honesty, fairness, responsibility and respect for self and others. It is made explicitly clear that these basic human values reach across all religions, transcending religious and cultural differences, and are expressions of our common humanity.

2. It is important to recognize that as the students and community grow together in character development, their understanding of the core values will become increasingly refined. In turn, they will develop a deeper commitment to incorporating these values into their own lives, and behaving according to this value system.

\(^{5^4}\) Vincent, 11.
\(^{5^5}\) Vincent, 12.
3. Effective character education programs incorporate a proactive approach as well as introspective approach. Program developers and participating stakeholders are not above the program, but instead realize that every one of their actions will be noticed by others and will affect their character development. Furthermore, opportunities for character development do not occur randomly, but are planned for. “A comprehensive approach uses the teacher’s example, the instructional process, assessment, management, relationships with parents, and so on, as opportunities for character development.”

4. The environment of the school must be a model of caring.

5. Children must be given many and varied opportunities to develop character traits such as fairness and responsibility in their everyday lives. It is through real life experiences such as working cooperatively, reaching consensus in a group, cooperatively performing service projects, and brainstorming as to how they can play together without fights, that they can internalize their understanding of how to practice the moral skills and behavioral habits that will be needed to successfully take them through life.

6. The character education curriculum should be meaningful and challenging, yet at the same time it needs to address all students’ abilities and learning styles.

7. When character education programs are designed, it should be kept in mind that the ultimate goal is the strong internalization of the lessons. Although external rewards play a significant part in the beginning phases of the program, a weaning effect should take place so that the students will ultimately do what their moral judgment tells them is right, solely for the sake that it was the right thing to do, and not because they will receive some sort of prize or reward.

8. All stakeholders in the school community must realize that they are role models and therefore must adhere to the core values of their particular school’s character education program. This includes not only teachers and administrators, but secretaries, bus drivers, aides, cafeteria workers, etc. Professional development opportunities for adults as well as the opportunity to work collaboratively and participate in decision-making are critical. If the adults who come into daily contact with the students do not have the opportunity to experience mutual respect, cooperation and fairness in their working environment, they cannot be expected to effectively communicate those values to the students. Along with these opportunities, there is a need for frequent meetings to examine and revise the character education program in order to enhance what works and change what does not work. In addition, new curriculum should be designed that deals with new issues and concerns that

were not previously addressed or only partially addressed.

9. A strong character education program must have a leader who will champion the initiative, as well as one or more committees to deal with long range planning and proper implementation.

10. The mission statement of the character education program must explicitly state that it is the parents who are the very first and therefore the most important teachers to impart moral development to their children. Parents need to be included on all character education planning committees and the schools must reach out to those parents who have estranged themselves from the school and community. In addition, the character education programs become infinitely more effective when the wider community, such as business partners, churches, synagogues, mosques, government and the media are given a chance to participate.

11. Continual assessment is an integral part of an effective character education program. Specifically, three areas need to be addressed. They are:

   a. The character of the program – in other words is the community becoming more caring?

   b. Has the staff shown growth in their ability and commitment to teach character education?

   c. Has the character of the students changed, or are the children showing growth and acting as members of a caring community?^8

A further discussion of effectiveness follows in Chapter 7.

In addition to character education in the schools, the efforts in the latter part of the 20th century to promote ethical behavior in the business community are graphically illustrated in the following timeline created by The Ethics Resource Center, based in Washington, DC:

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^8 Thomas Lickona, Educating for Character: How Our Schools Can Teach Respect and Responsibility, New York, (New York: Bantam 1993); Lickona, Schaps and Lewis, 53.
## Business Ethics Timeline

<table>
<thead>
<tr>
<th>Year</th>
<th>Ethical Climate</th>
<th>Major Ethical Dilemmas</th>
<th>Business Ethics Developments</th>
</tr>
</thead>
</table>
| 1960s | Social unrest. Anti-war sentiment. Employees have an adversarial relationship with management. Values shift away from loyalty to an employer to loyalty to ideals. Old values are cast aside. | • Environmental issues  
• Increased employee employer tension  
• Civil rights issues dominate  
• Honesty  
• The work ethic changes  
• Drug use escalates | • Companies begin establishing codes of conduct and values statements  
• Birth of social responsibility movement  
• Corporations address ethics issues through legal or personnel departments |
| 1970s | Defense contractors and other major industries riddled by scandal. The economy suffers through recession. Unemployment escalates. There are heightened environmental concerns. The public pushes to make businesses accountable for ethical shortcomings. | • Employee militancy (employee versus management mentality)  
• Human rights issues surface (forced labor, sub-standard wages, unsafe practices)  
• Some firms choose to cover rather than correct dilemmas | • ERC founded (1977)  
• Compliance with laws high-lighted  
• Federal Corrupt Practices Act passed in 1977  
• Values movement begins to move ethics from compliance orientation to being "values centered" |
| 1980s | The social contract between employers and employees is redefined. Defense contractors are required to conform to stringent rules. Corporations downsize and employees’ attitudes about loyalty to the employer are eroded. Health care ethics emphasized. | • Bribes and illegal contracting practices  
• Influence peddling  
• Deceptive advertising  
• Financial fraud (savings and loan scandal)  
• Transparency issues arise | • ERC develops the U.S. Code of Ethics for Government Service (1980)  
• ERC forms first business ethics office at General Dynamics (1985)  
• Defense Industry Initiative established (1986)  
• Some companies create ombudsman positions in addition to ethics officer roles  
• False Claims Act (government contracting) |
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<tr>
<th>Decade</th>
<th>Ethical Climate</th>
<th>Major Ethical Dilemmas</th>
<th>Business Ethics Developments</th>
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<tbody>
<tr>
<td>1990s</td>
<td>Global expansion brings new ethical challenges. There are major concerns about child labor, facilitation payments (bribes), and environmental issues. The emergence of the Internet challenges cultural borders. What was forbidden becomes common.</td>
<td>• Unsafe work practices in third world countries</td>
<td>• Federal Sentencing Guidelines for Organizations (1991)</td>
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<td></td>
<td></td>
<td>• Increased corporate liability for personal damage (cigarette companies, Dow Chemical, etc.)</td>
<td>• Class action lawsuits</td>
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<td>• Financial mismanagement and fraud.</td>
<td>• Global Sullivan Principles (1999)</td>
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<td>• In re Caremark (Delaware Chancery Court ruling re Board responsibility for ethics)</td>
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<td>• IGs requiring voluntary disclosure</td>
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<td></td>
<td>• ERC establishes international business ethics centers</td>
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<td></td>
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<td></td>
<td>• Royal Dutch Shell International begins issuing annual reports on their ethical performance</td>
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<tr>
<td>2000s</td>
<td>Unprecedented economic growth is followed by financial failures. Ethics issues destroy some high profile firms. Personal data is collected and sold openly Hackers and data thieves plague businesses and government agencies. Acts of terror and aggression occur internationally.</td>
<td>• Cyber crime</td>
<td>• Business regulations mandate stronger ethical safeguards (Federal Sentencing Guidelines for Organizations; Sarbanes-Oxley Act of 2002)</td>
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<tr>
<td></td>
<td></td>
<td>• Privacy issues (data mining)</td>
<td>• Anticorruption efforts grow.</td>
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<tr>
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<td>• Financial mismanagement.</td>
<td>• Stronger emphasis on Corporate Social Responsibility and Integrity Management</td>
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<td>• International corruption.</td>
<td>• OECD Convention on Bribery (1997-2000)</td>
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<td></td>
<td></td>
<td>• Loss of privacy - employees versus employers</td>
<td>• UN Convention Against Corruption (2003); UN Global Compact adopts 10th principle against</td>
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<td></td>
<td></td>
<td>• Intellectual property theft</td>
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</table>
NOTE: The ethical climate and response to ethical dilemmas in the 1960s and 1970s blurs and loses some distinction across the decade boundaries due to the war in Vietnam, social upheaval, and resulting stress on businesses.  

As shall be illustrated in more detail in chapters 7 and 8, there is a stark contrast between business ethics training and character education in the schools with respect to both content and teaching methods. Before discussing specifics of this, however, it will be helpful to examine some of the more egregious examples of corporate malfeasance that have occurred in recent years.

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Chapter 2

The Inherent Problems of Corporate Governance

Unfortunately, despite all the efforts to prevent abuses by corporate executives, boards of directors continue to be criticized for failing to vigorously look out for the best interests of their investors and for not properly controlling the company managers they are hired to oversee. And the seriousness of such abuses can hardly be overstated. "The inevitable result [of misleading accounting practices and large payouts to senior executives], is growing outrage among corporate stakeholders. If investors continue to lose faith in corporations, they could choke off access to capital, the fuel that has powered America's record of innovation and economic leadership. The loss of trust threatens our ability to create new jobs and reignite the economy. It also leaves a taint on the majority of executives and corporations who act with integrity."60

Nevertheless, accounting abuses, including outright fraud, outrageous pay packages and other less than ethical conduct by senior executives and board members continue to surface almost daily in the news media. An example, which perfectly illustrates a truly outrageous attitude of a board member, occurred in 2004. Six Xerox executives, including the chief executive officer and the chief financial officer were accused of inflating company sales by $3 billion between 1997 and 2000. The six men were fired, the company (read "shareholders") paid a $10 million fine and $20 million in penalties to the Securities Exchange Commission and, of course, the price of Xerox stock plummeted when the scandal was uncovered. And, perhaps worst of all, "the three members of the

60 John A. Byrne, Business Week Online, 2 May 2002 [magazine online]; accessed 20 November 2005; available from http://www.businessweek.com/magazine/content/02_18/b3781701.htm.
audit committee [including the committee chairman] who were charged with overseeing the company’s accounting during the years the misstatements were made remain on the board.”

Even more appalling is the fact that all three ran for reelection, refusing to take any responsibility for the distortion of earnings and their role in permitting it.

“If accountability is to mean more than window dressing, then failure by executives, the audit committee, [the compensation committee,] or the auditor is, in fact, a failure of the board.” The board is at the top of the chain of command in any corporation and as the owners’ representative “it has the obligation, not just the authority” to protect the interests of the shareholders.

That is not to say that closer supervision by boards is easy. The reality is that “boards are usually highly dependent on the CEO for information and understanding about the company, [and their members are often] personally and emotionally close to the CEO.” For example, although abuses by management have changed over the years, from interlocking directorates and monopolistic practices, to accounting fraud and grossly overpaid executives, abuses of one sort or another manage to find a way of appearing so that the public, repeatedly, sees the business community in a bad light.

“These practices are [especially] troublesome because shareholders have no effective

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recourse against them other than expensive litigation or proxy contests, which are not economical for single shareholders.”65

Added to these difficulties that are inherent in the system, there appear to be many influential people in the field of corporate governance that are either in denial, do not understand the seriousness of the problem, or they understand and simply choose not to change the existing culture. For example, Kristie’s work on the history of corporate governance is interesting, comprehensive and worth reviewing, but in his opening paragraph he displays, to say the least, a certain bias when he describes the 20th century as one “that has seen the corporate board advance from a proverbial Neanderthal to the upright body that it is today.”66 Although being chosen to become a member of a major corporation’s board is indeed prestigious, unfortunately, since Enron and the many other corporate scandals that have rocked the business community in the early years of this century, “upright body” is hardly the description that many investors and other members of the public would use to describe their view of boards of directors at present.

David Smith, whose job it is to focus on improving corporate governance, freely admits that high pay packages are a serious problem, but believes that “the vast majority of public companies” are run by honest, ethical people.67 That is probably so, but the continued accounting problems, very high salaries and other incidents of malfeasance make one wonder.

In addition, in spite of clear recognition by lawmakers, regulatory bodies and the business community itself over the years that there needed to be stricter controls on the

65 Newquist, 172.
66 Kristie.
67 Smith.
way public corporations operated, and better oversight by boards of directors, the pace of reforms has been painfully slow. The 1940 recommendation by the SEC that audit committees be established by public companies that was not *recommended* until 1967 by the accounting community, and then not *required* until 1978 by the NYSE is a prime example.

