
A Few Bad Apples?

An Exploratory Look at What Typical Americans Think About Business Ethics Today

A report for The Kettering Foundation from Public Agenda

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EXECUTIVE SUMMARY

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A Few Bad Apples? is a collaborative effort on the part of The Kettering Foundation and Public Agenda to learn more about Americans' views on the ethics and behavior of corporate America today. The research also seeks to shed light on the similarities and gaps between the attitudes of typical Americans and high-level executives who are most knowledgeable about our nation's companies.

Public Agenda convened a series of six focus groups with the general public and conducted more than a dozen in-depth interviews with business leaders from major organizations in America today. In addition, we held one-on-one discussions with industry observers from government, the non-profit sector and the press. The research covered a wide range of business topics—executive compensation, employee and customer relations, financial management, layoffs and corporate citizenship, to name a few. It also elicited powerful underlying concerns about declining values and increasing greed that both business leaders and typical Americans see as widespread throughout society.

The ordinary Americans and business leaders interviewed in this research generally approached the issue of business ethics from very different starting points. The focus group participants mostly spoke from the perspectives they knew best: as employees or customers. The business leaders naturally spoke from the perspective of managers and decision-makers. Business ethics did not appear to be a top issue of concern in the focus groups with ordinary Americans, and it was apparent that most were engaging this topic for the first time. In contrast, business leaders were knowledgeable and passionate about business ethics and very engaged in the interviews.

Highlights of the Findings

I. Outrageous Fortune

For participants in these focus groups, the most egregious violators of business ethics were corrupt executives who protected their own wealth while driving their companies to bankruptcy and forcing employees out of jobs. Enron was the example that elicited outright anger. In sharp contrast, most participants did not resent rewarding executives handsomely for having great vision or for building a thriving company.

The business leaders we spoke with, not unlike the focus group participants, strongly believed that executives who committed the most egregious crimes should be punished to the full extent of the law. Business leaders, however, stressed that not every corporate misdeed was illegal and worried that every minor infraction could lead to a “perp walk.” They had more nuanced views about executive compensation, but some did feel that executive pay was out of proportion.

II. “G” for Greed

Participants in these focus groups offered a consistent diagnosis for the cause of recent business scandals: greed for money and power and a weakening of personal values. They rarely referred to problems such as excessive competition, the regulatory environment or weak corporate governance. For the most part, most participants had only a rudimentary understanding of these things anyway.

Both the business leaders and the ordinary Americans we interviewed for this research consistently pointed to basic greed and a general erosion of ethics and morals in society as the principal cause of recent business scandals. But business leaders also talked about the tremendous pressure they were under to show profits, which some said could lead the “ethically vulnerable” to take questionable short-cuts. Business leaders were far more knowledgeable about potential solutions that involved changes to government regulations and corporate structure.

III. From Business Scandals to Jobs, Jobs, Jobs

In focus groups, people defined business ethics in broad terms. Inevitably, conversations about recent scandals or questionable business practices quickly morphed

into conversations about job security and whether companies treated employees and consumers fairly. Their main interest was not what's best for a particular business or for the economy as a whole. They most often spoke directly from their own perspective as employees or customers.

Business leaders did not talk about saving jobs in moral and ethical tones the way the public did. According to many of the leaders we spoke with, a CEO's primary responsibility was to shareholders, and layoffs were simply seen as an inevitable part of doing business. Nevertheless, both groups believed that there was a right way and a wrong way of handling layoffs. Both also agreed that companies who gave back to their communities—good corporate citizens—engendered the public's good will.

IV. Don't Expect Them To Be Angels

Based on these focus groups, the current scandals do not seem to have produced a systemic cynicism about business overall. Many participants thought it was possible for executives to be both ethical and successful. And they did not expect business people to be naïve pushovers or saints. When it came to the Martha Stewart insider trading scandal, many participants admitted that they were not sure if they would have behaved differently had they been in her shoes. Small businesses, many said, tend to behave more ethically.

The business leaders in our study strongly felt that CEOs had lost a great deal of public credibility and respect, and they were cognizant of the need to restore the public's trust. At the same time, virtually all leaders believed that the vast majority of business executives were ethical, and many protested that just a few bad apples were ruining their collective reputation. They were more sensitive than the public to the limits on a CEO's ability to control day-to-day company operations. None commented on the relationship between ethical behavior and company size.

V. The Enemy Is Us?

Focus group participants seldom discussed their own power to influence the ethical behavior of companies, whether as voters, investors, employees or customers. It quickly became clear in the focus groups that ethical considerations seldom intruded on people's purchasing or investment decisions.

The business leaders were more attuned to the power of public opinion and consumer behavior to influence corporate deeds than the focus group participants were. Still, as previously mentioned, both groups believed that the public preferred to patronize companies that are civic minded and give back to their communities.

VI. Who's Minding the Fourth Estate?

For the most part, focus group participants did not regard the media—or the financial press in particular—as vigilant watchdogs protecting the public interest. Some thought the press served a useful purpose putting a spotlight on corporate misdeeds, but discussions about business coverage quickly shifted to broader conversations about shallow or biased coverage in general. The negative judgments about the business press reflected an overall assessment of the faults of the media in general.

Media coverage of recent business scandals was a prominent topic of conversation in the leadership interviews, in contrast to the focus groups with the public where it did not generate extensive discussion. Business leaders held diverse opinions about the financial press; some were satisfied with the coverage, others thought it was exacerbating what was actually a limited problem.

Different Starting Points: A Re-Cap

Among the most important observations emerging from *A Few Bad Apples?* are the differences in the way business executives and members of the general public think about business ethics. Below is a quick review of the major differences:

- Business ethics did not appear to be a top-tier issue in the public's mind. That's not to say it's not important—the people we interviewed voiced strong sentiments in some areas. But the conversations did not have the staying power or specificity of other issues Public Agenda has worked on such as education, health care or welfare reform. In contrast, the business leaders were passionate about the topic and very engaged in the interviews.
- Compared to business leaders, people in the focus groups tended to have a broader definition of what ethical business practices meant. For example, they believed protecting workers from layoffs was a crucial moral consideration. Virtually no business person we interviewed framed layoffs as a moral issue.
- With the exception of hands-on investors, most focus group participants were unfamiliar with the governance structures of companies or the details of how business practices are regulated. It was apparent that most were engaging in this

sort of discussion for the first time. Among business leaders, the knowledge base was considerably more nuanced and sophisticated. The law and regulatory environment, as well as the history of past reforms, were at their fingertips.

