# Current Issues in Business Ethics – 2015

Warren Bostrom, CPA, MBT
wbostrom@csbsju.edu (612) 414-9629

**September 24, 2015**

# Learning Objectives

- Understand attitudes of others as it relates to ethical issues
- Understand examples of ethical vs. unethical leadership
- Understand benefits of acting ethically
- Understand how to apply the AICPA's standard of Integrity

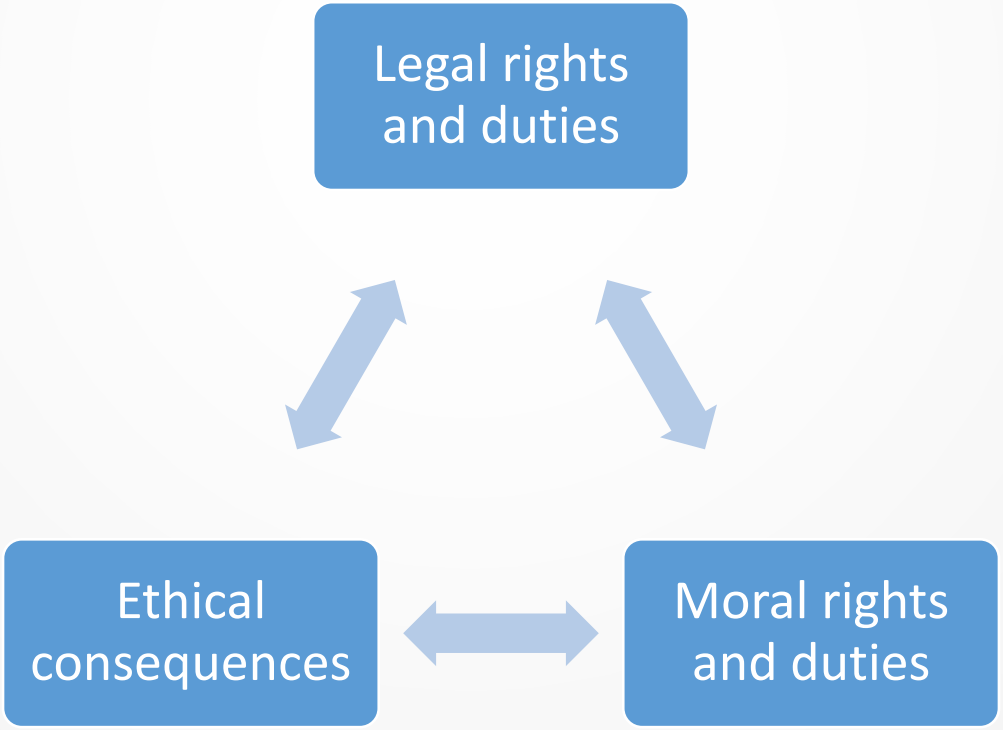
# A brief introduction to ethics

# Introduction to Ethics

- What are ethics?
  - Moral principles
  - Rules of conduct followed by an individual or group

# Ethical Reasoning

- Not a change in your capacity to think
- Rather, a stimulation of your choices of what to think about



# Why be ethical?

- Stakeholder confidence, trust and loyalty
- Social acceptance / respect of peers
- Personal pride
- Compliance with rules, regulations, codes

# Influence of social circumstances

- Role of corporate culture
  - Good people – under pressure – can engage in unethical behavior
  - Bad people – in the right circumstances – can behave ethically

  - https://www.youtube.com/watch?v=yr5cjyokVUs

# The Ethical Climate

# IRS Oversight Board – 2014 Taxpayer Attitude Survey - What % said:

- It is not at all acceptable to cheat on your taxes?
- Agree that it is one's responsibility to report those who cheat on their taxes?
- Very important that low income taxpayers are paying their taxes honestly?
- Very important that high income taxpayers are paying their taxes honestly?
- Tax advice or info from an IRS rep is at least somewhat valuable
- Tax advice or info from a paid tax professional is at least somewhat valuable
- It is at least somewhat important that federal tax preparers be required to meet standards of ethical behavior?