Following are some relatively recent specific instances of corporate malfeasance, all of which may be traced in some way to the inherent problems in the system that are cited above:

**Recent Case Studies of Corporate Governance Problems**

**Tyco International**

Beginning in the mid 1990's, Tyco's CEO, L. Dennis Kozlowski, expanded what was then a relatively small Exeter, New Hampshire, based manufacturer of security systems, pipes and valves and other industrial products, and proceeded, primarily through acquisitions, to build it into a multi-billion dollar diversified corporation. Kozlowski often bragged that his company was a "fast growth, high margin collection of assets" that he "loved to compare with General Electric". In actuality, it was "what skeptics always thought it was: a hodgepodge of consistently profitable but unconnected, slow-growth businesses...".

Largely through legal, but ethically questionable accounting practices, Tyco made "its reported financial statements look far better than they otherwise might. For example, through one-time actions immediately before a merger, the company would decrease the

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69 Ibid.
reported profits of an acquisition target – allowing for a sudden surge in earnings in the first quarter after the deal was done”.70

The problem for investors and potential investors was that the aggressive accounting gimmicks inflated earnings, which in turn attracted investors and inflated the stock price. When a more conservative earnings picture emerged, the stock dropped precipitously, 74% in 2002, and investors, including pension programs that had relied on the financial statements of the company, lost three quarters of their investment.

Not only did Kozlowski’s corporate philosophy permit him to report numbers that deliberately misled his investors, he and his former chief financial officer, Mark Swartz, were also accused of stealing $600 million from the company. They compiled a laundry list of outrageously priced luxury items that they bought for themselves with company funds and have since been convicted of theft and accounting fraud, and are currently serving prison terms. Tyco, under its new management, has restated its past earnings, is doing reasonably well, and its stock price has regained all of its earlier decline.

**Enron**

Enron, on the other hand, along with Andrew Fastow, its former chief financial officer, is charged with actually violating “accounting rules in a wide array of transactions that misrepresented its true financial performance and shifted billions of dollars in assets off the books.”71 Not only did they enrich themselves, but Enron’s senior financial people were also able to show highly inflated earnings for the company that initially resulted in sharply increasing its stock price. When the true earnings picture

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became apparent, the result was a $68 billion loss in market value for the company's stock and financial disaster for most of its employees who had the bulk of their retirement savings in Enron stock, as well as serious losses for several large pension funds that had invested in the company. As former SEC Chairman Arthur Levitt wrote, "Enron represents a lack of the kind of disclosure that is fundamental to maintaining confidence in U.S. public markets." Even so, it is apparently still an open question as to whether the accounting practices used by the company were illegal or within the bounds of Generally Accepted Accounting Practices. Moreover, "The implications of the Enron debacle ... set off what became a cascading collapse in public confidence, sealing the final days of an era of giddy markets and seemingly painless, riskless wealth." Enron, unlike Tyco, is now a fraction of its former size, almost all its former senior executives have either been indicted, convicted, or have plead guilty to civil or criminal offenses, and are awaiting trial or sentencing.

**Arthur Andersen and the Other Accountants**

Which brings us to the accountants. Although the auditing practices of all the major accounting firms have been criticized, Arthur Anderson, because of its handling (mishandling?) of the Enron account, was most spectacularly in the news. Arthur Anderson and a partner founded this prestigious accounting firm in 1913. Anderson was head of the accounting department at Northwestern University and was elected to the Accounting Hall of Fame upon his death in 1947. He was well respected

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for his intelligence, his ability and for his integrity. If he were alive today he would most certainly be shocked and dismayed at the behavior of some members of his firm.

In her book, “Final Accounting”, Barbara Ley Toffler puts the problem succinctly: “...the public accounting firms forgot that their main purpose is to serve the investing public. It is to assure that the numbers investors rely on are absolutely accurate.”74 However, instead of engendering confidence, “With Enron and a long list of other scandals hovering over it, the big accounting firms are increasingly seen as enablers of, if not partners in, corporate greed. The result: a shearing away of investor confidence...”75

False and misleading financial reporting was tantamount to lying to the public, and, a liar, as Sissela Bok wrote, “underestimates ...the harm that lying does to the liars themselves and the harm done to the general level of trust and social cooperation. Both are cumulative; both are hard to reverse.”76

Conflicts of interest abounded in the accounting industry. For example, the consulting arms of the major firms were dependent upon the auditing people in their firms not to upset the management of the companies they audit for fear of losing lucrative consulting contracts. This issue was specifically addressed by the Sarbanes-Oxley Act, which required a complete separation of the accounting/auditing divisions of accounting firms from their consulting divisions. However, there remains an inherent flaw in the auditing process. The outside auditors are supposed to be “independent”. However, there is certainly a natural reluctance of auditors hired by management to anger that same

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74 Barbara Ley Toffler, Final Accounting (New York: Broadway Books, March, 2003.)
management by performing too strict an audit, especially when the auditing fees are substantial.

And there is still the question: Are Generally Accepted Accounting Practices designed so that corporate profits can be essentially overstated and still be within the rules, or are they designed to give a truly accurate picture of earnings so that the investing public is best served?

(To their credit, although it is certainly in their self-interest, not long after the passage of the Sarbanes-Oxley Act the accounting firm PriceWaterhouseCoopers ran an aggressive advertising campaign advocating a principles-based accounting system rather than the current rules-based system. “A principles-based system requires companies to report and auditors to audit the substance or business purpose of transactions”77, rather than, as in a rules-based system, allowing “managers to ignore the substance and, instead, ask ‘Where in the rules does it say I can’t do this?’”78)

Salomon Smith Barney

In addition to the questionable numbers generated by public companies with the approbation of their outside auditors, there is another major issue that has eroded the confidence of investors. That is the conflict that exists in the research departments of investment banking firms between their analysts’ duty to provide honest evaluations of a company’s stock and their desire to encourage those same companies to do their banking business with the analyst’s firm.

78 Ibid.
Jack Grubman’s basic job description as the lead technology analyst for Salomon Smith Barney until the summer of 2002, was to advise the company’s brokers as to which stocks were good values and which ones were not. However, Grubman had a distinct and obvious conflict of interest. He played a major “role in recommending shares in companies such as WorldCom, Global Crossing and Winstar, at the same time as helping Salomon earn millions of dollars in advisory fees from the same companies.”79 Moreover, Grubman was also an advisor to WorldCom, a company whose stock he continued to recommend as its price plummeted from $60 to $6 per share.

**Merrill Lynch and the Other Investment Bankers**

Unfortunately, Grubman was only one of several high-profile Wall Street analysts who were in similar positions with similar conflicts. Mary Meeker at Morgan Stanley and Henry Blodget at Merrill Lynch made millions for their firms and then, when they finally lost their credibility, not only cost their firms millions of dollars in fines, arbitration penalties and lost clients, but they also badly damaged the reputations of the companies for whom they worked.

One would think that with all the negative media coverage and New York State’s Attorney General, Eliot Spitzer’s very public and successful pursuit of Merrill Lynch and others, such obvious conflict of interest practices would have come to an end. But as late as April of 2002, UBS Warburg hired a star analyst, Meirav Chovav, for their health care banking group from Credit Suisse First Boston for a guaranteed salary of over $3 million per year. Clearly, in the bear market and generally bad business environment of that time, the only reason she was hired for so much money was “to get banking business from the

companies that she covers.” This is exactly what Spitzer was trying to avoid. Apparently, the bad publicity and substantial fines that the banking firms were subjected to for their research-banking conflicts were simply not enough to prevent or even curtail the practice.

**Executive Compensation**

A discussion of abuses by corporate executives and boards would not be complete without mentioning executive pay. Recent multimillion dollar pay packages garnered by some U.S. corporate Chief Executive Officers, in addition to the compensation and separation pay given to Richard Grasso by the New York Stock Exchange that created so much furor, are illustrative of why so many investors, large and small, are troubled.

Of the 200 chief executive officers of major U.S. corporations studied in 2004 by The New York Times, 180 of them held the same jobs in 2002 as they did in 2003, and, on average, they received a 14.4% increase in their cash pay from one year to the next, “taking home an average of $2.9 million [in cash]...In addition,...those CEO’s received, on average, total compensation of $5.9 million, up 23% from...2002.” In spite of pressure from stockholders and actual reductions in some CEO pay, “big annual payouts to chief executives still abounded” in 2003. For example, Louis C. Camilleri of Altria Group more than doubled his total compensation from 2002 to $23.9 million and E. Stanley O’Neal of Merrill Lynch “nearly doubled his pay package, to $28.1 million.”

James Cayne of Bear Stearns “received three times as much in stock options as he did the

82 Ibid.
83 Ibid. 6.
84 Ibid.
year before. Overall, Mr. Cayne received $27 million last year compared with $19.6 million in 2002.”

Perhaps one of the most egregious examples of an excessively paid chief executive is Henry R. Silverman of Cendant. Silverman “received a salary of $3.3 million, a bonus of almost $14 million, and he realized $37 million in option gains... Cendant shareholders [also] contributed $1.025 million to Mr. Silverman’s pension plan and paid premiums of $4.574 million for a $100 million life insurance policy.”

Paul Hodgson, of Corporate Library, a governance research organization, summed up his view of Silverman’s pay package saying, “Salary is clearly excessive, the annual bonus is excessive, former grants of stock options were clearly excessive, and the provision of the life insurance is also excessive.” Finally, although Barry Diller of ActiveCorp received “only” $3.75 million in salary and bonus, “he gained $151 million from exercising stock options,” which puts him at the top of the 2003 list of CEO earners.

There is also the issue of huge severance pay packages, most notably, perhaps, Richard Grasso’s $139.5 million. But others are also worth mentioning. Michael Ovitz, after departing Disney after only 16 months was paid $125 million. Igor Landau, the Chairman and CEO of the drug company Aventis, which was recently taken over by Sanofi-Syphthalbo, “will be stepping down [and] could leave with as much as $28.5 million.”

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87 Ibid.
89 See footnote 53.
Even chief executives who depart under a legal cloud may walk away with large amounts of money. For example, Lawrence J. Lasser, who resigned from Putnam Investments last November less than a week after the company was sued by federal and state securities regulators, received $78 million to “resolve an arbitration proceeding over his compensation.”

None of these numbers, however, should come as a surprise. In its May 6, 2002 issue, Business Week bemoaned the state of executive compensation. “CEOs of large corporations last year [2001] made 411 times as much as the average factory worker. In the past decade, as rank-and-file wages increased 36%, CEO pay climbed 340%, to $11 million... When CEOs can clear $1 billion during their tenures, executive pay is clearly too high.” And the fact that CEOs are able to draw such enormous pay packages, also “clearly demonstrates the power that CEOs command.”

Having said that, there are two recent court decisions indicating that we may finally be seeing a change in excessive compensation for corporate executives.

- In 2005 the Delaware chancery court rejected as inadequate a settlement made by the board of directors of Fairchild Corporation with their shareholders. The board voted to give shareholders $2.9 million as compensation for excessive payments made to the Fairchild chief executive, some of his family members and certain other company executives. The

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93 John A. Byrne, Business Week Online, 6 May 2002, accessed 6 May 2004; available from http://www.businessweek.com/print/magazine/content/02_18/b3781703.htm?
94 Newquist, 122.
court demanded “real structural protections that may involve a real infusio of some backbone into the board.' The parties went back and agreed to a settlement that cut the chief executive’s pay and froze company payments to his retirement plan.”

- On October 19, 2006, the New York Supreme Court ruled that Richard Grasso must return “as much as $100 million in compensation to the New York Stock Exchange.” As Gretchen Morgenson wrote, “The message of [the ruling] is a clear warning to corporate directors everywhere: The days of pouring other people’s money into the pockets of C.E.O.’s without justification are over.”

Perhaps. These two rulings are certainly a step in the right direction, but the compensation packages of many senior corporate executives continue to be excessive by most rational standards.

