

WorldCom: An Ethical Case Study

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Abstract

This paper discusses the unfortunate fall of WorldCom as it pertains to the mistakes that occurred and how they could have been prevented. The thesis is ethical behavior and legal issues for organizations increase in complexity in today's environment of technology and business markets/trends. The conclusion of the need for preventative measures has been surmised based on observations of WorldCom's turn of events.

What Went Wrong at WorldCom?

The Growth Strategy

WorldCom's strategy was growth through acquisition, which was a complex and often time consuming effort. Performing mergers and acquisitions too closely to one another can cause problems that may not be overcome easily, if at all. Shareholders are often the ones who get the short end of the deal when companies continue this type of strategy. (Brown, 2004). The struggle when acquiring a new company is an attempt to continue the same, or better, level of customer service with a seamless transition of accounting practices and technologies. Inherent in the process is an increase of expenses to make the two companies function as one organization behind the scenes and to customers. Most often this cost is not considered in the purchase price.

Due diligence in researching the company to be acquired is sometimes forsaken at the risk of losing out on a *good deal*. Furthermore, trouble areas can be difficult to discover and the accounting may include creative techniques that can not be uncovered with a short term review of an organization's external market positioning, internal structure, operations, and financial data.

This was the case that WorldCom faced as they made major deals to acquire larger organizations. These organizations gave WorldCom a greater share of the market and strengthened their core competencies but larger does not necessarily equate to greater profitability. The case study by Moberg and Romar (2003) points out WorldCom's encounter with creative accounting to hide the true costs emerging in future quarters after an acquisition. By not giving more effort and time to smoothing out the problems between services, technology, and business practices with the new organization, WorldCom was forced to figure out other ways

to fix the failing stakeholder value. Their answer was to acquire another, even larger, company, thus simultaneously acquiring another opportunity for creative accounting.

The Pitfall

The top management of WorldCom had relationships that fostered unethical behavior for the organization. The practices of authorizing wealthy loans at shamelessly low rates, and expensing luxuries like lavish business dinners using company funds were not necessarily illegal, but unethical. In addition to the pressure of continuing these relationships was the added pressure of maintaining an image of shareholder wealth and growing market rates. This type of pressure begins to narrow the line between performing certain activities in the best interest of the organization and not performing those same activities in the best interest of the shareholder and customer. An example of this type of pressure is also witnessed in the case brought against McDonalds by its franchisees. While McDonalds was suffering substantial decreases in sales and profits, they were forced to find more creative ways of quickly dealing with the loss to maintain a picture of organizational growth and continued increased stock prices. (Hackett, n.d.). Their decision was to pass the loss on to the franchisees for their over zealous restaurant site expansions. Like most companies who are pressured to make such legal, but unethical decisions, McDonalds was not attempting to harm their franchise partners but instead, looking to sustain the organization at any cost until their financial positioning strengthened. Their later decision to add growth by doubling the current franchise partnerships was much the same as WorldCom's attempt to grow itself out of debt by acquiring Sprint. The McDonalds franchisees balked at this decision and fought to hold back the franchise expansion, just as the government

put a halt to WorldCom's expansion efforts. It was clear to the stakeholders that you can't buy yourself out of debt, but when inside the *pit* trying to dig out, this concept seems doable.

An Ethical Organization

Legal versus Ethical

Ethical guidelines address the common good derived by decisions for situations not covered by legal restraints. In other words, they address the grey areas that employees and businesses are confronted with everyday. Legal issues arise when there is a conflict of the actions or decisions of an organization with the actual laws or judicial constraints in place to regulate that activity based on what is permissible or not permissible. The law does not always take into account the value system that lends to ethical decision making. An example of this deviation is our country's pre-Civil War slavery laws. (Velasquez, Andre, Shanks, et al., 2006).

Where Legal and Ethical Sometime Converge

In focusing on common rules for business-to-consumer (B2C) business practices this discussion lends attention to the European Union in its efforts to legislate how business is to be conducted when using information technology. There was a document of responsibilities outlined as a set of rules that stated what was permissible based on ethical behavior, but the consumer outcry against abuse of business practices resulted in the need for legal regulation.

A new initiative presented in 2003 and expected to become effective near the end of 2006, is the proposal for legislation on unfair B2C commercial practices. The European Commission is taking a different approach toward regulating B2C activity. With this proposal they are reshaping the playing field by shifting the grey areas to the businesses' practical strategies of how they are going to surpass their competition. This decreases the businesses'

choices of tactics used in business activities with the consumer as a way of competing with their competitors. In developing the common rules, the average consumer who is reasonably well informed, observant, and circumspect was used to benchmark the assessment of impact upon consumers. The proposal lists nineteen practices within the two categories of misleading and aggressive practices. (Consalient, 2006). Discussed here are two practices that are being transformed in the age of technology that will affect the legal adherence to ethical practices by businesses in Europe.

Customer loyalty hangs upon one of the practices, which is information security and confidentiality. Making sure the business complies with the protection rights of the consumer is a priority and information security and confidentiality is a best practice that most businesses can not afford to overlook. With the growth of internet e-commerce (buying, selling, and trading stock with the exchange of crucial information) and reformation of consumer laws, businesses are now forced to improve their methods of ensuring information is confidential. Business must be proactive in evaluating the type of information they will obtain through their business processes and how that information can be accessed. They must employ technology that ensures compliance and monitors policy. It is becoming ever so common to read about regulatory non-compliance and breach of confidentiality legal disputes in the news. “Eli Lilly and Company settled U.S. charges that it disclosed 669 e-mail addresses of Prozac users, while Hewlett Packard fired an employee who leaked internal memos about the company’s status while the company was in merger talks.” (Information Technology Association of America, 2003, p. 4). Although businesses are able to utilize advance technology to improve their information security

and confidentiality, exchange of personal content through instant messaging and peer-to-peer networks are a growing threat to compliance with regulations.