- The most natural way for people to engage this issue was through archetypal examples, stories that captured and encapsulated the good and the bad of business ethics. Enron, Martha Stewart and Bill Gates were especially useful reference points that guided and sparked the conversations. This was apparent in both the general public focus groups and the leadership interviews.

Methodology

A Few Bad Apples? is based on six focus groups with the general public, 15 in-depth telephone interviews with high-level business leaders and seven in-depth telephone interviews with expert observers in the field. The focus groups took place in October 2003 in cities across the country: Old Bridge (NJ), Cincinnati (OH), Houston (TX), Little Rock (AR), Scottsdale (AZ) and Redwood City (CA). The leadership interviews, which took place in November and December 2003, included executive-level business leaders from a wide variety of industries: real estate, financial management, pharmaceuticals and health care, media, fashion, public relations and market research. The sample consisted exclusively of business leaders who were familiar with Public Agenda and thus would have reason to trust our work and be willing to participate in the research.

This research is qualitative in nature and reflects only the opinions of those who participated; the findings are suggestive and cannot be generalized to the public as a whole or to business leaders as a group.

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Introduction

Scandalous business dealings—from Enron’s duplicitous accounting practices to Martha Stewart’s alleged obstruction of justice—have propelled the topic of business ethics into the headlines. Stories that once were relegated to the financial pages—and of interest mainly to wealthy individuals or people in the industry—are now the source of water cooler conversations among ordinary Americans.

A Few Bad Apples? is a collaborative effort on the part of The Kettering Foundation and Public Agenda to learn more about Americans’ views on the ethics and behavior of corporate America today. The research also seeks to shed light on the similarities and gaps between the attitudes of typical Americans and high-level executives who are most knowledgeable about our nation’s companies.

To that end, Public Agenda convened a series of six focus groups with the general public and conducted more than a dozen in-depth interviews with business leaders from major organizations in America today. In addition, we held one-on-one discussions with industry observers from government, the non-profit sector and the press. The research covered a wide-range of business topics—executive compensation, employee and customer relations, financial management, layoffs and corporate citizenship, to name a few. It also elicited powerful underlying concerns about declining

values and increasing greed that both business leaders and typical Americans see as widespread throughout society.

It is our hope that this preliminary qualitative research will serve as a starting point for future areas of investigation on the role that ethics and leadership play in America's business world.

Different Starting Points

The ordinary Americans and business leaders interviewed in this research generally approached the business ethics issue from very different starting points. The focus group participants mostly spoke from the perspectives they knew best: as employees or customers. The business leaders naturally spoke from the perspective of managers and decision-makers. Some of the following research observations flow from these very different starting points:

- Business ethics did not appear to be a top-tier issue in the public's mind. That's not to say it's not important—the people we interviewed voiced strong sentiments in some areas. But the conversations did not have the staying power or specificity of other issues Public Agenda has worked on such as education, health care or welfare reform. In contrast, the business leaders were passionate about the topic and very engaged in the interviews.
- Compared to business leaders, people in the focus groups tended to have a broader definition of what ethical business practices meant. For example, they believed protecting workers from layoffs was a crucial moral consideration. Virtually no business person we interviewed framed layoffs as a moral issue.
- With the exception of hands-on investors, most focus group participants were unfamiliar with the governance structures of companies or the details of how business practices are regulated. It was apparent that most were engaging in this sort of discussion for the first time. Among business leaders, the knowledge base was considerably more nuanced and sophisticated. The law and regulatory environment, as well as the history of past reforms, were at their fingertips.

- The most natural way for people to engage this issue was through archetypal examples, stories that captured and encapsulated the good and the bad of business ethics. Enron, Martha Stewart and Bill Gates were especially useful reference points that guided and sparked the conversations. This was apparent in both the general public focus groups and the leadership interviews.

Methodology

A Few Bad Apples? is based on six focus groups with the general public, 15 in-depth telephone interviews with high-level business leaders and seven in-depth telephone interviews with expert observers in the field.

Focus Groups with the General Public

Public Agenda convened focus groups in October 2003 with typical Americans in six cities across the country. Each city was chosen—and participants recruited—in an effort to convene a wide mix of demographics, e.g., income, gender, retirement status, employment status, geography. The groups were moderated by senior Public Agenda staff and were approximately two hours in length. The following is a list of the cities, along with a general description of respondents:

1. Old Bridge (NJ) – relatively high income and education; suburban background; East coast
2. Cincinnati (OH) – low to middle income and education; middle America
3. Houston (TX) – middle income; home of Enron; heavily hit by layoffs
4. Little Rock (AR) – low to middle income; small-town background
5. Scottsdale (AZ) – relatively high income; home to large number of retired people
6. Redwood City (CA) – relatively high income and education; home of the dot-com boom and bust

Focus groups are an especially useful tool for getting people's spontaneous reactions and concerns—in their own words—on topics that people may have little knowledge about or may have given little thought to. It's important to keep in mind, however, that focus groups—as useful and informative and interesting as they are—simply measure the perceptions of the people who participated in them. Focus group findings are suggestive and cannot be generalized to the public as a whole.

In-depth Interviews with Leaders and Experts

Public Agenda conducted 15 in-depth telephone interviews in November and December 2003 with executive-level business leaders from a wide variety of industries, including real estate, financial management, pharmaceuticals and health care, media, fashion, public relations and market research.

It is an extremely difficult task to find senior professionals to participate in a leadership study such as this. For one thing, these are extremely busy people whose calendars are scheduled weeks in advance and where every minute is accounted for; for another, the topic—the ethics and behavior of business leaders—was a sensitive one. In an effort to put business leaders at ease and to encourage frank discussion during the interviews, we assured participants that their identity (and their companies) would remain confidential.

Public Agenda worked through institutional connections to recruit participants. In the end, 34 potential leaders were contacted by letter, and from this list 15 respondents were willing and available to participate within the necessary timeframe. Virtually all were familiar with Public Agenda as an organization or with one of its principals. All

were affiliated with large organizations rather than small businesses, mostly with publicly traded companies. All were men. About half were retired as formal CEOs but active on other corporate boards; the other half are current CEOs (or equivalent). The telephone interviews ranged from 20 to 40 minutes in length.