As mentioned at the beginning of this chapter, the most recent and one of the most detailed and intrusive attempts to deal with problems such as these, has been the Sarbanes-Oxley Act. A discussion of the Act follows in chapter 3.

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96 Ibid.
97 Ibid.
Chapter 3

The Sarbanes-Oxley Act of 2002

As a result of the conflicts of interest and abuses cited above, The Sarbanes-Oxley Act was passed by the House of Representatives in January 2002, the Senate in June of 2002 and signed into law by President Bush in July 2002. The Act “was intended to bolster public confidence in the nation’s capital markets and impose new duties and significant penalties for non-compliance by public companies and their executives, directors, auditors, attorneys, and securities analysts.” It is included here because it is the most recent attempt to improve corporate governance and is specifically related to ethical considerations. It also imposes strict demands on corporate board members and executives, and major penalties for violations of its provisions. Most of SOX is focused on the in-house accounting and auditing procedures used by public companies, and the procedures used by the public accounting firms that audit their books. A brief synopsis of the eleven Titles to the Act follows, after which is a more detailed discussion of Title IV, § 404, arguably the Title and section of the Act that has been the most controversial and has had and will continue to have the most impact.

Title I – XI Summary

- Title I establishes the Public Company Accounting Oversight Board (PCAOB). The Board has five members whose job it is to establish rules and standards for audits, oversee the audits of public companies, and enforce...
compliance with the standards adopted by the PCAOB, by public accounting firms.

- Title II requires that outside auditors report not only to company officers, but also to the audit committee of the board of directors. Essentially, the audit committee must be fully informed of the auditors’ results and of its dealing with company officers. Title II also prohibits auditing firms from performing non-audit services at the same time as conducting an audit.

- Title III requires the chief executive officer and the chief financial officer of each public company to personally certify all financial statements and reports emanating from the company. Each member of the audit committee is required to be independent (not a member of company management), and a member of the board of directors.

- Title IV “increases the amount of disclosures corporations are required to make to the SEC.” [and requires] “that an independent review of the internal controls and their certification is conducted.”

- Title V deals with increased oversight for financial analysts, investment bankers and broker dealers.

- Title VI expands the SEC’s authority and provides more funding to the SEC.

- Title VII mandates that the SEC and the United States General Accountability Office (GAO) undertake to accomplish specific reports and studies.

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101 Neier, 7, 8.
• Title VIII increases criminal penalties for anyone involved in malfeasance with respect to public company financial matters. It also specifically protects whistleblowers from retaliation by their employers or former employers.

• Title IX increases and details the criminal penalties for white collar crime, including failure of corporate officers to certify financial reports.

• Title X states that the company CEO must sign the corporate tax return.

• Title XI increases to $25 million and 20 years in prison for violations of the Securities and Exchange Act of 1934.102

**Title IV, § 404**

This Title, and especially its § 404, has caused more furor and conflicting opinions in the corporate and accounting communities than any other part of the Act. Although § 404 is only sixteen lines long, it is most onerous to many and expensive to all. Having said that, § 404 has also been praised for having the potential to be a major positive influence on the way public companies run their businesses.

Excerpts from a summary of § 404, published on the website of the American Institute of Certified Public Accountants, follow:

**Section 404: Management Assessment of Internal Controls**

Requires each annual report of an issuer to contain an “internal control report”, which shall:

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102 The section on Titles I – XI of this paper is condensed and paraphrased from Daryl Neier’s work and from the text of SOX.
(1) state the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting; and

(2) contain an assessment, as of the end of the issuer's fiscal year, of the effectiveness of the internal control structure and procedures of the issuer for financial reporting.\textsuperscript{103}

The language of § 404 essentially mandates that a company's internal controls be codified and documented. Internal controls are defined as a process that will provide reasonable assurance that a company will operate efficiently and effectively, that its financial reporting is reliable, and that it complies with applicable laws and regulations.\textsuperscript{104} Critics point to the fact that § 404 applies the same standards for internal controls to all public companies, large and small, well-established and new, and that older, well-established large companies can more easily afford the costs and the time necessary to implement and maintain SOX's provisions, than smaller, newer companies.\textsuperscript{105} Although the Act has placed a significant financial burden on all public companies, critics assert that it is especially onerous to those that are small and mid-sized. It is this issue that is most often cited by those who are critical of SOX. Indeed, the expense of implementing and maintaining the provisions of § 404 does run into millions of dollars for larger companies and thousands, if not hundreds of thousands of dollars, for smaller-sized firms.\textsuperscript{106}

\textsuperscript{105} David W. Smith, President, Society of Corporate Secretaries and Governance Professionals, interview with the author, 22 Feb. 2005.
In response, the Securities and Exchange Commission (SEC) has formed a panel “to evaluate the effect of Sarbanes-Oxley on small businesses,” and a group of Washington-based business lobbyists, concerned with the potential debilitating effect of its costs on smaller businesses, has begun to lobby the SEC and members of congress to make changes to the law.

Another argument against the Act is that the resultant fallout, including multiple prosecutions from federal and state prosecutors, has put a damper on new investment. According to Treasury Secretary, John Snow, “The sense that many business people have is that they are under siege from serial investigations, serial regulatory prosecutions, and criminal and civil prosecutions.”

There is, however, strong support for the Act. Many knowledgeable people in the fields of corporate governance and accounting argue that these very same demanding provisions of SOX will result in stronger and more expert boards of directors, “discovery of weaknesses in the internal control system, or even revelation of past or present fraud.” This analysis posits that complying with SOX will result in a more efficient, better-run company with increased value.

**Implementation**

More than three years have passed since the Act was passed by the House of Representatives, and initial compliance with § 404, for larger companies only, was not required until November 15, 2004, twenty-eight months after the bill was signed into law.

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108 Ibid.
Smaller companies are still not required to comply “because the S.E.C. is aware of the added burden, and is trying to figure out a way to reduce it.”\textsuperscript{111} As difficult as it was to get the bill through congress and have it signed by a business-friendly Republican president, implementing its provisions has become even more arduous.

Nevertheless, the Act has had some significant positive effects. It provided “badly needed money for the S.E.C., whose enforcement staff is bigger than it was before SOX. It forces chief executives and chief financial officers to vouch, in writing, for their companies’ financial statements. It outlaws most corporate loans to top executives. It has forced directors to become more independent of management – allowing them to better serve shareholders...”\textsuperscript{112} And § 404, in spite of the controversy surrounding it, has clearly demonstrated benefits to companies and shareholders alike. One example is sharply reduced insurance rates for directors and officers of public corporations. “Rates on so-called D.&O. insurance fell almost 40 percent in 2005, dropped an additional 10 percent last year and [will] probably decline again this year,”\textsuperscript{113} according to Loretta Waters, of the Insurance Information Institute in New York. Waters is quoted as saying, “Directors are under greater pressure by shareholders to be more transparent, provide more information. I would say that the changes in corporate governance practices and transparency to shareholders as a result of the Sarbanes-Oxley Act have likely contributed to the decline in D.&O. rates.”\textsuperscript{114}

\textsuperscript{112}Ibid.
\textsuperscript{114}Ibid.
In addition to Sarbanes-Oxley, there have been other attempts at combating corporate malfeasance in recent years that are worth mentioning. A brief discussion of these follows in chapter 4.
Chapter 4

Contemporary Attempts at Reform

Among the recent (and one not so recent) suggestions as to how to approach these problems are:

- Revisiting Arthur Goldberg’s suggestion that a board have its own staff and office to perform independent fact-finding, this is radical and certainly threatening to management. Perhaps it is so radical that it would be unrealistic to assume it would receive any more credence elsewhere than it originally received from the board of TWA. However, given the continued apparent inability of boards to exercise any real control over management, perhaps it, or some version of it, is an idea whose time has come.115

- David Smith of the American Society of Corporate Secretaries tells me that Arthur Levitt, a former chairman of the SEC, had a similar experience with Steve Jobs of Apple Computer. It seems that Jobs offered Levitt a seat on the Apple board and Levitt responded positively in a letter, but in the letter he also outlined the things he hoped to accomplish as a board member. After reading Levitt’s letter, Jobs wrote to him withdrawing his offer of the position.116

- John Carver and Caroline Oliver in their book, Corporate Boards That Create Value, published in 2002, argue that “the board’s position is to act as the link between owners and management, directing and controlling the

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115 Kristie, 40.
116 Smith
company on the owners' behalf." They then go on to describe a
governance program that encompasses much of what Justice Goldberg
suggested to the TWA board.

- The Sarbanes-Oxley Act and the establishment of the Public Company
  Accounting Oversight Board in 2002, was a response by the federal
government to the WorldCom and other corporate problems that came to
light at about that time. Sarbanes-Oxley will be discussed in more detail
later, but suffice it to say for now that the provisions of Sarbanes-Oxley are
primarily focused on preventing accounting fraud, with audit committees of
boards coming in for particular attention. For example, “audit committees
are charged not only with increased duties, but are subject to expanded
oversight, and [become] indirectly responsible for reporting accuracy.”

- Scott Newquist’s, *Putting Investors First*, published in 2003, “clearly
  explains the conflicts inherent in corporate governance and, [according to
Robert Crandall,] offers a number of realistic suggestions that should be
helpful...in restoring investor confidence.” Some of these are listed
succinctly in the forward to the book, written by John Bogle, founder and
former chief executive officer of The Vanguard Group. Among them are:
  enabling investors to nominate directors and make business proposals
directly on their corporate proxy statements; separating the CEO and board
chairman positions and setting higher standards of director independence;

117 Carver, 5.
118 Karl Nagel, Sarbanes-Oxley Act [website], accessed 20 November 2005, available from
119 Robert L. Crandall, retired chairman, AMR Corporation; “mini-review” on book cover of Newquist’s
Putting Investors First.
eliminating quarterly “earnings guidance” reports and efforts to meet financial targets through creative accounting techniques; full disclosure of the impact of significant accounting policy decisions; and a 50 percent tax on very short-term gains on trading stocks. Given the length and complexity of this list, the board would clearly need a staff such as that recommended by Arthur Goldberg to TWA in 1972, and previously cited on page 7.

- More recently, the SEC has considered a rule that would “give qualified shareholders the limited ability to place a director’s name on a ballot for a company board.” William H. Donaldson, former chairman of the SEC and an early supporter of the new rule, “compared the current system of electing corporate directors, in which the incumbent board nominates a slate and no other candidates are on the ballot, to elections in the former Soviet Union: ‘It’s not really an election at all,’” said Donaldson. Arthur Levitt, arguing in favor of the new proposal, says that “shareholders now have no realistic options if they want to replace directors;” and that the enormous expense and complexity of undertaking a proxy contest is simply not practical for institutions and certainly not for individual shareholders.

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120 John C. Bogle, founder and former CEO of The Vanguard Group, Forward to Newquist’s *Putting Investors First*, xvii-xviii.
Other Proposals

There have been other initiatives as well. NASDAQ has put forth its own proposals to tighten corporate governance and these rules seem to be well thought out and go further than those enacted by congress. There has also been an effort by The Conference Board’s Commission on Public Trust and Private Enterprise to make Boards of Directors more independent and effective. The Conference Board, a panel of prestigious financial leaders, has recommended that a substantial majority of board members not have direct ties to management. (One would think this proposal is simply common sense and should have been made and insisted upon a long time ago.) It also suggested that the offices of President and Chairman be split, and the Chairman not be a management member so that the board could hold meetings without a member of management present.

It is interesting to note that, largely in response to the Conference Board’s recommendations, Krispy Kreme Doughnuts “has reorganized its board...to guarantee that a majority of its members would be independent directors.”124 It has also appointed a “Chief Governance Officer”, whose responsibility will presumably be to monitor the ethics of the way in which Krispy Kreme is run.

Another proposal would have IRS representatives do one or two surprise audits annually of all public companies whose revenues exceeded a certain amount. The cost of each audit would be borne by the audited company.

All of these proposals seem to have two things in common:

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• The importance of the board being thoroughly informed and having the time and staff to absorb and understand the meaning of the information they are given, and

• Having truly independent directors, including separate board chairman and CEO positions, with the board chairman and most, if not all, of the other members of the board not being part of management.