# Gallup Poll – rate honesty and ethical standards "high" or "very high"

- Advertising practitioners
- Bankers
- Business executives
- Car Salespeople
- Clergy
- Lawyers
- Medical doctors
- Members of congress
- Nurses
- Pharmacists
- Police officers

December 2014 – 800+ adults in the US

# Gallup Poll – rate honesty and ethical standards "high" or "very high"

- 80%
- 65%
- 65%
- 48%
- 46%
- 23%
- 21%
- 17%
- 10%
- 8%
- 7%

December 2014 – 800+ adults in the US

# Gallup Poll – rate honesty and ethical standards high or very high

*Accountants*

| | Very high | High | Ave-rage | Low | Very low | No opinion | Very high/ High |
|---|---|---|---|---|---|---|---|
| | % | % | % | % | % | % | % |
| 2011 Nov 28-Dec 1 | 7 | 36 | 49 | 6 | 1 | 2 | 43 |
| 2008 Nov 7-9 | 5 | 33 | 51 | 7 | 1 | 2 | 38 |
| 2005 Nov 17-20 | 5 | 34 | 51 | 6 | 1 | 3 | 39 |
| 2002 Nov 22-24 | 4 | 31 | 52 | 8 | 2 | 3 | 35 |
| 2002 Feb 8-10 | 5 | 27 | 54 | 8 | 3 | 3 | 32 |
| 2001 Nov 26-27 | 5 | 36 | 53 | 3 | * | 3 | 41 |
| 2000 Nov 13-15 | 5 | 33 | 51 | 5 | 1 | 5 | 38 |

GALLUP®

# Ethical Leadership – What it is NOT

# Case Study

# The C. Ray Nagin Case

# The C. Ray Nagin Case

- Background Information:
  - Born and raised in New Orleans
  - Graduated with accounting degree
  - Worked as VP for Cox Communications
    - Took large salary cut to become mayor
- Elected mayor of New Orleans in 2002
  - Served 2 terms
  - Left the office in 2010
- Served as mayor throughout Hurricane Katrina struggles

# The C. Ray Nagin Case

- Found guilty on February 12, 2014 of 20 out of 21 counts of bribery, money laundering, and fraud
  - Awarded city projects to companies in exchange for money, goods, services (total amount found to be $501,000)
  - Received free vacations to Hawaii, Jamaica, Chicago, Las Vegas
  - Charged extravagant meals and expenses to city credit card
- Sentenced July 9, 2014
  - Expected to serve 10 prison
  - Required to forfeit over $500,000 to government

# Case Study

# Wal-Mart Mexico

# Wal-Mart Mexico

- Wal-Mart Mexico paid $24M in bribes
- Began with a $52,000 payment to re-zone a farmer's field
- Corporate lawyers recommended an investigation…nothing came of it…and Mexico head became Vice Chairman of WalMart Corp.
- Internal auditor found it and upon reporting it was fired. Report was discarded.

# Wal-Mart Mexico

- Currently under full investigation – SEC, Justice Dept, Audit Committee, Mexican Government
- Thus far, Wal-Mart has spent nearly $500M investigating the bribes and improving its policies
- Past SEC and Justice Department penalties are usually about 1% to 2% of annual sales.

- FCPA investigations begun in Brazil, India, and China

# The KPMG Insider Trading Scandal

# The KPMG Insider Trading Scandal

- Scott London and Brian Shaw
- Starting in October 2010 and continuing for 18 months, Scott provided Bryan with insider info on 5 KPMG audit clients – earnings info and merger announcements
- Bryan's profits were nearly $1.3 million
- Bryan gave Scott at least $50,000 in bags of cash, a $12,000 Rolex watch, other jewelry, some meals, and…

# The KPMG Insider Trading Scandal

- At first, the trades were small – 25 call options
- The final trade involved 120 call options and 12,225 shares of stock
- Scott pled guilty to securities fraud – 14 months in federal prison and $100,000 fine
- In exchange for cooperating with the investigation and pleading guilty, Bryan was able to plead guilty to conspiracy to commit securities fraud, a lesser offense than Scott's – Bryan was sentenced to 5 months in prison

# Case Study

# Dixon, Illinois

- Population of about 15,000
- Known for:
  - Boyhood home of Ronald Reagan
  - 1800's - Bridge collapse and a murder
  - And…

# Rita Crundhill

# Rita Crundhill

- Rita began working for the city of Dixon in 1970
- Became the Comptroller in 1983
- 1990 – fraud began – created a new bank account with an official-sounding name, but other city employees were unaware of the account.
  - She transferred funds into the account and then withdrew them for personal purposes.

# Rita Crundhill

- Fraud started at $100k per year and eventually was over $5M. Total of over $50M over 20 years
- Bought cars, homes, horses, and always had a motorhome on hand worth nearly $2M
- Constant budget cuts
- In 2011, was praised by a commissioner of the city, "She looks after every tax dollar as if it were her own."
- What percent of the city's budget at the end?

