Ethics and morality

William Kanaga
1

Ethics and Morality*

William Kanaga
Retired Chairman, Arthur Young & Co.

Thank you, Jerry, and thank you all for having me. I am going to depart really from what I had intended to speak to, Raj (Rajendra P. Srivastava), when I agreed to come. I hope it won’t cause heartburn for you and for the others in the crowd. Before I left for eastern Europe in early April, I had prepared some draft remarks on the question of ethics in the community and the impact on the auditing profession. Jerry Sullivan and I can remember a few days discussing the aims and objectives of the Treadway Commission and how that might impact the profession. When I came back to the United States I decided to scrap the draft that I had and to deal with a more fundamental issue, which is the ethics and morality of society in general. I have a captive audience here to share some of the impressions that I gained in eastern Europe and those countries that have emerged from communism, as well as what those observations might mean to us.

For the past month-and-a-half I have had the experience—I probably should say privilege, because it is a privilege—to spend time in and get some insight into an area of the world that is going through a major transition. I spent time in Albania and then in Siberia, plus two extended stopovers in Moscow. In talking with many of the citizens of those countries, both in the public sphere, government, cultural and private positions, a common theme emerges. During the communist dictatorships, some 75 years in Russia and almost 50 years in Albania, the leadership in both of those countries attempted to eliminate any kind of moral code and substitute for any moral decision making the absolute power of dictatorship. In both, the church came under direct attack.

In Albania, the dictator Hoxha, went further than those in the other countries of eastern Europe. I have spent a great deal of time in Poland, Rumania, Hungry, Czechoslovakia, and Bulgaria, and in my opinion, Albania was the worst of the group. The dictator Hoxha imprisoned or killed all the clergy in this country, both Christian and Moslem, and destroyed the churches and mosques throughout the country. He left a few standing and they have been returned to the church authorities, but those few that were left standing were converted either into movie houses or into indoctrination centers. When I first went to Albania early last year when the doors opened, all evidence that there had been churches had been removed.

* This paper is an audio transcript of the keynote speech delivered by Bill Kanaga at the symposium.

1 Jerry Golden of Ernst & Young introduced Mr. Kanaga, who served as chairman of Arthur Young from 1977 until his retirement in 1985.
That destruction was in the 1960s. In 1976 he declared that Albania would be henceforth the world’s first atheistic state. His internal secret police reported on each and every family. They had the equivalent tactics of the Gang of Four from China, they went in every home and searched the home and removed anything that would indicate any tie to the church. They smashed all the icons, they destroyed churches that were over a 1,000 years old. And anybody that criticized or in any way indicated that they were unhappy with the regime went to prison.

There was an alternative, which was prison work camps. Anybody that didn’t agree was in danger, not only his own immediate family, his wife and children, but also his parents and his brothers and sisters and their spouses and families. So it was a pretty horrible but effective deterrent.

The story was repeated over and over again, in eastern Europe and in the Soviet Union, although I believe that Albania was unique in its ferocity. Based on my experiences over the last four years in these countries, I have been appalled at the lingering impact today on the moral values in these societies. I’m chairman of the Center for International Private Enterprise operating out of Washington, which supports the indigenous institutions that are helping to return those countries to private enterprise, the market system, entrepreneurial activities, management training, etc. As a consequence, I have spent a good bit of time with individuals in those institutions in various countries. I have gotten a chance to talk to them about how they deal with the vacuum that was left.

What happened in each and every country was that there were really no moral principles, no debate, just dictatorship fiat. When the lifting of those despotic regimes occurred, we have seen what I would call an unlovely picture: a moral vacuum. We see people who have great trouble in distinguishing right from wrong. They are angry, even bitter, but without a way to deal with all of that bitterness. One of the ministers in the Albanian government said to me—and I would say that he himself is a man of compassion, a poet and an author—“We obviously have great physical needs here in my country—food, medicine, clothes, housing, but paradoxically our greatest need is to restore the spirit of my people, the spirit inside each and every person. And when I say spirit I mean spiritual needs. Food and medicine and the rest will be spent and gone tomorrow, but what we need and my people have to have is something permanent within them for this country to change. Unless they have something permanent inside, they have nothing to go on for tomorrow.”

We had time and again debates on how to get these moral values back and how to instruct the people in right and wrong. These concerned simple things, mundane situations. One of the Albanians told me that when he flew to Rome he got on the plane and the first two fellows who got on sat down in First Class. The stewardess said, “Your tickets are not first class, you have to go to the back of the plane,” and they said, “We were here first.” So possession is all—it’s the right of the jungle in effect.

There is a great shortage of food, so one question is, if your family is starving is it right to steal food for them? We have a free market system and unfortunately they have had much publicity in years past about our capitalistic system—all of it bad. Everything that went on the front page in the communist world concerned some deficiency in our system, so people in these countries believe when you talk free market that it means cheating one another. It is
exemplified by greed.

Trying to correct that perception is one of our major tasks at the center. We are working with education of the media, attempting to instruct the journalists in what a free market system really means, what our kind of system really means. And if we are disappointed on occasion with our own journalists, let me tell you that there are problems magnified in the communist world. The leader of one of the major autonomous regions in Siberia said, “You know we have a real problem here. We have all been motivated over our entire life time by fear. We have lifted the fear from our life and we haven’t replaced it with anything. So we are floundering.” He went on to say that it certainly hadn’t been replaced by money.