When both these requisites are successfully accomplished, a company has, in effect, a system of checks and balances not unlike that of our government, and, in theory at least, malfeasance and excesses such as exceedingly high salaries should be kept to a minimum, if not eliminated.

A summary of the current state of corporate governance and recent attempts to improve it follows.

**Current Status With Respect to Corporate Governance**

First, it should be clear that much of the legislation cited above has been at least somewhat effective in curbing corporate malfeasance. Many corporations have been fined, some for millions of dollars, many more have been forced to restate earnings. Some former corporate executives have been sent to prison and many more have been indicted.125 Sarbanes-Oxley, in particular, has been effective in forcing companies to be more diligent in their accounting and auditing practices.

Nevertheless, the core problems that militate against achieving the goal of truly ethical boards of directors are that management – primarily the CEO – chooses the board members, including outside directors, and the board rarely has the time or the staff to

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intelligently sift through the data that is presented to them. Even when an outside board member is at first independent, in time the line between insider and outsider often becomes indistinct. "Initially, a recruited board member may be an outsider, but length of service, lavish perks, fees, and substantial compensation may transform the legitimate outsider into the closet insider."126

In fact, despite the passage of Sarbanes-Oxley by an aroused congress and the multitude of recent criminal indictments, along with angry shareholders and even token salary reductions for some chief executives, we have continued to see an erosion of trust by the public in business institutions. Several years ago most of the problems centered on lax accounting and auditing. For the last two or three years, it seems, the primary culprits are excessively high pay packages for CEOs and other senior corporate executives, and the back-dating of stock options for senior executives. In all these instances the root cause of this ongoing lack of trust can be summed up, I believe, in one word: greed.

For confirmation of continued ethical lapses in the business community, four years after the passage of Sarbanes-Oxley, one need only look to the first page of the August 27, 2006 edition of The New York Times. Measuredmarkets, an analytical research firm based in Toronto, examined the largest mergers in the country over the last year and found "that the securities of 41 percent of the companies receiving buyout bids exhibited abnormal and suspicious trading in the days and weeks before those deals became public."127 When almost half of those companies involved reflect a reason to believe there existed insider trading, obviously the issue of greed continues to be a problem.

Currently, even the Securities and Exchange Commission, the agency created to protect the interests of shareholders and the public, is being investigated by the Government Accounting Office. The chairman of the Senate Finance Committee has expressed concern about "whether the S.E.C. is faithfully adhering to its mission" in the wake of reports that senior S.E.C. executives blocked an investigation into possible insider trading that involved influential Wall Street figures.\textsuperscript{128}

It appears that if board members, and others responsible for protecting shareholder interests, do not have a strong grounding in the value and importance of ethical behavior, the likelihood is that the investing public will continue to be confronted with a situation similar to the one with which it is now struggling. If we are to achieve the goal of effective, ethically aware corporate executives and boards of directors, "Individuals must be motivated to comply with ethical standards by a desire to do the right thing, rather than by fear of sanctions."\textsuperscript{129}

We can pass laws, establish stricter controls, change the makeup of boards of directors and even send people to jail, but there continues to be a significant segment of the business community that will create questionably ethical opportunities, either legal or illegal, for huge paydays. And every time that happens, the investing public’s anger, frustration and lack of trust in the business community as a whole, grows.

The remainder of this thesis will focus on attempts by public companies to improve the ethics of corporate managers and members of their boards of directors, and how those efforts compare with character education in the schools. Beginning with a review of


current character education in the schools, and an evaluation of some of these programs, the thesis will compare the character education programs that have proved effective in many of our public schools with current efforts at ethics training in corporations.
Chapter 5

Current Programs in Character Education

Currently there is no data base that encompasses all existing character education programs that are being utilized in the United States. Nor is there a data base indicating the locations in which character education is being taught. On the contrary, a web search will find, literally, more than 100 character education programs available. Each site defines desirable character traits in its own way, and teaching methods for each organization vary.

Values Common to All

However, there are certain characteristics, or values, that appear in all of these programs. As Joan F. Goodman and Howard Lesnick say in their book, The Moral Stake in Education, “One proposing a ‘character education’ approach . . . has to provide [a response to the question], What qualities (or conduct) are described as ‘good’?” These foundational values, including many of Lickona’s eleven principles, are the basics upon which a nationally accepted curriculum may be built, and which may be adapted to each school environment.

Two of the most important principles that are universally accepted by experts in the field are inclusiveness; that is including educators, parents, students and other members of the community, such as business people, in the training process; as well as the

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importance of integrating character education into the curriculum, as opposed to teaching it as a separate class. The latter is called the “whole school” approach:

“Schools that have established good character education [and] that stand out in this regard share certain characteristics. Invariably, they have a committed administrative leadership -- which includes not only principals, but also assistants and guidance counselors. They have a common vocabulary -- a set of values integrated into the study of literature, history and other subjects. (Mount Lebanon High School, outside of Pittsburgh, Pennsylvania, accomplishes this even in less likely subjects as science and mathematics.) They weave character education into staff development. (Leesville Middle School in Wake County, North Carolina, for example, organizes teachers into teams that use character development as a central element in their joint curricular and lesson planning.) They focus on mutual respect. They find ways of incorporating community service into their agenda.”

Following are details of several of the more widely accepted programs in use today:

The Character Education Institute of San Antonio, Texas

One of the earliest to enter the field was the Character Education Institute, founded in 1968 by Young Jay Mulkey. Its program consists of a series of grade-specific lessons called the Character Education Curriculum. The first series of lessons was aimed at students in K through 5, followed in 1984 with lessons suitable for sixth graders and in 1985 for seventh, eighth or ninth grade students. Mr. Mulkey describes the program in the following paragraph:

“A majority of the lessons at each grade level focus on situations that provide the children with problems for them to solve. In trying to find a solution, the children’s critical thinking skills are developed as they identify alternatives to the problem, determine consequences of each alternative, and reach a conclusion. Having the children suggest alternatives to the problem

in a given situation helps all the students *internalize* the solution. For example, the class may have a situation in which a student is asked to go shoplifting with other students. If a student says, 'I don’t have to go,' the impact on other students is greater than the teacher telling the class, ‘You don’t have to go.’ The students are more likely to listen to another student instead of the teacher.”

After its use in 1985 by the Chicago Foundation, the *Character Education Curriculum* became widely accepted among educators. The Foundation focuses on student needs in the Chicago public school system, and it agreed to cover part of the cost of implementation. Today, over 60,000 classrooms throughout the country are using the *Character Education Curriculum*.

Of equal importance, in a survey conducted by the Character Education Institute in 1996, the findings indicated that students: “fight less, engage in less name-calling, are less likely to steal from each other, are more likely to consider the consequences of their actions, and cooperate better with each other.” Two-thirds of the respondents found the program to be “very effective”. The effectiveness of various programs is addressed in more detail in Chapter 11 of this thesis.

**The Josephson Institute of Ethics**

The Josephson Institute is one of the largest of the many organizations teaching character education. Founded in 1987, it is a not-for-profit company whose mission is to teach and encourage “people to make principled decisions and carefully consider the effects of their choices.” Its clients include major public corporations, many of the

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133 Mulkey, 36.
134 Ibid.
nation's most widely read newspapers, government agencies, members of the legal community, as well as law enforcement people, and a specific program devoted to school age children called "Character Counts! The Six Pillars of Character". The latter was established in 1993 and "now [is used in] hundreds of schools, communities, and nonprofit groups."\(^{136}\)

Central to the Josephson Institute's programs are their "Six Pillars of Character"\(^{137}\), as determined by a panel brought together in 1992 by the Institute. Based on the popularity of their programs, these characteristics, or variations of them, are widely accepted by educators and are the basis upon which many other character development curricula rest. The "pillars" and their supporting values are available in Appendix A.

Many character education programs have gone through an evaluation process and these evaluations (not the programs) have subsequently been evaluated by the What Works Clearing House, a division of the United States Department of Education.

"The What Works Clearinghouse (WWC) review of this topic focuses on character education programs designed for use in elementary, middle, or high schools with attention to student outcomes related to positive character development, prosocial behavior, and academic performance. Closely related program areas, such as social-emotional learning, conflict resolution, violence prevention, social skills training, service learning, and the like, may be addressed in future WWC reviews but are not intended to be covered by this one."\(^{138}\)

The conclusions drawn by the Department of Education as to whether or not the program evaluations (again, not the programs themselves) "meet the evidence standards"

\(^{136}\) Ibid.

\(^{137}\) Ibid.

established by the Department, are based on requirements that are similar to studies typically done in the scientific community. A comparison unit, or control group, for example, must be part of such a study for it to be acceptable.\textsuperscript{139} It should be noted that these stringent requirements preclude acceptance by the Department of many programs that statistically and anecdotally appear to be effective. Further discussion of this topic appears in Chapter 11.

The following three programs have been evaluated by the Department of Education and their evaluations have been accepted as “meeting evidence standards” of the Department:

**Too Good for Drugs and Violence**

"Too Good for Drugs and Violence" is designed to promote high school students’ pro-social skills, positive character traits, and violence- and drug-free norms. The program consists of 14 core curriculum lessons at 60 minutes each and 12 additional infusion lessons to be incorporated into subject areas across grade levels. All lessons are scripted and intended to be taught by trained teachers or *Too Good* instructors. The program emphasizes prosocial skills, respect for others, and personal and social responsibility. Lessons include a combination of information about normative peer use and the consequences of drugs and violence and life skills development such as goal setting, decisionmaking, developing healthy relationships, stress management, coping, communication, peer resistance, and interpersonal skills. Cooperative learning activities, role-playing, and skill building methods reinforce positive behaviors and skills and encourage students to apply skills in other contexts. The program includes optional family and community involvement components which may or may not be implemented as part of the program evaluated.

*Too Good for Drugs and Violence* was introduced in 2000. According to the developer, the program was first developed in Hillsborough County (Tampa), Florida. *Too Good for Drugs and Violence* and its companion

\textsuperscript{139} Ibid.
programs (Too Good for Drugs™ and Too Good for Violence) have been implemented in high schools in more than 2,500 districts in more than 48 states in rural, urban, and suburban communities with African-American, Asian-American, Hispanic and Latino, and Caucasian student populations and across diverse socioeconomic groups."\textsuperscript{140}

**Lions Quest Skills for Adolescence**

"Lions Quest Skills for Adolescence is a schoolwide program designed for middle school students (grades 6–8). The program was designed to promote good citizenship skills, core character values, and social-emotional skills and discourage the use of drugs, alcohol, and violence. The program includes a classroom curriculum, schoolwide practices to create a positive school climate, parent and family involvement, and community involvement. The curriculum may vary in scope and intensity, lasting from nine weeks to three years. The lessons use cooperative group learning exercises and classroom management techniques to improve classroom climate.

*Skills for Adolescence* consists of 102 lessons in nine units based on building such positive character values as respect for others, personal and social responsibility, appreciation of diversity, good citizenship, ethics of service to the community, healthy life habits, and social and emotional skills. Year 1 lessons are organized into eight units, and an additional service-learning unit, taught in conjunction with these units, is infused into the curriculum. Year 2 and Year 3 booster units address healthy life habits and drug prevention. Lessons can be presented in nineweek mini-course, quarter, semester, year-long, or multi-year formats or integrated into existing curricula. Teaching methods include group work activities, skills practice, and classroom or community service projects. The positive school climate component is operated through a school climate committee that includes teachers, students, parents, and community members.

The program, developed in 1985, is in its fourth revised edition. According to the developer, more than 50,000 teachers have been trained in *Skills for Adolescence* in the United States and more than 150,000 have been trained in 30 countries worldwide. The number of students participating in some parts of *Skills for Adolescence* alone has reached more than 1.7 million in the United States and about 2.7 million worldwide."\textsuperscript{141}


Connect with Kids aims to promote prosocial attitudes and positive behavior of elementary (grades 3–5) and secondary (grades 6–12) school students by teaching core character values. Lesson plans include videos, story summaries, discussion questions, student games, and activities for both core and supplemental character traits. The classroom curriculum is reinforced by a website component and a schoolwide and community outreach components. The program can be incorporated into an existing curriculum or used as a standalone program. The school or teacher decides on the number of character traits covered in each session, so the program duration may vary from one semester to an entire academic year.