One very important caveat about the findings for business leaders: the views reported here merely reflect the opinions of the 15 individuals we interviewed and should not be interpreted as the definitive view of American business leaders as a group. Our sample consisted exclusively of business leaders who were familiar with Public Agenda and thus would have reason to trust our work and be willing to participate in the research.

In addition to the leadership interviews, seven in-depth telephone interviews took place with other professionals who provided background on the significant ethical issues facing business leaders today. These included two interviews with financial journalists and one each with a senior in-house corporate counsel, a state treasurer, an advocate for small investors, a specialist in business ethics and leadership consulting, and an ethics officer in a large nonprofit association.

I. Outrageous Fortune

For participants in these focus groups, the most egregious violators of business ethics were corrupt executives who protected their own wealth while driving their companies to bankruptcy and forcing employees out of jobs. Enron was the example that elicited outright anger. In sharp contrast, most participants did not resent rewarding executives handsomely for having great vision or for building a thriving company.

Looking for Justice

In virtually every focus group, Enron was the main example of a business scandal that drew outright anger and elicited genuine engagement in the issue of business ethics. The sense of outrage was pronounced: people were angry that executives had been flying high, drawing immense salaries while driving their companies out of business and—most importantly—causing ordinary workers to lose their livelihood and savings.

“What about Enron and what they did to their people? Cut their throats and let them drown. If you were to look at justice and what they get, they didn’t get what they deserved. How many people did they just put out there to dry?” OH man

“All the people at Tyco, Enron and WorldCom, these are the executives that are making humongous salaries and it’s still not enough. They fleece a company and they hurt all the workers—the regular people that are doing their job from 9-to-5 and making \$30,000...and just making ends meet...Now some poor secretary is raising two children and she’s out of work. What does she do?” NJ man

“Those Enron leaders they knew ahead of time it was getting ready to go down. They dumped all of their stock and profited from the whole thing...Everyone suffered the brunt of that. It’s hard to trust leaders when you see that happening. It makes you pretty mad.” TX man

This anger at corrupt executives often fed a desire to see tough justice meted out—including jail time and sometimes even more.

“You don’t think the fellow that destroyed Enron, the head of the company, shouldn’t go to jail? That guy, he should be hog-tied and whipped and then go to jail.” NJ man

“You Did Wrong, You Lied”

Some of the people in the focus groups had themselves lost money in the wake of scandals or mismanagement—as investors, employees with stock options, retirees. Not surprisingly, they were especially bitter at executives who bailed out in time while they were left behind. Even some people who had not lost money got angry at the thought that they could easily have been the ones victimized.

“The people that were hurt. The stockholders, even. Think about it. Life savings are lost and it could have been me. It could have been you.” AR woman

“It was a promise. They managed, when they did sell the company, to figure out legally a way to screw all those people that had left the company by writing in some kind of little clause where all of a sudden all the shares that we had were worth nothing.” CA woman

“The WorldCom thing...he got out two years before, sold everything, set himself up to be paid like \$2.5 million a year, using the company jet...When it blew up he took my money and thousands of others, laid off thousands of people. People counting on that for their retirement and he still gets his; that’s not right. They should take everything he’s got and say, ‘You did wrong, you lied,’ and pass it back out.” AR man

Captains Who Abandon Their Ships

The focus group discussions typically ventured well beyond explicit scandals and fraud. People often criticized business leaders who make sure they are amply rewarded even as their employees and companies suffer. Many were baffled and even indignant. They just couldn’t understand how executives could award themselves bonuses and high salaries while employees were being laid off or their company was struggling.

“When the company is doing poorly the obscene salaries and bonuses are just—they need to correlate. If the company is failing, how is this person getting a bonus? Why pat someone on the back for the demise?” NJ woman

“Sometimes it’s inevitable that the company goes bankrupt. But the ethical issue is if it goes bankrupt, you’re the captain of the ship. Are you going to go down with the ship or are you jumping off first? That’s the ethical problem—the captains are jumping off first.” AZ man

“Kmart would lose money and close stores and lay off employees, but the CEOs still made their bonuses...Airlines are the same way. Big CEOs, they’re laying off all these people, they’re wanting money from the government, and guess what? The top echelon is still making their bonuses.” AR man

Pay Him What He’s Worth

Some poll findings indicate that the public is outraged by high executive salaries. For example, 64% said “corporations paying huge salaries to CEOs” was a serious problem in a Hart 2002 survey (Peter Hart, August 10-13, 2002). But high salaries, in and of themselves, were not a consistent sore point in the focus groups conducted for this project. Some people couldn’t understand how any human being could deserve such astronomical salaries, but others thought that an executive might deserve extremely high pay if his or her company thrived. Virtually no one, for example, begrudged Bill Gates his wealth or high pay. Still others believed this was a function of being free in the U.S., to get the most you can for the work you do.

“The real question is what is that CEO worth? Now, if the guy is paid \$10 million and he is worth it, and he has made that corporation...if they got what it’s worth and he’s made them \$30 million, \$10 million to me seems like a bargain. It’s like a good church. What is a good pastor worth to a church? I don’t know.” AR man

“I’m sure there are many CEOs that don’t deserve it...but ethically I don’t think the bonuses and stuff they get is necessarily a big thing. I know with our CEO, I personally think he’s worth ten points of our stock price or value right there.” AZ man

HOW BUSINESS LEADERS AND THE PUBLIC COMPARE

There are many significant differences between the way focus group participants and business leaders talk about business ethics. But, based on the work for this project, their views are similar in one important respect. Both believe that corporate executives who commit the most egregious crimes—those who deliberately mislead investors or steal from the company—should be punished to the full extent of the law. More than one of the business leaders we interviewed pointed out that it will take more than a slap on the wrist to deter scandals and fraud. If the punishment seems to be no more than the cost of doing business, they warned, the situation will not improve.

On the other hand, the business leaders we talked to didn't believe that every minor infraction should lead to a "perp walk." Unlike the public, they made a distinction between outright illegal activity and questionable actions or decisions made during high-stakes business dealings.