Secondly, a new and growing practice for distributed computing and e-business processing is Service Oriented Computing. It is a standardized protocol for building networks of collaborating business applications within and across organizational boundaries. It provides the support and structure for developing complex business transaction sequences. It reduces programming complexity and costs, creates faster time-to-market processing, improves operational efficiency, and has the potential to realize new revenue streams. This is moving fast up the list of best practices and increases service delivery, while developing a consistency of accounting practices within the organization. The legal impact for the business is that accounting and business processes will become more securely orchestrated.

These practices are considered best practices because they assist the business in avoiding unfair commercial practices such as those being legislated by the European Commission. By utilizing these practices a business can increase their service value, prevent legal impositions, comply with regulations, and foster revenue growth.

Key Components for an Ethical Organization

In a business report produced by Pepperdine University key components of ethical behavior are identified as virtuous values. Values relate to effective leadership and ultimately drive our behavior. Values also influence our attitude. The values discussed in the report are:

- Wisdom and knowledge
- Self control
- Justice and fair guidance
- Transcendence
- Love and kindness
- Courage and integrity

These values are intertwined and affect our ability to fairly evaluate a situation. Difficult decisions surrounding the allocation of limited resources leave some individuals and groups with less courage and integrity than they would prefer. Kerns, Charles D. (2003) says, “The redeeming grace is the perception that such decisions are made with fairness and integrity.”

There must be an alignment between these values and ethical behavior to produce the desired outcome. Implementing an integrity framework is essential for aligning values and ethical behavior. Best Practices (2003) discusses seven components required by an organization to support an integrity framework. They are:

1. Leadership – has the responsibility to uphold the highest level of ethical standards
2. Expectations – feeds into all other aspects of the integrity framework. Core ethical expectations must be developed.
3. Dialogue – a format of open discussion between leadership and staff to foster two-way communication resulting in a clear understanding of the expectations.
4. Ethical Risk – must be managed by leadership to ensure the organization maintains a high level of integrity and ethical standards
5. Training – provide knowledge and skills to equip the members to fulfill their obligations in an ethical manner
6. Improvement – upon the ethics program to keep it relevant and current
7. Decision-making – incorporation of processes to ensure consideration of the ethical dimensions involved in the possible outcome(s) of the decision made

Establishing these key components will develop a sustained program, emerging as it progresses into an institutionalized and fully integrated organizational culture.

The Integrity Framework and Escalation

As previously mentioned, employees often encounter grey areas in decision making. During these times, there must be an integrity framework integrated into everyday decision making that will assist employees in knowing when a decision is beyond their expertise or authority and to know when and how to escalate the matter.

For decisions that may have a legal impact upon the organization, it is important for an organization to design a program with easily understood expectations for employees to commit to. FTI Consulting, Inc. (2004) has developed a Whistleblower Policy for its employees to accommodate this need. It shapes the way employees are to escalate suspected misconduct or suspicious activity to FTI's legal counsel, directors, or the audit committee. It specifically addresses questionable accounting controls, corporate fraud, violation of policies, and any matter of concern that an employee, stockholder, or other interested person believes may adversely affect the organization. The policy outlines the rules of engagement when communicating the information and utilizes a third party for confidential reporting of issues. This is a good example of utilizing the integration of an integrity framework. However, any organization communicating their expectations of employees to report such information must be proactive in addressing such matters, as well as structured to address the reported situations without bias. Coming short of doing so will reduce the policy to mere written words on paper.

Conclusion

What WorldCom Could Have Done Better

At any time, WorldCom could have began to change their business practices and attempted to right their wrongs, but that may not have resulted any differently than it did when

prior transactions were discovered by Cynthia Cooper. A plan to correct fraudulent practices, whether done with intentional harm or as survival techniques, should include restitution to those who were inadvertently negatively affected. Based on the final bankruptcy report by Thornburgh (2004), the organization faced potential claims of enormous magnitude, some of which may be substantiated and others not. The best practice for correcting such activity is to never have strayed so far from common ethical practices in the beginning. Hind sight is 20/20 but it is foreseeable that long before the thought of filing bankruptcy, when the vision of decision making was merely a bit cloudy, a good framework for ethical decision making would have changed the course of the organization, although maybe not the fate of Bernie Ebbers.

Current news of the restructured WorldCom organization is that they are a washed-up has-been, with their once, CEO in prison serving a twenty-five year sentence at the age of sixty-three. (Crawford, 2005). WorldCom was hibernating from the media after the 2002 scandal but they still remained active. Some internet surfing led to Verizon while additional searching led to MCI connections. The most profitable of searches led to an article by Molly Ivans (2003) that detailed WorldCom's involvement with contracting to develop technologies in Iraq in 2003 and their upheld contracts with the government as the primary contractors. The contract for building a wireless phone network in Iraq was given to them without requiring them to bid on it, which angered competitors such as AT&T and Sprint. There is a possibility that old habits of unethical practices continued for WorldCom and as it is commonly said, "Old habits are hard to break".

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