Connect with Kids teaches character and life skills by incorporating peer-to-peer videos based on real stories of children and youth. Each skill is supported with grade-appropriate lesson plans based on story summaries, student activities, vocabulary, and discussion questions and is supplemented by web resources. At the elementary level there are eight units—three character traits per unit that include 48 student activities for both core and supplemental traits (two per trait). The middle/high school program has 36 lessons introducing 26 character traits that include 104 student activities for both core and supplemental traits (four per trait). The teacher resources include a teaching manual, story summaries, discussion questions, lesson plans, assessment guidelines, rubrics, and correlations between the program and national standards.

Each lesson begins with an introduction of the trait being taught followed by the Connect with Kids video for that trait. There are three video segments for each character trait in the middle/high school program and one video per character trait in the elementary school program. The video is followed by teacher-led discussions using questions from the teacher resource guide. One to two weeks after the video and discussion lesson a follow-up activity is taught. Students practice and demonstrate behaviors associated with the character trait being taught through cooperative learning exercises and other activities. Students are also introduced to monthly television specials aired on local stations. Parents are encouraged to view the show with their child. Some schools record the shows for classroom use, and teachers lead discussions following the airing of the shows. Teachers can access the Connect with Kids website to view weekly examples of the character traits being taught. Students and their parents can use the website in association with the classroom lessons.

CWK Network, Inc., founded in 1998, produces the Connect with Kids television series. In 2001 Connect with Kids piloted educational programs focused on children’s health and wellness issues in key school districts through Georgia Public Broadcasting Education Network. According to the
developer, Connect with Kids has been implemented in hundreds of schools and districts across the country, including Washington, D.C., New York City, Los Angeles, Houston, Miami-Dade, and Broward, Florida. According to the developer, implementation sites represent a diverse student population for grade level, age, race, ethnicity, urban/city, and socio-economic status. »142

Character Education in New Jersey

Recent Funding143

As mentioned previously, there is no national data with respect to character education. However, perhaps New Jersey offers one of the best examples of a state that has encouraged character education, instituted character education programs and, arguably just as important, made significant progress towards measuring results.

Beginning in 1988, Governor Thomas Keane created the first Character Education initiative in the state. A task force was established which sponsored three regional meetings that attempted to encourage school districts to create a list of character traits that would be acceptable to all stakeholders. However, while bringing character education to the attention of the state’s educators, the initiative was unfunded and, therefore, had limited effect.

It was not until 1994 that the United States Department of Education began to grant funds to the states specifically earmarked for character education, and not until 1996 that New Jersey applied for and received a federal grant. The grant was for $1 million to be

143 The following information with respect to funding was generously provided by Dr. Philip Brown, Director, New Jersey Character Education Partnership and New Jersey Center for Character Education, interviewed by the author 8 June 2006.
used over a four year period, and was the beginning of what has become a ten year influx of funds for character education in New Jersey.

After the expiration of the initial federal grant in 2001, Governor Christine Todd Whitman approved, in the final year of her term, a $4.85 million line item in the annual budget for character education.\(^{144}\) That amount was renewed each year since, but has been eliminated from Governor John Corzine’s budget for the fiscal year beginning July 2006,\(^{145}\) although the federal government, through “No Child Left Behind,” has provided funds for the next four years for the New Jersey Character Education Partnership and the New Jersey Center for Character Education.\(^{146}\)

**Current Status**

In addition to actually having a significant amount of money to work with, in 2001 the New Jersey Character Education Partnership, under the direction of Dr. Philip Brown,\(^ {147}\) was established to help administer the distribution of funds and monitor how the money was being used.

Subsequently, in 2003, the New Jersey Center for Character Education (NJCCE), based at Rutgers University and also under Dr. Brown’s supervision, was established to act as a central clearing house in the state for information about character education. The New Jersey Department of Education, through the NJCCE, makes available to the 615 school

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\(^{146}\) Telephone interview with Dr. Philip Brown, 15 August 2006.

\(^{147}\) Dr. Brown has an MA in Psychology and a Ph.D. in Developmental Psychology and Addiction.
districts in the state, the names of 115 organizations\textsuperscript{148} that offer character education training. It also holds consortiums at which educators are able to meet and compare notes with their colleagues as to which character education programs work best and why,\textsuperscript{149} and it has monitored and evaluated the results of the various programs being used since its inception in 2001. The results of these evaluations are discussed in the following chapter.

In addition, the NJCCE publishes an online newsletter called the Character Education Network whose purpose is:

"to encourage the adoption of character education programs and strategies by providing a forum for sharing information, research and promising practices... The Network will offer educators access to national and state character education experts and programs through conferences, workshops and e-mails."\textsuperscript{150}

In 1996 the New Jersey State Board of Education first adopted Core Curriculum Content Standards, which "describe what students should know and be able to do after a thirteen-year public education."\textsuperscript{151} A revision of the Standards was released in 2003 and "provides many new anchors for character education, social-emotional learning and community service."\textsuperscript{152}

The following chapter, which describes the results of evaluations of various character education programs, also provides a more detailed description of the current status of character education in New Jersey.

\textsuperscript{148} New Jersey Center for Character Education, website, accessed 10 June 2006, available at \url{www.state.nj.us/njded/chared}.
\textsuperscript{149} New Jersey Center for Character Education Conference, 25 May 2006, Rutgers University, Busch Campus Center, Piscataway, New Jersey.
\textsuperscript{150} Character Education Network Online [website], accessed 1 November 2006, available from \url{http://mail.google.com/mail/?ik=7fee2205d9&view=pt&th=10e6810a437eabd9&search=...}
\textsuperscript{151} New Jersey Department of Education [website], "Academic and Professional Standards," accessed 18 August 2006, available from \url{http://www.state.nj.us/njded/aps/cccs/}.
\textsuperscript{152} Ibid.
Chapter 6

Measuring Effectiveness of Character Education in the Schools

Perhaps a decade or two ago one could claim that it was too early to determine if character education was effective in improving, for example, test scores and graduation rates, and in combating aggressive behavior such as fighting and other forms of violence in the schools. That is no longer the case. In a professional journal article written in 1999, Esther Schaeffer wrote:

“It takes time, effort and often staff development to integrate character education into schools, but the investment is proving to be worth the effort. Middle schools and high schools across the country that have adopted the twin goals of academic and character development have seen impressive results in their overall climate and culture, in the level of the students’ community commitment, in parental involvement and even in higher academic achievement. Character education works in schools of diverse size, with populations ranging from homogeneous to heterogeneous, and with students from families across the socioeconomic spectrum.

“Schools that have established good character education have created caring environments that are sensitive to behavioral issues -- the isolation of certain children and animosities among different groups or factions. These institutions have built strong communication and understanding among students and with adults. They are responsive to problems and have teachers, administrators and students who often are willing to take action and assume responsibility when another student appears troubled.”

In addition, there is now a significant amount of data that has been gathered since 1999 that indicates a distinct correlation between schools with effective character education programs and the positive results claimed by its proponents. In New Jersey, for

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instance, data has been compiled in both suburban and urban school districts, including some in inner-city locations, that support these claims.

This chapter discusses some of the steps that have been taken to measure the effectiveness of various programs, in New Jersey and elsewhere, and the results of those efforts.

New Jersey

Because New Jersey has been one of the few states that has had a significant amount of funds available for character education, the state’s school districts have been actively solicited during the past few years by the many suppliers of character education programs. In order to access the available funds, it is necessary for each school district in the state to apply for its share, which is based roughly on the number of students in each district.154

Interestingly, 41% of the New Jersey schools participating in character education in year-3 of the evaluative studies, and 45% in year-4, opted to create their own programs,155 despite having “ready-made” programs available. Based on a report of results in the third year of its Character Education Initiative, the New Jersey Character Education Partnership found that in those schools that have implemented effective programs there was marked improvement in such areas as school and student participation, school discipline and school climate, as well as student skill-building.156

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156 Ibid.
addition, student, parent and community involvement show significant increases over
previous years, as does the number of teachers who were trained.\textsuperscript{157}

The fourth year results are incomplete as of this writing, but preliminary indications
show a continued increase in participation at all levels and in the positive outcomes
indicated in the previous year's study.\textsuperscript{158}

It seems clear that when school administrators, teachers, parents and other members
of the community are motivated to implement an effective character education program,
the results have been gratifying. However, there remain school districts in the state that
appear to be giving only lip service to the idea of character education. Overcoming a
natural inertia against new ways of teaching, and convincing those with entrenched ideas
about their inability to integrate character education into their curricula, is a difficult task
- even when good leadership is in place, as it is in New Jersey. Getting all districts to
participate requires an ongoing effort and strong leadership.

\textbf{Center for Child and Family Policy at Duke University}

In 2002 an evaluative analysis of several character development programs was
conducted at the Center for child and Family Policy at Duke University. As illustrated in
the following excerpt, the results of these programs have been extremely encouraging and
argue strongly for their continued and expanded implementation.

“These programs usually involve working with students, teachers, and parents
and involve social-skill development, parent training, and classroom
management techniques. While these programs do not focus directly on
character, they help students develop social skills. When they succeed, they
seem to improve character. For instance, although it never mentioned sex, the
Seattle Social Development Project that focused on social skill development

\textsuperscript{157} "Year 4 Outcomes," Ibid.
\textsuperscript{158} Ibid.
in elementary school was shown to produce dramatic reductions in STDs and teen pregnancy. Social skills/character development programs such as PATHS, Second Step, the Seattle Social Development Project, and a number of whole-school reform strategies have resulted in significant improvement in student character as measured by reductions in antisocial and problem behaviors and increases in prosocial behavior, problem-solving skills, and interpersonal skill development. These programs have been shown through longitudinal research to produce long-term improvements in student behavior in and outside of school.\(^\text{159}\)

Center for Health Policy Studies

The Center for Health Policy Studies of Columbia, Maryland, conducted a three-year study, ending in 1999, which included over 1,700 students in school systems across the United States. The study yielded the following results regarding the effectiveness of Community of Caring programs, a Utah-based character education company founded by Eunice Kennedy Shriver:

1. Community of Caring shaped students’ personal values on common Community of Caring themes.
2. Schools reported an increase in the strength of values in terms of helping others.
3. Schools reported that students paid more attention to health issues.
4. The strengthening of family relationships was reported.
5. Peer relations were reported to last longer.
6. Conclusions included that Community of Caring is:
   a. An effective strategy to promote the delay of sexual activity and prevent pregnancy among students
   b. An effective strategy to delay the onset of sexual activity and other negative behaviors of those most at risk for those types of behaviors

c. An effective strategy to prevent alcohol and drug use

d. Instrumental in lowering the number of school dropouts.\textsuperscript{160}

\textbf{Florida}

Although there are many effective (and varied) programs operating throughout Florida, all of them contain Lickona’s eleven principles referred to in chapter 8 above. Dr. Beth Berger conducted a study in 2004 which found the following:

“The study found a statistically significant relationship between those counties that effectively implemented a character education program in their elementary schools and student attendance, as compared to counties that did not effectively implement a character education program in their elementary schools. The study did not find a statistically significant relationship between those counties that effectively implemented a successful character education program in their elementary schools and student achievement, as compared to counties that did not effectively implement a character education program in their elementary schools. The study did not find a statistically significant relationship between those counties that effectively implemented a successful character education program in their elementary schools and lowered incidents of crime and violence, as compared to counties that did not effectively implement a character education program in their elementary schools. In all school districts studied, however, over the four-year period incidents of crime and violence were reduced, the absenteeism rate was reduced, and achievement had increased. This could have been due to the implementation of any type of character education program or it may have been due to other programs implemented in the Florida schools.”\textsuperscript{161}

\textbf{South Carolina}


Dr. Berger, referenced above, cited an article written by B. Nielson in a 1997 issue of a monthly newsletter published by the South Carolina State Department of Education that was significantly more positive about the effects of character education:

“As evidenced by many positive changes in the South Carolina school system, when teachers, administrators and counselors implement solid character education programs tremendous improvements occur in schools.”162

Nielson’s conclusions regarding character education in general, cited in the following quote from Dr. Berger’s dissertation, are worth repeating:

“When structured properly, started in the early grades, developed into integrated areas, and focused on values and moral growth, character education programs can make a significant impact on all those involved in the school community. Nielson concurred that schools do not exist apart from society; schools mirror society. Since there is a large segment of children who are not exposed to adults who have a positive influence on them, it becomes the task of the schools to fill that void.”163

Following are the United States Department of Education What Works Clearing House discussions of the evaluations of the three programs that were noted earlier in Chapter 5.