As one would expect, business leaders' views on executive compensation were quite different. The ordinary Americans we spoke to were outraged by executive bonuses and immense salaries during times of employee cutbacks. Business leaders, in contrast, often articulated the need for a strong leader during such difficult times, so the notion of high compensation made sense to them. A few also justified high pay for top executives when a company struggles, saying it would be unfair to penalize them when a lackluster economy was the primary culprit. Others noted that companies have to pay a lot to get the best and brightest because the competition for talent is stiff.

Still, some business leaders did tell us that they believed that executive pay was totally out of proportion and faulted compensation committees. They predicted that future

contracts would be more connected to company fundamentals and not just stock performance. Many pointed out that compensation committees are under tremendous scrutiny these days. One executive even said—only half jokingly—that CEOs are now competing with each other to have the *lowest* pay.

II. “G” for Greed

Participants in these focus groups offered a consistent diagnosis for the cause of recent business scandals: greed for money and power and a weakening of personal values. Focus group participants rarely referred to problems such as excessive competition, the regulatory environment or weak corporate governance. For the most part, most participants had only a rudimentary understanding of these things anyway.

Ethical Amnesia

The focus group participants had a clear diagnosis for the rash of business scandals—greed had led key executives to do wrong. They believed that executives at the center of the scandals had either lost their moral bearings because the money was too tempting or that they arrived at their positions without sound values to begin with. Sometimes it was the absence of internalized ethics combined with a singular focus on making as much money as possible; other times it was just that the temptation was too strong. And there was a sense that things had gotten worse.

“I cannot believe that people are that bad. I truly believe we all have a price. If somebody approached you to do something illegal, if they met your price, you’re either going to think about it or do it. Some of these people have met their price.”
CA man

“That’s what happens when you make that dollar. You get amnesia. So it goes back to ethics and then it goes back to values. I mean you can have as many watchdog people as you want, the steering committees in Congress...enough money will make you loyal to the person that’s feeding you.” AZ man

“It’s a combination of the obscene salaries and because they feel it is not enough. They feel they have an entitlement: ‘I am making this, I deserve more.’ The only way to get it is to cook the books.” NJ man

“I’m not saying there weren’t bad businesses 30 years ago. I’m saying the way people ran their businesses and just acted on the whole, as a person, their morals have changed tremendously in the last 30 years.” OH man

A Pervasive Ethics Problem

Moreover, many of the focus group participants connected the moral deficit driving the scandals to a general erosion of ethics and morals in America. The theme that values are the crux of the problem is a recurring one in Public Agenda research with the public, routinely emerging on a host of issues from parenting, to public education to civility. With this study of business ethics, some of the “values-are-the-problem” diagnosis was knee-jerk, almost without thinking. But other times, people’s observations were more considered, not so reflexive.

“Back then ethics did matter more than they do now. Integrity mattered more. People just do things to get ahead now. We just think about ourselves and not the community. It’s a more selfish time.” TX woman

It’s the Culture

The proof to many participants that values were a key to the problem was their conviction that there are companies and business leaders who do behave ethically. For some, the difference between ethical and unethical companies was determined by the tone set by top management. When executives in charge create the right atmosphere and make their expectations clear, according to focus group participants, organizations generally pull in the right direction. They thought that leaders who made an effort to promote ethical behavior could make a difference.

“It really comes from the culture of the organization or business. Just drawing on the company I work for, it’s important to them. That’s a commitment that they’ve made to the organization as a community... What’s ethical is again determined by the organization and how much they are willing to sacrifice.” AZ man

“There are morals. The people that are in Walt Disney, Exxon, and other stand-up companies, they have rules that they adhere to. They ostracize and weed out the

ones that don't. As opposed to Andersen and Enron. Those guys at the top, they set the rules. Their rules are do anything to keep you where you are." NJ man

More Regulations?

Although some poll findings* indicate the public is aching for reform, what we heard in these focus groups suggests that the reality may be somewhat different. In the focus groups, anger over the scandals did not necessarily translate into a sense that something had to be—or even could be—done. Americans may have a reputation for wanting quick-fixes and solutions, but rarely did anyone bring up the need for new laws or regulations. There are several explanations for the dearth of reformist fervor.

This Is Not Welfare Reform

First, once the discussions in the focus groups moved beyond the brazen scandals, there was a lack of intensity about the issue. Business ethics did not have comparatively high resonance when the moderator asked people to compare it to such issues as education, crime or the economy. Higher income participants and investors appeared to follow the issue and care more about it than lower income participants, who were less engaged. But the conversations often lacked specificity and, more tellingly, strong emotion. Contrast this to another issue—welfare reform in the 1990s—which had a very strong emotional resonance with the American public, and where people had specific, detailed notions of how to remake the system to better align with their values.

* 800 likely voters were asked: "Do you think there needs to be major reform in Corporate America, minor reform or is no reform necessary at all?" 65% said "major reform." (America's Changing Political Geography Survey, July 13-15, 2002 by Penn, Schoen & Berland Associates).

Who's In Charge Anyway?

Second, most of the people interviewed in the focus groups lacked a serious level of knowledge about how the government regulated business, or about corporate governance structure and decision-making. When they were asked who was responsible for making sure that business practices adhere to the law, many respondents were uncertain. Typically, no one would mention the role of the S.E.C. or corporate boards—much less, talk about specific legislation such as Sarbanes-Oxley. There was virtually no mention of the role of the many federal or state agencies with jurisdiction in this area.

“The government...Aren't they supposed to keep an eye? Don't they have rules and regulations you're supposed to follow and check in with certain people? Don't people check them or something like that?” AZ woman

“They know what's going on but the general public is not going to find out...These decisions that are made by these corporate giants are made behind closed doors with privileged information that we don't have access to.” TX man

How Do You Solve Greed?

Third, when increased regulation of businesses did come up, people often did not see how additional rules could solve the problem of greed. New regulations or reforms were beside the point, as far as most of the people we spoke with were concerned, because business executives out to enrich themselves could always find a way around them. Furthermore, there was little faith in the capacity of the government to honestly enforce the rules without itself being subject to corruption.