I didn’t see “60 Minutes” the other night, but for those of you who did, you know that the doctors are being paid the equivalent of about $7 a month, that is in rubles, compared to $15 for the bus drivers. I’m not begrudging the bus drivers their $15, but the doctors are deserting Albania in droves. I helped support a group of doctors that went to Albania in March. They spent three weeks, took $10 million worth of equipment and supplies into the medical profession, the principal objective being to retain the doctors that were there, to encourage them, because many of them have become baggage handlers in New York City.

The minister of economics in the last communist regime in Hungary, not himself a supporter of the system, in fact quite a critic, said to me (before the fall of the communist government, about three years ago) that it was his belief, that the system could not work, would not work. He said—and I think that you would be interested here at the University to know—“I don’t think that there are any confirmed communists anywhere in the world except on the campuses of your universities.” He said that the problem was to get people back to feeling a sense of responsibility, not only for the country but for themselves personally.

They are now telling these people that there is not going to be cradle to grave support by the government. All of a sudden they are going to have to fund their childrens’ college education and they are appalled at this new economic system because they don’t see any way under their current incomes to fund the things that are coming up. Now they are going to switch over to having to fund the health system and the health system is bad.

What we have been looking at in this communist world is what happens in a society devoid of moral structure, devoid of religious belief, devoid of individual liberty. And I can tell you it is a scary picture. The people themselves individually are warm and hospitable but they are scared. Why am I spending so much time on such an obvious failure, the failure of a system that we never embraced here in this country? The reason is that I believe there are some lessons in that situation for us. In this country we have a constant reminder in the headlines of our daily papers of the failures of businessmen. We have failures of a lot of others, but I’m referring in this group to businessmen, men in leadership roles without the desire or the will to make the right or moral decision when looking at a number of alternatives. In some cases it is individual failure, in some cases it is quite clearly institutional failure as in some of the insider trading cases — or the case of the bank scam that E. F. Hutton operated, or in the earnings fraud that I’m sure your business schools all look at involving a number of divisions of H. J. Heinz. In some whole plants or divisions of defense contractors there were a tremendous number of people involved in scams and no one, or at least no one apparently, with the instinctive reaction to blow the whistle or stop the practice.
We are in a society, in my opinion, in open warfare against values and moral standards. Battles are going on against prayer in public forum while lawlessness reaches a new high. We have battles being fought for moral standards of our youth to emphasize the individual importance of each, while at the same passing out condoms in our schools. We are the world’s center of pornography, whose sole aim is to degrade women, and at the same time we are making a national issue of questionable remarks that men might make to women. There is a dichotomy that we are faced with and I believe, thank God, that in the people there is a great revulsion against the waning of moral principle.

We had a serious problem while I was without newspapers in Siberia, with riots coming out of the trials of the policemen in the Rodney King case. I arrived home this past weekend from Russia to see on the front page the pictures of a number of mayors in Washington denouncing not the action of the lawless rioters, but denouncing the federal government. Not a statesman among them took responsibility for leadership in the riot torn communities. As De Tocqueville [1900] said, and we have had quoted so many times, “America will be great as long as it’s good. When America ceases to be good it will cease to be great.” Business and our profession, our universities, have a great stake in the battle. We cannot sit idly by hoping that the moral climate will change. We have to be out in our communities, in our schools, in our newspapers, on TV, telling the story of the importance of moral standards, confronting the cynics and the demagogues and, for example, speaking truth to the voters, not pandering for their votes.

In our Treadway Commission deliberations several years ago, there was one clear truth on which all of us agreed, and there weren’t all that many things that we all agreed on, as Jack Krogstad knows—Jack and I both worked on it in Washington. That was that the key to all of the problems we have had in the business world was leadership. Ethical behavior in any organization will exist if the leadership is there to lead. And the organization, I can tell you, will follow. If that leadership takes a strong stand on honesty and integrity, so will the organization. We just have to mobilize leadership in this country. Each and every one of us has to take a leadership role in our own community, in our own business, in the educational systems and institutions where we live and in our churches. The price I have seen in an amoral society is more, I can assure you, than we can bear.

You have the misfortune this lunch time in Lawrence of an individual who is on his high horse. But [this reflects my experience], having just gotten off the plane from the misery and misfortune of a huge area of the world dragged down by as much as 75 years of unbelievable hardship and returning to our country so complacent, self assured and seemingly invulnerable. I read recently a quote from Alexander Solzhenitsyn, who experienced at close hand the awful cost through the loss of moral value in his native Russia and for the last ten years or so in this country. He says [Solzhenitsyn, 1991]:

The strength or weakness of a society depends more on the level of spiritual life than on its level of industrialization. Neither a market economy nor even general abundance constitutes the crowning achievement of human life. If a nation’s spiritual energies have been exhausted it will not be saved from collapse by the most perfect government structure or an industrial development. A tree with a rotten core cannot stand. This is so
because of all the possible freedoms, the one that will inevitably come to
the fore will be the freedom to be unscrupulous. That is the freedom that
can be neither prevented nor anticipated by any law. It's an unfortunate
fact that a pure social atmosphere cannot be legislated into being.

In my opinion this all does bear directly on our profession. A country whose
moral values have decayed will be a country whose businesses are a danger to
the auditor. Where the management operates without principle, the risks for us
are enormous. We have much to be grateful for in this country and much bat-
tling to preserve it. You and I have an obligation to each other, our families, our
communities and our profession.

Take the stand that will make the difference.

References
Solzhenitsyn, A., *Rebuilding Russia: Reflections and Tentative Proposals*, Fauar Strauss Giroux,