Too Good for Drugs and Violence

Research

“Two studies reviewed by the WWC investigated the effects of Too Good for Drugs and Violence. One study (Bacon, 2001a)164 was a randomized controlled trial that met WWC evidence standards. The second study

162 Ibid.
163 Ibid.
(Bacon 2001b) used a quasi-experimental design and met WWC evidence standards with reservations.

“The Bacon (2001a) study included more than 300 students in grades 9–12 attending five high schools in one school district in Florida. This study compared outcomes for students participating in a *Too Good for Drugs and Violence* curriculum with the outcomes for students in classes that did not use a character education curriculum. In addition, this study focused on *Too Good for Drugs and Violence* as implemented in classrooms rather than as a schoolwide intervention.

“The Bacon (2001b) study included more than 200 students in grades 9–12 attending one large high school in Florida. This study compared outcomes for students participating in a *Too Good for Drugs and Violence* curriculum with the outcomes for students in classes that did not use a character education curriculum. In addition, this study focused on *Too Good for Drugs and Violence* as implemented in classrooms rather than as a schoolwide intervention.

**Effectiveness**

**Findings**

“The WWC review of character education addresses student outcomes in three domains: behavior; knowledge, attitudes, and values; and academic achievement.

“Knowledge, attitudes, and values. All outcomes reported by Bacon (2001a) were assessed immediately following the delivery of the program. The study reported statistically significant differences favoring the intervention group on positive attitudes toward nonviolence, perceptions of emotional competency skills, perceptions of social and peer resistance skills, and perceptions of assertiveness and self-efficacy. Two of these outcomes, perceptions of social and peer resistance skills and perceptions of emotional competency skills, were found to be statistically significant (as calculated by the WWC). The average effect across all outcomes in this study in the knowledge, attitudes, and values domain was large enough to be considered substantively important using WWC criteria, although it was not statistically significant.

“All outcomes reported by Bacon (2001b) were assessed immediately following the delivery of the program. The study reported statistically significant differences favoring the intervention group on attitudes towards violence, perceptions of emotional competency skills, perceptions of social and peer resistance skills, and perceptions of goals and decision-making skills. The WWC confirmed statistical significance for the same
outcomes. The average effect size across all outcomes in this study in the knowledge, attitudes, and values domain was statistically significant.

Rating of effectiveness

"The WWC rates interventions as positive, potentially positive, mixed, no discernible effects, potentially negative, or negative. The rating of effectiveness takes into account four factors: the quality of the research design, the statistical significance of the findings as calculated by the WWC, the size of the differences between participants in the intervention condition and the comparison condition, and the consistency of the findings across studies.

The WWC found Too Good for Drugs and Violence to have positive effects on knowledge, attitudes, and values.

Improvement index

"For each outcome domain, the WWC computed an improvement index based on the effect size. The improvement index represents the difference between the percentile rank of the average student in the intervention condition versus the percentile rank of the average student in the comparison condition. Unlike the rating of effectiveness, the improvement index is entirely based on the size of the effect, regardless of the statistical significance of the effect, the study design, or the analysis. The improvement index can take on values between −50 and +50, with positive numbers denoting favorable results. The average improvement index for knowledge, attitudes, and values is +16 percentile points, with a range of +5 to +21 percentile points across findings.

Summary

"The WWC reviewed two studies on Too Good for Drugs and Violence. One study (Bacon, 2001a) met WWC standards, and the second study (Bacon, 2001b) met WWC standards with reservations. When the WWC aggregated the results across all outcomes in the knowledge, attitudes, and values domain in each of the studies, the average effect size on one study (Bacon, 2001a) was substantively important (at least +/-0.25), and the average effect size in the other study (Bacon, 2001b) was statistically significant. So the WWC rated the program as having positive effects on knowledge, attitudes, and values."  

Lions Quest, Skills for Adolescence

Research

"Nine studies reviewed by the WWC investigated the effects of Skills for Adolescence. One study (Eisen, Zellman, & Murray, 2003)\textsuperscript{166} was a randomized controlled trial that met WWC evidence standards. The remaining 8 studies did not meet WWC evidence screens. The Eisen, Zellman, and Murray (2003) study focused on Skills for Adolescence implemented as a schoolwide intervention.

"Eisen, Zellman, and Murray (2003) investigated program effects on students in seventh grade and again on the same students in eighth grade. The study included 34 middle schools pair-matched and randomly assigned to study conditions from within pairs. The schools were located in three large metropolitan areas in Los Angeles, California; Detroit, Michigan; and the Washington, DC-Baltimore, Maryland area. This study compared behavioral outcomes for students participating in the Skills for Adolescence program with outcomes for students who participated in other drug education and prevention practices (ranging from school assemblies to the Drug Abuse Resistance Education, or DARE, program) common for these grade levels.

Effectiveness

Findings

"The WWC review of character education addresses student outcomes in three domains: behavior; knowledge, attitudes, and values; and academic achievement.

"Behavior. Eisen, Zellman, and Murray (2003) reported statistically significant differences favoring the intervention group on three drug-related outcomes (marijuana—lifetime use, marijuana—use in the last 30 days, and binge drinking during the last 30 days by baseline binge drinkers) about one year after the end of the program. The program’s effect on one of these outcomes (binge drinking) was confirmed to be statistically significant as calculated by the WWC. No statistically significant effects were found for the lifetime or recent use of cigarettes and other illicit substances or binge drinking during the last 30 days by baseline nonbinge drinkers. The average effect size for the domain was neither statistically significant nor substantively important (less than 0.25).

Rating of effectiveness

“The WWC rates interventions as positive, potentially positive, mixed, no discernible effects, potentially negative, or negative. The rating of effectiveness takes into account four factors: the quality of the research design, the statistical significance of the findings as calculated by the WWC, the size of the difference between participants in the intervention condition and the comparison condition, and the consistency in findings across studies.

*The WWC found Skills for Adolescence to have potentially positive effects on behavior*

Improvement index

“For each outcome domain, the WWC computed an improvement index based on the effect size. The improvement index represents the difference between the percentile rank of the average student in the intervention condition versus the percentile rank of the average student in the comparison condition. Unlike the rating of effectiveness, the improvement index is entirely based on the size of the effect, regardless of the statistical significance of the effect, the study design, or the analysis. The improvement index can take on values between −50 and +50, with positive numbers denoting favorable results. The average improvement index for eighth-grade students’ behavior is +2 percentile points, with a range of −1 to +11 percentile points.

Summary

“The WWC reviewed 9 studies on *Skills for Adolescence*. One of these studies met WWC evidence standards. This study found potentially positive effects on eighth-grade students’ behavior.”

Connect with Kids

Research

“One study (Page & D’Agostino, 2005) reviewed by the WWC investigated the effects of the *Connect with Kids* program. This study used a quasi-experimental design that met WWC evidence standards with reservations.


"The Page and D’Agostino study included more than 800 elementary, middle, and high school students from 46 classes in 12 schools (2 rural, 7 suburban, and 3 urban) in eight school districts in Kansas and Missouri. Outcomes for students participating in the Connect with Kids program were compared with those for students who did not use the curriculum. This study focused on Connect with Kids as implemented in classrooms rather than as a schoolwide intervention.

Effectiveness

Findings

"The WWC review of character education addresses student outcomes in three domains: behavior; knowledge, attitudes, and values; and academic achievement.

"Behavior. Page and D’Agostino reported findings for four measures of student behavior related to six core character traits: honesty, kindness, perseverance, responsibility, self-control, and tolerance. The study examined students’ final scores relative to their baseline scores. The study reported statistically significant differences favoring the intervention group for middle and high school students’ reports of their own and their classmates’ behavior (middle/high school student survey part I and part II). The WWC confirmed the statistical significance of these differences. The study found no statistically significant effects on elementary school students’ assessments of their own or their classmates’ behavior (elementary school student survey part I and part II). The average effect across all four outcome measures was positive and statistically significant.

Rating of effectiveness

"The WWC rates interventions as positive, potentially positive, mixed, no discernible effects, potentially negative, or negative. The rating of effectiveness takes into account four factors: the quality of the research design, the statistical significance of the findings (as calculated by the WWC), the size of the differences between participants in the intervention condition and the comparison conditions, and the consistency of the findings across studies.

"The WWC found Connect with Kids to have potentially positive effects on behavior.

Improvement index

"For each outcome domain, the WWC computed an improvement index based on the effect size. The improvement index represents the difference
between the percentile rank of the average student in the intervention condition versus the percentile rank of the average student in the comparison condition. Unlike the rating of effectiveness, the improvement index is entirely based on the size of the effect, regardless of the statistical significance of the effect, the study design, or the analysis. The improvement index can take on values between -50 and +50, with positive numbers denoting favorable results. The average improvement index for behavior is +16 percentile points, with a range of +10 to +23 percentile points across findings.

Summary

"The WWC reviewed one study on Connect with Kids. This study met WWC evidence standards with reservations. Performance on two student outcome measures for middle and high school students was positive and statistically significant. The average effect size across the four student outcomes examined in this study was also positive and statistically significant. WWC found no statistically significant effects for elementary school students. The WWC rated the program as having potentially positive effects on behavior."169

Although approval of a program by the federal Department of Education is an indication that it has been thoroughly examined and found to be effective, it can be argued that many other programs that appear to be effective are receiving unfair treatment by the Department. Dr. Philip Brown, for example, feels strongly that the stringent bio-medical research standards that are required for approval by the Department, ignore many programs that have shown positive results. The upshot is that, when a school system limits itself to choosing a program only from the list that meets the Department’s “evidence standards,” it misses an opportunity to examine a much wider range of programs, many of which have been shown to be effective.170

170 Philip Brown, telephone conversation with the author, 30 October 2006.
Chapter 7

Current Programs in Corporate Ethics Training

In April 2003 Floyd Norris, the chief financial correspondent for The New York Times, wrote a combined review of three then newly published books devoted to recent incidences of corporate malfeasance. He titled the review “Business Ethics and Other Oxymorons.” The books detailed the unethical and often illegal activities of, respectively, Enron’s management, Arthur Anderson’s accountants, and executives of several financial management firms. Each of the books depicted activities that, indeed, made one wonder if business was able to be conducted in a moral, ethical manner.

The positive aspects of this breakdown of morality were threefold: the Sarbanes-Oxley Act was passed by Congress in 2002, in 2004 federal sentencing guidelines were amended to include a section that requires public corporations to establish an effective compliance and ethics program, and there was, and continues to be, a major effort on the part of public corporations to provide training in ethics for their executives.

There are dozens of companies that are currently in the business of teaching ethics to corporate executives. In addition, “there has been an increasing call on Op/Ed pages for MBA programs to include business ethics in their curriculum.”

Before discussing ethics training in the workplace, a brief note regarding the teaching of business ethics in graduate schools of business:

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172 U.S.C.A.