“You should have self-regulation and when that doesn't work, yes the government is really the only one that we can rely on. The problem is, when people start breaking the rules you just keep making more rules... We have so many rules on the books now. We don't need more rules. We just need to enforce what we've got.” AR man

“With more government regulation there will be even more chances of corruption. It’s the obvious thing [they’ll ask]—‘How can we get around it?’ Let’s just say the CEO of a company knows the government is going to step in. First of all, there is going to be payout to whomever the government official is.” NJ woman

HOW BUSINESS LEADERS AND THE PUBLIC COMPARE

Like people in the focus groups, the business leaders we spoke to also turned again and again to the “declining values” theme to explain recent questionable behavior on the part of corporate executives. Some talked about sheer greed as the primary motivating factor, but not to the same extent as the public. Business leaders pointed to a widespread erosion of ethics and morals in our society today, taking great pains to point out that the problem was not confined to the ranks of corporate executives. Still, many of the executives we interviewed also believed that a company’s ethical stance is set at the very top. To paraphrase one CEO, a company needs to make ethics, morality and integrity part of their culture—a culture that expressly states it’s not winning if you had to cheat to get there.

But for the business leaders interviewed for this project, greed was not the single focus. One major theme that we did not hear in focus groups was the concern about the pressure to show profits, the relentless looking-over-the-shoulders among executives who must show continuous growth, no matter what. They talked about how this pressure can lead the “ethically vulnerable” to take short-cuts and actions that bring short-term reward. Several leaders wished that a respected business insider would publicly stand up to Wall Street analysts to reject what they saw as a short-term focus on quarterly profits.

Government regulation was another important topic that resonated for business leaders but did not garner much interest in the focus groups. Many of the business leaders

we spoke with called for tougher enforcement of current S.E.C. regulations.

Comparatively few called for new regulations as the answer, saying these would merely create more paperwork and further encourage a mentality of mere compliance to the law, not the spirit of ethics. Yet many of them also believed that additional regulations—and compliance headaches—were inevitable in the current scandal-ridden environment.

Some business leaders felt that the pendulum may have already swung toward overly vigorous enforcement. Others were thankful for someone like New York's Attorney General Spitzer, who got credit for finding and exposing real problems—though they also thought he was motivated by political ambition.

III. From Business Scandals to Jobs, Jobs, Jobs

In focus groups, people defined business ethics in broad terms. Inevitably, conversations about recent scandals or questionable business practices quickly morphed into conversations about job security and whether companies treated employees and consumers fairly. Their main interest was not what's best for a particular business or for the economy as a whole. They most often spoke directly from their own perspective as employees or customers.

Don't Just Send Everybody Home

Without any prompting from the moderator, focus group conversations would often move spontaneously from the ethics of recent business scandals to something else many saw as an equally important ethical matter: a company's responsibility to protect the jobs of its workers. The sense in the focus groups was that saving jobs should be a company priority. Layoffs should be an option of last resort. Some of these focus group conversations were tinged with anxiety, with participants voicing their concern about what happens to families, communities and the country itself when workers lose jobs. Some introduced another element, their resentment over companies that move jobs offshore to maximize profits.

“This recent dot-com stuff. Companies went out of business overnight and said, ‘Today’s your last day. Clean out your desk and go home.’ No severance, no nothing. Some people were hired recently, quit their other jobs, believe in all the blue-sky promises and then they pull the plug on it and just send everybody home.” CA man

Moreover, if layoffs or downsizing was truly the only way to save a company, there was a right and a wrong way for that to happen. It was wrong according to the focus group participants, for companies to callously lay-off their employees with little warning or without regard to how workers were treated—especially if company higher-ups continued to draw big bonuses. In Arizona, a young man thought highly of a

company that had laid him off because of how it was done—he had plenty of forewarning—and he was treated with respect:

“I worked there for a year and a half and they really cared about their employees. They told them everything up front if they were going to do bad. They didn’t wait to tell them until it came in the news, like Enron. In Charles Schwab they told them, ‘We’re expected to do bad next quarter,’ just so that people know not to buy a house or not to have big expenses.”

Participants often admired businesses that took care of their workers’ jobs when times were tough. A woman in Silicon Valley remembered the selfless behavior of an executive running a technology company during the recession:

“As people were downsizing... She refused her bonuses and decided to keep on the personnel. Her purpose was to keep people employed where a lot of companies tend to forget that. I think that’s incredible. I admire that.”

Occasionally focus group participants acknowledged that layoffs were an inevitable part of running a business. But while ordinary citizens believed that American business is great at innovation, they didn’t connect this to the drive to be efficient, to lay off workers and to relocate jobs abroad. As we will see, their perspective was not that of business executives concerned with profit-loss statements or a company’s survival.

How Do You Treat Your Customers?

Focus group participants also talked about their treatment as customers as part of their accounting of ethical business practices. Businesses that seemed to care about their customers, that took the time to smile, be civil and respond to their needs, got a lot of credit and were often named. Businesses that treated customers poorly were remembered accordingly.

“It starts with service. If you have a problem and you call the company about it and they pretty much give you the cold shoulder, the company isn’t worth dealing

with. In today's world, if you have been to any kind of restaurant or a store, customer service went down the tubes." OH man

"I'm impressed when they really appear to have a genuine concern about you as a human being, that you're not just a number that's flipping through. I think a prime example of that is Compass... they're just growing so rapidly they can hardly keep up. It's because...they show a true interest in caring about the individual." AZ woman

Doing Right Leads to Doing Well

Some people in the focus groups believed that business ethics, as they defined it, also made good financial sense for companies. More than a few people said it made sense financially—not just morally—for companies to treat their employees well because it would rebound favorably to the bottom line. Their belief was that a fundamentally corrupt company would not survive in the long run—eventually things would catch up with it. On the other hand, they believed a company that did right by its employees or customers would thrive. Employees who were well treated did better work, provided better service and spread good feelings in the community about their company through word-of-mouth.

"Companies that are basically run by dishonest people will go out of business eventually. We talk about Enron. Enron doesn't exist anymore...when things are run dishonestly, they will eventually fold in. You can fool some of the people all of the time, you can fool all of the people some of the time, but you can't fool all the people all the time." AR man

"The relationship with the employees trickles out in the community. If people are happy to be there, they're going to make a good product." OH man

"It starts with customer service...But to give customer service you have to be happy with where you work and to be happy with your work." OH man

Most Admired

According to the focus groups, a good company is one that protects its employees and respects its customers. But there were other common threads as well. Many participants had high regard for the inventor, the visionary who had an original idea turned into a quality product or service that people wanted to use and struck it rich. Bill Gates and Sam Walton often came up as examples—they were seen as realizing the American Dream and deserved the rewards that came their way.

“Sam Walton—what he did and what he went after is unbelievable. He held true. To me that was what I admired about him, he was true all the way.” AR man

An interesting side-note is that admiration for Bill Gates was not typically connected to his philanthropic activities, and no one took him to task for the government’s charges that he had engaged in anti-competitive practices. Instead, he was admired for providing products that were so useful to so many people.

“Honestly, he produced a product, the public wanted it, it was a need and they bought into it...That’s how you make profits.” OH woman

“I’m sure he’s ticked somebody off somewhere and he may have sold someone out. If he did, he did. That’s part of growing a business and making a profit.” OH man (continuing the discussion of Bill Gates)

Populist executives—the kind that would get out, mingle or even work shoulder to shoulder with their employees also got extra respect.

“This guy here would actually come out when we were working. He would get right beside you and actually do it...A lot of times when we would come in the morning, he’d be the first one on the forklift, first one on the jack getting it going and getting it on out there.” AR man

Good Corporate Citizen

Focus group participants also expanded the definition of ethical business practices to include the notion of giving back to the community. For some, companies and corporate leaders had a responsibility to give back. Those who had a history of giving grants and launching programs got credit for trying to do good work, for caring. For example, focus group participants in Cincinnati sometimes mentioned Procter & Gamble as a do-good company. A few people even said they go out of their way to give their business to such companies—provided they also get a good deal as customers.

“I like to shop at Target... One of the reasons is they have some kind of thing where for every dollar you spend, so much goes to a charity. I’m not even sure what charity it is. ... But they have better variety, good value for your dollar, and they are giving something back to the community.” TX man

But occasionally, the motives of companies who give back to the community were also questioned—a measure of how widely skepticism or wariness of marketing are embedded in the public mind. Many focus group participants presumed that self-interest—tax breaks, marketing or promotion—was the driving force when companies did good for the community. The consequence was that companies sometimes got only partial credit for their good deeds.

“There’s also a lot of financial benefits to the charity work that they do... There’s always an ulterior motive behind why they’re doing what they’re doing.” CA woman

Finally, in talking about ethical abuses, several people also brought up business practices abroad—usually child labor. But this happened only occasionally and it didn’t spark sustained or collective indignation in the focus groups.

HOW BUSINESS LEADERS AND THE PUBLIC COMPARE

In one of the strongest contrasts between the public and leaders, business leaders simply did not see protecting jobs as an ethical matter. On the contrary, many of the executives we interviewed made it clear that a CEO's primary responsibility was to shareholders—to focus on innovation, efficiency, profits and the company's survival—and that it was somewhat naïve to think otherwise. To business leaders, for the most part, layoffs were seen as corrections, an inevitable part of doing business. One talked euphemistically about workforce “adjustments” to stay competitive. We heard virtually no angst or self-doubt from executives about this topic; and they didn't talk about layoffs as the measure of last resort the way focus group participants did. Nor did customer service come up as an ethical consideration among business leaders.

Business leaders also made distinctions between private and publicly traded companies, a consideration that did not emerge among focus group participants—even though some alluded to stories about caring CEOs who cut their own salaries to save jobs. According to many of the executives we interviewed, the public seemed to mistakenly view all companies with the same “all for one and one for all” way of thinking. They pointed out that private companies do not face the enormous pressure of meeting quarterly expectations from Wall Street the way public companies do.

These bottom-line pressures, according to some leaders, made it less likely that today's generation of executives could get as involved in civic affairs as the CEOs of the past. Nevertheless, like the focus group participants, many thought that giving back to the community is in a company's best interest—and that consumers do pay attention to good corporate citizenship.

Business leaders and the public were on the same page on there being a right way and a wrong way of handling layoffs. Several business leaders talked about the importance of treating employees respectfully, offering severance packages, re-training, helping employees to find new jobs, giving them time to prepare, etc.

IV. Don't Expect Them To Be Angels

Based on these focus groups, the current scandals do not seem to have produced a systemic cynicism about business overall. Many participants thought it was possible for executives to be both ethical and successful. And they did not expect business people to be naïve pushovers or saints. When it came to the Martha Stewart insider trading scandal, many participants admitted that they were not sure if they would have behaved differently had they been in her shoes. Small businesses, many said, tend to behave more ethically.

Nothing To Be Ashamed Of

The recent scandals don't appear to have made business executives automatically suspect in people's eyes. At the start of the focus groups, when the moderator would ask participants to name ethical and unethical leaders, there was no rush to point accusing fingers at business. And at the end of the focus groups, after an extensive discussion of ethical problems in the business world, virtually no one said they'd be ashamed if a family member were to go into business. As long as a person was happy, and doing well, a desire to make money was not something to hide.

“I told my boy, ‘You’ve got a choice. You can go out there and break your back for minimum wage or you can get an education and get a soft chair with a pencil and make a good living.’” OH man

Saints Might Fail

Many focus group participants rejected the idea that business leaders could operate with the same strict ethical standards that one might expect at the inter-personal level. Many thought that a little wheeling-dealing and a little manipulation was natural—or at least a cost of doing business—when you're trying to move yourself or your company ahead. Several brought up the Bill Gates or Wal-Mart stories in this context:

some of their actions may not have been pretty, but that was how the world typically worked, given the drive and competitiveness that often defined successful companies.

“To what degree are you talking about? I believe you can run a business ethically and be successful. But you can’t go and tell every single person in the company every single thing.” CA woman

“I don’t think you can get to the top without bending the rules, fooling around, maneuvering. That’s just the chance you take.” NJ man

What Would Martha Stewart Do?

The focus groups offered another hint that the public’s definition of acceptable business behavior is perhaps a little looser and flexible than might be expected. Many of the people we spoke with weren’t so sure that they would behave differently given the opportunity to cut an ethical corner to make money. In the focus groups, people were most likely to talk this way when insider trading and the Martha Stewart allegations came up. Many were honest enough to say they would probably have sold stock if they had a credible tip to act upon.