173 Starware, [website search engine], “Business Ethics,” accessed 22 February 2007, available at http://as.starware.com/dp/search?q=x=wKX1ILEOi+Vv3rFiyuWkdB0dt/pHKEcg+YQIPkkNDTMptO7SR/dcdXG/swThj0MV7fv+x059iKSFyIoEhGODaMtYPNqKmpbsaelTMKRDbtD5ncCnXv+sQYh/trMoZJqI8azyvXsrine5+RX2iLpxh/RX/T7o4Hzgb+maYFPFP2Y=

Graduate School Ethics Training

In an article in the journal, Ethikos, Bruce Buchanan, the C. W. Nichols Professor of Business Ethics, and Professor of Marketing, at New York University’s Stern School of Business, writes:

“One of the arguments against teaching business ethics is that, by the time students get to business school, their values and ethics are already well formed through the influence of such institutions as family, religion, culture, and social class. This argument misses the point: Business ethics are not personal ethics [italics mine] rather, business ethics are the ethics of a profession, performing a specific role for society. Persons in such roles are judged by how well they perform the associated professional duties, not by their personal values or proclivities.”175

Professor Buchanan goes on to explain that:

“. . .the course is designed to make clear the inter-relationships between markets and ethics. Namely, that a well-working market tends towards a utilitarian outcome (which in itself can raise ethical concerns) and that an imperfect market tends to be inefficient on utilitarian grounds as well as ethically suspect in other ways. . . [and that] the course is about building awareness, and a certain sensitivity, to the complexities and nuances of the role of a business professional. We fully recognize that a once-a-week, one-semester course cannot possibly provide a complete education in this very challenging area.”176

This explanation highlights two issues that make the effectiveness of teaching ethics, either in a graduate school of business or to business executives, of questionable value. First, imperfect market conditions often create a conflict between making the best business decision for one’s company on the one hand, and making the most ethical decision on the other. Second, the time devoted to the subject is clearly not sufficient, either in business school or in the workplace, to expect those being exposed to the training to come away from it with strongly held ethical principles.

175 Ibid.
176 Ibid.
Ethics Training in the Workplace

Codes of Conduct

Codes of Conduct are "a place where the rules are set forth, values explained, and guidance provided to employees." With the passage of Sarbanes-Oxley, followed by the amended Federal Sentencing Guidelines, codes of conduct for public corporations became mandatory. The 20 questions that Murphy and Swenson ask in their article cited above, cover issues such as using specific examples in the code, how an employee can raise a question, the coverage of risks and whether or not the code relates to new laws and regulations. Almost all of these questions are essentially rule-based. One question, however, attempts to focus on "values." The authors ask in question 8:

"Does the code include values, and explain the values behind the rules? Does it have "the questions"? Today, many codes contain a list of questions to serve as an ethical compass for circumstances not specifically covered in the code. Codes advise employees to ask these questions of proposed conduct: "Is it legal and ethical? Is it something you could tell your spouse/children/mother? How would it look in the newspaper?" If the code says you will live by "the highest ethical standards," does your company really mean it, or is it dangerous overstatement? Is this commitment to "the highest" ethics reflected in your standards for such things as conflicts and for giving and receiving gifts and entertainment?"

Although the authors ask that "the questions" regarding ethical standards be included in a company's code of conduct, a code is usually a lengthy written document that, in many cases, is presented and explained to employees in very little time. One training company, for example, in its advertising material says, "The entire . . .

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178 Ibid.
experience-including training and certification—takes most employees less than 60 minutes.\textsuperscript{179}

The ExxonMobil Corporation has adopted a code of conduct that it calls its

\textit{Standards of Business Conduct}, in the introduction to which it states:

\begin{quote}
"The methods we employ to attain results are as important as the results themselves. The Corporation's directors, officers, and employees are expected to observe the highest standards of integrity in the conduct of the Corporation's business. The policies in the \textit{Standards of Business Conduct} are the foundation policies of the Corporation."\textsuperscript{180}
\end{quote}

ExxonMobil makes clear in its \textit{Standards} that ethics are important. In a separate section devoted to ethical behavior, values such as honesty and fair dealing, as well as putting ethical standards above corporate profit are clearly addressed:

\begin{quote}
"The policy of Exxon Mobil Corporation is to comply with all governmental laws, rules, and regulations applicable to its business.

The Corporation's Ethics policy does not stop there. Even where the law is permissive, the Corporation chooses the course of highest integrity. Local customs, traditions, and mores differ from place to place, and this must be recognized. But honesty is not subject to criticism in any culture. Shades of dishonesty simply invite demoralizing and reprehensible judgments. A well-founded reputation for scrupulous dealing is itself a priceless corporate asset.

The Corporation cares how results are obtained, not just that they are obtained. Directors, officers, and employees should deal fairly with each other and with the Corporation's suppliers, customers, competitors, and other third parties.

The Corporation expects compliance with its standard of integrity throughout the organization and will not tolerate employees who achieve results at the cost of violation of law or who deal unscrupulously. The Corporation's directors and officers support, and expect the Corporation's employees to support, any employee who passes up an opportunity or advantage that would sacrifice ethical standards.\textsuperscript{181}\"
\end{quote}

\textsuperscript{181} Ibid.
Furthermore, as one of the corporation’s “Guiding Principles,” the Standards states, “We must continuously achieve superior financial and operating results while simultaneously adhering to high ethical standards.”182

ExxonMobil’s Standards are typical of most corporate codes of conduct. If we take an altruistic view of these codes, we might believe that most public companies are genuinely attempting to be more ethical because of their beliefs. A more cynical view would be that the codes exist simply because the Federal Sentencing Guidelines, as amended in 2004, require all public corporations to include similar language in their codes. In addition, the Federal Guidelines mandate certain training requirements, so that ethics training has become a fixture in corporate America. The question, of course, is how effective is such training? The following chapter will attempt to answer that question and to recommend a way in which it might be answered more positively.

182 Ibid.
Chapter 8

Findings

Following is a brief summary of the major points discussed in the preceding pages:

**Character education in the schools**

A history of efforts to instill good character and ethical behavior in school-age children has been reviewed from colonial times to the present. Emphasis has been placed on the current status of character education, which was found to be uneven. That is to say, in some states it is reasonably well funded and supported by state and local boards of education, in others, the opposite is true. However, even in states where support is strong, some school districts have effective programs and others do not, which leads to the conclusion that strong leadership and inclusive community support are necessary for a program to be effective. Finally, with respect to character education in the schools, there are a series of contemporary studies showing that, when conscientiously delivered, good character education programs can be effective in a K through 12 setting.

**Legislation, regulation and ethics training pertaining to public corporations**

In earlier chapters, attempts to improve corporate governance have been cited in the timeline of legislation and regulation going back to 1890, and continuing until the passage of the Sarbanes-Oxley Act in 2002 and the 2004 amendments to the Federal Sentencing Guidelines. In addition, there has been a detailed discussion of many of the more recent and egregious acts of corporate malfeasance, as well as the more recent efforts to legislate and regulate corporate behavior so as to curb these acts. Included in these efforts are regulations that specifically mandate training in ethical behavior for corporate executives.
and other corporate employees. These corporate training programs include both rule-based content and content that is similar or identical to the morally-based content found in K through 12 character education programs. It was found that companies are, at least to some extent, complying with the mandate. However, it was also found that although laws and regulations, and possibly corporate ethics training, have been at least somewhat effective in curbing corporate malfeasance, there continue to be incidents of unethical, and sometimes criminal, conduct on the part of corporate executives.

**Current Behavior**

If we were to take a generous view of the codes discussed in the previous chapter, we would conclude that most public companies are genuinely attempting to be more ethical because of their beliefs. A more cynical view would be that the codes exist simply because the Federal Sentencing Guidelines, as amended in 2004, require all public corporations to have such a document and that they must include similar language. In addition, the Federal Guidelines mandate certain training requirements, so that ethics training has become a fixture in corporate America. The question, here and as it relates to our hypothesis, is how effective is such training?

As Professor Buchanan notes in his essay cited in the previous chapter, “Business ethics are not personal ethics.” If one’s “personal ethics,” then, are not aligned with the ethical standards promulgated in a company’s code of conduct, can we expect that person to abide by the company’s rules? Can we expect ethics training as it currently exists to convince that person to behave more ethically?

In addition to the many examples of corporate malfeasance cited in earlier chapters, as recently as March 2, 2007 the S.E.C. arrested and brought charges against 13 financial
industry executives, some of whom are at high levels in their respective companies. Four have already pleaded guilty to charges such as securities fraud and bribery. Among the firms that employ the accused are: Morgan Stanley, UBS, Bear Stearns and Bank of America, all of which, as discussed in the previous chapter, have codes of ethics and training programs designed to expose employees to the content of those codes. Clearly, at least in the cases of these people, the training did not work.

The question then is, if legislation, regulation and ethics training will not solve the problem, is there any realistic hope for an end to this erosion of trust in the system?

To answer that question positively, perhaps a look at one Chief Executive Officer’s pay package, and more importantly, his attitude, can help.

In stark contrast to the many multi-million dollar pay packages drawn by many of the country’s Chief Executive Officers is the $350,000 annual salary paid to James D. Sinegal at Costco Wholesale. The Costco Chief Executive is clearly an exception, given the average pay that most other Chief Executive Officers receive, but tellingly, Sinegal’s philosophy about his business is clearly quite different than the corporate vision of many of his peers. “When we started Costco,” Sinegal said in an interview with The New York Times, “the idea was to build a strong organization that would be around for a long time. There was never any exit strategy, and that gives you a different mind-set off the bat.”

In a telephone interview the author conducted with Sinegal it became apparent that he did, indeed, have a different mind-set than that of most of his fellow Chief Executive

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186 Ibid.
Officers. He was clearly uncomfortable with Morgenson’s article in The New York Times, which compared his pay package to the much larger annual compensation of Henry Silverman, the Chief Executive of Cendant Corporation. However, although he did not want Silverman to be embarrassed, Sinegal was in agreement with the recent negative reaction by investors to high executive pay. He believes that boards of directors are now “being forced to wake up to their stockholders’ anger and are more alert to the issue and are paying more attention to it.” Sinegal, however, did offer the caveat that it was important not to go too far in reining in executive pay so as not to stifle innovation. It should also be noted that Costco is reputed to be “environmentally conscious”, have excellent employee relations and a very good employee benefits package for all of its workers. Moreover, the company is less than well-thought-of by Wall Street because it will not increase its gross margins so as to improve short term profits. As Sinegal said, he is interested in building “a strong organization that would be around for a long time.”

So, based on the Sinegal example, along with outside pressure for change from new laws and activist stockholders, boards may indeed exercise more independence and act to improve corporate governance. Conversely, based on the example of the audit committee of Xerox mentioned earlier, the ongoing incidence of extremely high compensation packages, and the more recent ongoing examples of corporate malfeasance, many boards of directors will continue to fail to exercise control over questionable accounting practices.

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187 James D. Sinegal; telephone interview with the author, 26 April 2004.
performed by the managements they oversee. The problem is that, in spite of laws like Sarbanes-Oxley, there remain so many instances more akin to the latter example than the former.

With respect to ExxonMobil, for example, although the company’s *Standards of Conduct* would seem to require it to practice what is known as “Environmental Sustainability,” which is defined as, “meeting the needs of the present generation without compromising the ability of future generations to meet their own needs,” the company’s years of refusal to acknowledge the harmful effects of carbon dioxide emissions on the environment make one wonder if its leaders are following what is supposed to be company policy.

In the case of Morgan Stanley, its current chairman was recently about to be asked to testify in an investigation of alleged financial misdeeds. The investigation was dropped amid accusations of special influence on the part of Morgan Stanley and others.

Both these examples, which received wide media coverage, may not be conclusive evidence of unethical behavior, but they clearly raise questions and weaken the moral leadership of their respective companies.

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Conclusions and Directions for Further Study

Character education programs in a K through 12 setting work when there is caring leadership in the school and the community. When teachers and parents are trained, as well as students, and when the local business community is urged to get involved there is a strong likelihood of success. As has been seen from program evaluations in New Jersey, cited earlier, there is less violence and bullying in a school that has an effective program, graduation rates and test scores go up, teachers get along better with one another and the entire atmosphere in the school changes for the better.