“I’d do it. If somebody told me my stock’s going down, I’d sell it. What would you do?” CA man

“If someone gave me a tip that part of the money that I’d been saving over the last eight, nine years was about to go away if I don’t sell, yeah. I would sell on the tip.” NJ woman

When it came to holding business leaders accountable for apparent misdeeds, the Martha Stewart example gave people a chance to think about what constitutes appropriate punishments and make distinctions between jail, public humiliation or financial restitution. Some people, at least in these focus groups, wanted to go easy on Martha Stewart since she didn’t appear to have violated their cardinal principle: her actions

didn't directly cost people their jobs. Others participants stuck to a simple formulation—
break the rules, go to prison.

“Martha Stewart didn't really hurt people, didn't make people lose jobs, whereas Enron did. The punishment has to fit the crime.” NJ woman

“You break the law, you go to jail,” OH man

Is It Easier To Be Good When You're Small?

Some people also thought that when it came to ethics, size mattered. Usually, this meant that smaller companies were more likely to be humane, more likely to do the right thing. A couple of small business owners in the focus groups thought they were more loyal to their workers' jobs than large corporations.

“When you work in a small firm, people get to know each other. I don't want to say you feel like family, but you have more respect for people...It's easier to do the right thing. You don't have to answer to a million people. It doesn't keep going up the ladder.” NJ woman

HOW BUSINESS LEADERS AND THE PUBLIC COMPARE

A large number of the executives we interviewed were concerned about the collective reputation of business leaders. They clearly felt that CEOs had lost a great deal of credibility and respect with the public, and they were cognizant of a need to restore the public's trust. Many of them protested that a few bad apples were ruining the reputation of the bunch. One executive said he was tired of fielding comments and questions about the scandals at parties and social events. One retired CEO told us it was no longer “a hero's job”; another said he was glad that he was no longer a CEO. Still, virtually all of the leaders interviewed believed that the vast majority of business executives are ethical.

The business leaders did not mention the “wheeling-dealing” that some of our focus group participants suggested was “natural” in business dealings today. But many felt it was somewhat unfair to expect executives to be choirboys or to be held accountable for everything that goes on in a company. Far more than the focus group participants, they were sensitive to the limits of executives’ ability to control what happens in their companies on a daily basis. Some tasks had to be delegated, they said. Executives have to make some assumptions about the integrity of the data they look at. Many of those we spoke with served on corporate boards, and they talked about the difficulty of making decisions given the vast amount of information they are given and the limited time they have to absorb it. Not surprisingly, most people in the focus groups did not envisage or talk about these constraints.

In contrast to the public, none of the business leaders we spoke to commented on the relationship between ethical behavior and company size.

V. The Enemy Is Us?

Focus group participants seldom discussed their own power to influence the ethical behavior of companies, whether as voters, investors, employees or customers. It quickly became clear in the focus groups that ethical considerations seldom intruded on people's purchasing or investment decisions.

Disconnect as Consumers

Most people in the focus groups did not connect their own actions as consumers or investors with how they wanted businesses to behave. They were honest enough to admit that they did what was best for them. Those who complained about oil companies charging high gas prices still admitted to buying SUVs; those who complained about Wal-Mart driving out the local grocer still shopped according to service, price and convenience.

One of the more amusing examples of this disconnect happened after a focus group participant launched into a lengthy critique of Nike producing its sneakers abroad instead of domestically, where it can create jobs. When he was done he looked down at his feet and surprised himself: "I typically don't buy Nike, even though I think I am wearing them right now. I think these are Nike," he said sheepishly.

"In my work, nobody has ever said, 'I am going to buy or not buy your product based upon the way your company treats your employees, or if you have a good 401K...' It's never happened. It's never come up." TX man

"I don't see how I can say that it's unethical for corporations to ship jobs elsewhere when we benefit. Unless I as the consumer am making the effort each and every time to pay the extra to buy American, then where's my ethics?...If it's a big difference in price are you going to suffer?" AZ man

Disconnect as Investors

Similarly, none of the investors in the focus groups talked about tactics such as screening mutual funds to avoid tobacco companies or corporations that abuse child labor abroad. Instead, they admitted that their decisions were guided by far more practical concerns such as finding investments that promised the best returns.

“I know the names of the funds I own, but what they invest in...I am told they are mid-cap stocks or international blah, blah, blah. I trust my broker and he knows what my end results need to be.” NJ woman

“All that matters is how much they are earning compared to other mutual fund companies, to me. [Moderator: Would you even look to see if it was investing in tobacco companies or something that you really didn't like?] I wouldn't care.” TX man

Change the World?

A cynic might argue that people in the focus groups expected companies to behave ethically but that they made few demands on themselves as consumers and investors. When the moderator pointed out this contradiction, no one seemed shocked or embarrassed, and no one proceeded to commit to changing their behavior. A few people offered an explanation. They just didn't think that their actions as individuals mattered.

It may simply be that most Americans just operate with compartmentalized minds when it comes to these issues, i.e., others should do the right thing, but they'll do what benefits themselves at any given time. On the other hand, it may be that the connection between their choices and the policies of far-away corporations is so layered and so distant that the ethical intensity, such as it is, is lacking. Based on what we saw in these focus groups, it may be a stretch to hope that large numbers of consumers would start evaluating company ethics while buying T-shirts, groceries or a car, or that large numbers

of investors would look at ethical rankings before picking companies for their stock portfolios. Beneath the surface, we sensed a strong feeling of powerlessness. For the most part, participants just didn't think anyone was seriously expecting them to follow through.

HOW BUSINESS LEADERS AND THE PUBLIC COMPARE

The business leaders we interviewed seemed to be more attuned to the power of public opinion and consumer behavior to influence corporate deeds than the focus group participants. One executive openly worried that public clamor for regulatory reform (as a result of recent business scandals) would result in new laws and regulations that might throw the baby out with the bathwater. Others pointed out that when unethical business practices are in the news, consumer confidence declines—along with the stock market. On the positive side, as mentioned in Finding III, both the public and business leaders believed that people like to patronize companies that are civic minded and give back to their communities.

VI. Who's Minding the Fourth Estate?

For the most part, focus group participants did not regard the media—or the financial press in particular—as vigilant watchdogs protecting the public interest. Some thought the press served a useful purpose putting a spotlight on corporate misdeeds, but discussions about business coverage quickly shifted to broader conversations about shallow or biased coverage in general. The negative judgments about the business press reflected an overall assessment of the faults of the media in general.

Mixed Views

The role of the media rarely came up spontaneously in the focus groups—even when the conversation turned to the question of who should be responsible for monitoring business ethics. When they did talk about the press, people had mixed views. On the one hand, some talked about the useful role it plays when it exposes wrongdoing.

“The media [is] a big help because [it] exposes it. It’s right there...They don’t necessarily get the facts. But it’s definitely a deterrent if you’re the head of the company to keep your nose clean.” AR man

But on the other hand, there was disaffection with the press in general, not just with its coverage of business. In many ways, it was this broader concern that attracted the most energy and attention. Many of the comments echoed what people have been telling Public Agenda for years: reporters present opinion as news; news stories are driven by sensationalism and bias. For people in the focus groups, it wasn’t so much that news coverage of business was below par, but that news coverage is generally disappointing and scandal-driven, and the business page is no different.

“I think the media is pretty unethical. I’m talking about newspapers and magazines. There is so much spin put on some of these stories today. It’s really hard to get the facts.” TX man

“When I was growing up, and not to immortalize Walter Cronkite or Brinkley, but the basics of journalism was what, where, when and how. Now we get people’s

opinions. They're sitting around and they're, 'What do you think about it?' 'Well I think this, that and the other.' Just give me the facts and let me draw my conclusions...But when I see the news at night, don't just give me blood and gore." AZ man

"I think there's too much of a tendency among writers today, not just business writers, to take the press release that's been done by a professional PR firm, that's always going to take the slant of the company... You look at this and you go, this is just drivel." CA woman

"What we read and hear about are the ones that are sensational. I think of the thousands of companies that are probably playing by the rules and the majority of the people in the company are doing it right. We tend to hear about the scandals." OH man

HOW BUSINESS LEADERS AND THE PUBLIC COMPARE

In contrast to the focus groups, the role of the media was a prominent topic in the interviews with business leaders. Interestingly, their views seemed quite diverse. A handful thought the financial press does a good job. Others accused the press of promoting the image that all executives or all corporations are bad, when in fact the problem is confined and limited. Like the public, several commented on the if-it-bleeds-it-leads quality of news coverage. But many of the business executives also noted that the American public thrives on scandal, so that media are just giving the public what it wants. One interviewee was especially thankful that there was a "more balanced" *Wall Street Journal* to counter what he saw as the liberal *NY Times*. Another thought the *Times* was doing a good job but called the *Journal* "erratic."

Some of the business leaders felt that the financial press was not proactive enough in its coverage, accepting the corporate perspective at face value. The financial editors interviewed also believed that the business press needs improvement and was too often reactive, "behind the curve," according to one.

Next Steps

This report offers some fascinating hypotheses about how ordinary Americans talk about business ethics and how their approach to the issue may differ from that of opinion leaders and business executives. This is, however, only an initial exploratory study based mainly on a small number of focus groups and interviews. It is intriguing, but in many ways incomplete. Based on what we have seen, there are several possibilities for building on what we have learned so far.

Bringing the Issue Home

One obvious next step would be to test these first impressions of the public's mindset through a more systematic survey of the public as a whole. A survey would allow us to validate and/or quantify the themes described here. It would also allow us to take a closer look at an especially interesting subgroup of the general population—those who describe themselves as investors, even if their investment activity is relatively passive. Surveys, especially when they are combined with focus group work, can be an especially persuasive way to bring an issue to the attention of the country as a whole.

Some points that bear further investigation:

- How widespread are unethical business practices, according to Americans? Do they think it threatens them as individuals? Do they think it threatens the health of the U.S. economy?
- What makes a good company—is it possible to come up with a list of key must-have characteristics that identify good corporate citizens in the eyes of the public?
- Do members of the general public who are investors think differently from non-investors? Does it matter how active or passive investors are?
- When do people want the legal system to personally punish business executives and do they have a systematic way of matching punishment to crime?
- To what extent do people distinguish large corporations from small companies? Between private and publicly held companies?

- Do people with more experience in business dealings or who work for large corporations think differently?

Addressing Underlying Concerns about Jobs

But this is not the only approach worth considering. It might be useful to take seriously what seems to underlie much of what we heard in these focus groups. That is, for many members of the public, the problem of business ethics is not nearly as crucial or close-to-home as the issue of jobs. Again and again in these focus groups, conversations about Enron or Tyco or Martha Stewart would veer into much broader discussions about lay-offs, cutbacks, lack of benefits, lagging salaries and jobs moving off-shore. Indeed, the jobs issue is at the crux of what people considered the most egregious and unforgivable business lapses—those that resulted in employees losing their jobs and savings while a privileged few pack away millions. Looking more carefully at these underlying public concerns, defining them and discovering the degree to which Americans hold them might involve both additional qualitative work—focus groups tackling the jobs issue more directly—followed by a survey of some scope and magnitude.

What Happens in Communities?

Still another approach might be to build on this exploratory research with additional qualitative work that probes the issue from another angle. One idea might be to conduct a series of case studies in communities that have experienced major corporate dislocations, ranging from the fraud and scandal that predominates in leadership discussions to the concerns about job loss often invoked by people in focus groups. The

point would be to learn how these events affect communities and how they color public optimism and perceptions of social fairness.

The Values Angle

Still another alternative might be to move into more structured discussions that would bring people together to talk about how to improve the ethical climate in the country today, but with a special focus on business. The discussions would draw together people with experience and knowledge managing businesses and institutions with members of the general public. The goal here would be to seek new insights into the persistent values issues raised by both business executives and typical citizens in this project. One variant would be to organize a series of community discussions in different parts of the country. Drawing from these, Kettering and Public Agenda could prepare a major report back to the country at large on how Americans talk about these issues once they engage them seriously.

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The Kettering Foundation, a nonprofit, nonpartisan research institute based in Dayton, Ohio (with offices in Washington, D.C. and New York) was founded in 1927. It has provided books, materials, and moderator training for the National Issues Forums since this nationwide network was started in 1982. It is engaged in a wide range of activities to promote civic participation and enrich public life. For information contact: Kettering Foundation, 200 Commons Road, Dayton, Ohio 45459-2799. Phone: 800-221-3657.

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