On the other hand, as was said in the previous chapter, without that kind of committed leadership, even good character education programs will not produce the desired results. This issue of commitment and leadership is highlighted in the following discussion of corporate ethics training.

The Elements Missing from Corporate Ethics Training

Since corporate training programs include much of the morality-based content that has proved effective in K through 12 character education programs, as well as rule-based content, and since some corporate personnel continue to behave unethically, there appear to be two broad categories that are present in effective school-based character education programs, but are missing from corporate ethics training. They are: the time devoted to the training and the amount of commitment made to making the training show the desired results.
Time spent training

Certainly, company personnel need to learn and understand the rules and laws that apply when they are at work. It is posited, however, that most existing ethics training programs, almost all of which are geared to explain a company's code of conduct, may be adequate in so far as providing employees with the necessary knowledge about rules and laws, but they are less than adequate as to convincing many employees about how important it is to abide by those rules and laws.

Effective character education programs that are employed in K through 12 settings often begin in kindergarten, or even in pre-school, and continue until its student participants graduate from high school. Effective programs mandate that students are exposed to character education in every class they take (the "whole school" approach), and that parents and other community members are also involved. In short, from a very early age children are immersed in a climate that teaches them right from wrong so that they almost cannot help but become more moral and ethical human beings.

In stark contrast to this abundance of time spent on character education, ExxonMobil and the financial firms cited above, like other public corporations, frequently use outside training companies to familiarize their employees with their Codes of Conduct, and the time devoted to that training is relatively short. It is, therefore, questionable as to how much content employees can actually absorb. Current training programs, even when they extend for a day or a weekend, are simply not long enough for most employees to absorb all the information provided. Certainly, after a training session of an hour, as cited in the previous chapter, for example, it is not reasonable to assume
that most employees will take the time and make the effort to study and learn their company's code of ethics on their own time, as most training companies suggest.

Corporate culture

It is also concluded that these training programs, as they are presently delivered, are inadequate in so far as their ability to change an individual's "personal ethics."

Based on the examples just cited as well as those cited in chapter 2, regardless of the wording in a company's code of conduct, if a company's corporate culture is such that morals and values, such as those taught in character education programs in the schools (see Appendix B for a summary of most of these values), are given short shrift, it appears likely that many employees will, at the very least, attempt to cut corners if not break the law when doing so will seem to benefit them.

Leadership, as always, matters. It sets the tone for a company and the way its employees behave. The example of the Costco Corporation illustrates the importance of leadership in a positive sense. Even without ethics programs in which students are thoroughly immersed and that last for years, the company's leadership has created an environment, a corporate culture, in which unethical behavior, at any level in the corporate hierarchy, is simply not tolerated. Based on this example, it is clear that, with strong leadership, a public company may be ethically run and give more than lip service to the mandates of applicable laws and regulations.

In contrast, in the case of ExxonMobil, "ethical standards" are supposed to trump "superior financial and operating results" according to its Standards of Conduct. Given the
attitude of its chief executive towards carbon emissions, and the example that attitude sets for the rest of the company’s employees, it would seem that unethical behavior may be tolerated as long as it appears to be in ExxonMobil’s short-term best interest.

Similarly, the Morgan Stanley incident cited in the previous chapter, at best, raises questions about senior management’s commitment to ethical behavior.

**Conclusions**

It can be said, therefore, that there are two elements missing from corporate ethics training in order to make it similarly effective to well-delivered character education programs in the schools. One is lack of time devoted to the training, which, given the day-to-day pressures of running a business, is not unreasonable and may not be a soluble problem. The other missing element is often less than enthusiastic support from senior management, which invariably creates a corporate culture that undermines the training and is less than conducive to ethical behavior.

Specifically addressing the hypothesis of this thesis, although corporate ethics training has been infused with a full range of moral dimensions such as is present in the successful character education programs taught in grades K through 12, its effectiveness has apparently not been enhanced sufficiently to reform the corporate environment. It is clear, based on the foregoing, that corporate malfeasance and criminal activity by company executives continues, and excessive executive salaries and severance pay remain a problem and often bear no relationship to performance. The hypothesis, therefore, that corporate ethics training will significantly improve corporate ethics and corporate governance, has been disproved.
Having said that, it is unacceptable to simply surrender to current amoral conditions, in the corporate world and elsewhere in society. Based on the positive results demonstrated by effective character education programs in a K through 12 setting, it seems reasonable to infer that a generation exposed to character education in this way is likely to have a positive impact on corporate culture as well as on society in general. Clearly, in order to confirm that inference, it will take a broad implementation of effective character education programs, plus a longitudinal study to bear out the results. With that in mind, the reader is referred to Appendix B.
Appendix A

Six Pillars of Character

**Trustworthiness**
Be honest • Don’t deceive, cheat or steal • Be reliable — do what you say you’ll do • Have the courage to do the right thing • Build a good reputation • Be loyal — stand by your family, friends and country

**Respect**
Treat others with respect; follow the Golden Rule • Be tolerant of differences • Use good manners, not bad language • Be considerate of the feelings of others • Don’t threaten, hit or hurt anyone • Deal peacefully with anger, insults and disagreements

**Responsibility**
Do what you are supposed to do • Persevere: keep on trying! • Always do your best • Use self-control • Be self-disciplined • Think before you act — consider the consequences • Be accountable for your choices

**Fairness**
Play by the rules • Take turns and share • Be open-minded; listen to others • Don’t take advantage of others • Don’t blame others carelessly

**Caring**
Be kind • Be compassionate and show you care • Express gratitude • Forgive others • Help people in need.

**Citizenship**
Do your share to make your school and community better • Cooperate • Get involved in community affairs • Stay informed; vote • Be a good neighbor • Obey laws and rules • Respect authority • Protect the environment.
Appendix B

Recommendations for Future Action

Aristotle wrote, "It is hard, if not impossible, to remove by argument the traits that have long since been incorporated in the character." Indeed, this seems to be confirmed by the evidence, cited earlier, of continued malfeasance and illegal activity by corporate executives who were exposed to ethics training.

However, Aristotle also believed that man could overcome this desire to dominate. He wrote that "moral excellence is the result of habit or custom [and] none of the moral excellencies or virtues is implanted in us by nature...Nature gives us the capacity for acquiring [the virtues], and this is developed by training [italics mine]."

So, perhaps with the right kind of training, we can convince at least some corporate executives to act more ethically than they might otherwise behave.

There is an urgent need in the United States to be more effective in coping with a corporate society so often based on self-aggrandizement and short-term gain at the expense of what is good for stockholders and the general public over the longer term. Just as important, is the need to counter the increasing incidence of violence, bullying and other unacceptable behavior in our schools. William Kilpatrick defines the issue clearly in his book, Why Johnny Can't Tell right from Wrong:

The core problem facing our schools is a moral one. All other problems derive from it, and, as a result, no attempt at school reform is likely to succeed unless character education is put at the top of the agenda. If

students don’t learn self-discipline and respect for others, they will continue to exploit each other. If they don’t learn habits of courage and justice, curriculums designed to improve their self-esteem won’t stop the epidemic of extortion, bullying and violence; neither will courses designed to make them more sensitive to diversity. Even academic reform depends on putting character first.  

Although the results of good character education programs may be more difficult to measure and quantify than traditional standardized test results, based on the evaluative studies cited above those effects can, indeed, be measured and quantified. Those measurements are certainly a strong indicator that character education is a potentially effective means to improve many of the problems faced by our schools. Furthermore, it appears reasonable to conclude (although it cannot be proven) that we may also give credence to the hypothesis that children with improved character traits will grow up to be more ethical adults and have a more positive effect on the society in which we live than if they had not been exposed to character education. The key factor, we believe, is exposing children to character education at an early age, before unethical and amoral habits can take hold.

Nevertheless, the recent publication of the “Spellings Report,” by the United States Department of Education is less than comforting in this regard. The Report was prepared by a 19-member commission made up of representatives from the academic community as well as researchers and leaders from business community. “The commission [charged with developing a comprehensive national strategy for postsecondary education], met a number of times around the country to hear perspectives and proposals from a range of policy makers and other experts about important issues

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In addition to addressing the need for elementary and secondary schools to better prepare their students either for college or entry into the workplace, the Report is scathingly critical of the current state of higher education in the United States. For example, it found that:

American higher education has become... increasingly risk-averse, at times self-satisfied, and unduly expensive. It is an enterprise that has yet to address the fundamental issues of how academic programs and institutions must be transformed to serve the changing needs of a knowledge economy.\(^{193}\)

It goes into considerable detail in its critique and its recommendations for change, urging “postsecondary institutions to make a commitment to embrace new pedagogies, curricula, and technologies to improve student learning,”\(^{194}\) but this emphasis on innovation is specifically linked to mathematics and the sciences. It makes no reference whatsoever to character education – either as a subject that must be integrated into the regular curriculum, or as a subject that must be taught in our universities that prepare aspiring teachers.

There is, however, some support from the federal government for character education, in addition to the evaluations cited earlier in Chapters 8 and 11. For example, the New Jersey Center for Character Education is supported by a grant to the New Jersey Department of Education under the Partnership in Character Education Grant Program of the U. S. Department of Education.


\(^{194}\) Ibid.


**Recommendations**

Nevertheless, without significantly more impetus from the federal government, states and local communities will continue to be inconsistent in their efforts to teach character education in their respective schools. There are vast differences in commitment from one state to another, and, as exemplified earlier in the discussion about New Jersey in chapter 5, even in a state committed to character education, there are differences in execution and effectiveness among the various school districts within each state. Federal funding is an obvious and major issue, but the United States Department of Education also needs to let the states know that it is fully supportive of teaching character education—through funding as well as establishing incentives for effective programs. Strong leadership at the national level is vital.

Although, “educators are reawakening to what historically has been one of their most essential tasks: assisting in the character and social development of the children entrusted to them, conspicuously neglected in this resurgence of character education, however, is the attendant preparation of teachers in our nation’s schools. Few new teachers are prepared to complement their work to develop children academically with the need to address their character formation, citizenship preparation, and social development.”

While this may seem obvious, it is strongly suggested that those educators, and others who are committed to character education, make every effort to lobby their state legislators and the appropriate federal officials as to the importance of character education. If those in control of the purse strings recognize how vital these programs are,

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adequate funding and other incentives are likely to follow.

It is also suggested that a long-term study be undertaken, using bio-medical research parameters acceptable to the United States Department of Education, which monitors the way in which the individuals in the study conduct their lives 10 and 15 years after their exposure – or non-exposure - to character education programs. The study should attempt to determine whether or not those exposed to character education during their school years developed into more trustworthy, respectful and responsible citizens, for example, than those in the control group.

It should be clear that the wider implementation of character education programs should not be expected to instantly (or even in the longer term) completely abolish abuses and eliminate greed. However, such programs are arguably an important step towards achieving that goal – in the corporate world and beyond.

To more effectively counter the continued misconduct referred to earlier, both in the schools and in the workplace, it appears clear that national programs of character education must be created that teach ethics and character development, starting in elementary school and continuing beyond the graduate level and into the corporate workplace. More than a decade ago, James Moffett, the distinguished educator and author, wrote:

... personal development must be central [to one’s education], because all solutions to public problems ... depend on mature, enlightened individuals to call for and indeed insist on these solutions. Democracy simply cannot work otherwise... It is not only for the sake of self-fulfillment that individuals should set and assess their own educational programs, but for the sake of the commonweal, which needs members who, in learning to think and do for themselves, can think about and take care of each other.
Freedom in both the market and individual behavior presupposes a consciousness and identity that go beyond mere egoism.\textsuperscript{196}

As Aristotle said, "Men must do what is necessary and indeed what is useful, but what is honorable is better. On such principles children and persons of every age which requires education should be trained."\textsuperscript{197}

The idea of character education is not new, but, based on current conditions in our schools and in the corporate workplace, cited above, it is time we placed significantly greater emphasis on teaching it. Maybe we can develop a new generation of more ethical, less greedy people. Unless we do, our entire system may be at risk.

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