- Sentencing

# Dave Eckberg

# Lumberjack Days

- Promoter of Stillwater's popular Lumberjack Days since 1994
  - Festival ran for 80 years, stopped after 2011 due to financial difficulties
  - Various activities, highlight by musical concerts
    - REO Speedwagon, Lynyrd Skynrd, and others

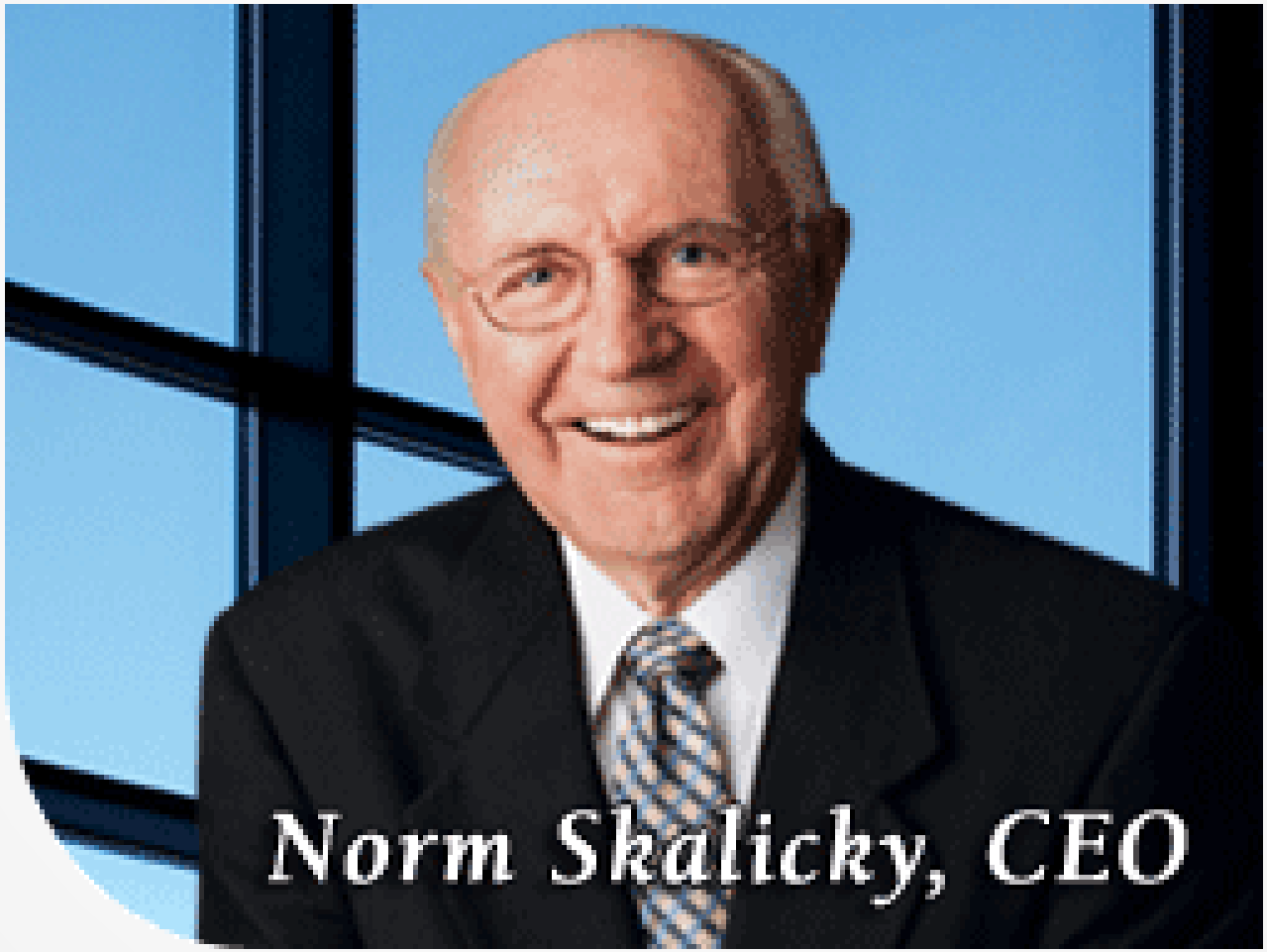
# Dave Eckberg / Lumberjack Days

- Legal issues
  - Required to remit various taxes to the state of Minneosta
    - 2% entertainment tax
    - Sales and Alcohol taxes
  - Total due exceeded $100,000
  - Issued $50,000+ of worthless checks
  - Transferred $40,000+ to personal checking account
  - Declared bankruptcy
  - Pled guilty in May to tax evasion

# What Ethical Leadership is

…

# Norm Skalicky



# Norm Skalicky

- CEO of Stearns Bank
- Owner for 51 years
- $64M net income, $270M capital, $1.9B assets
- 20% ESOP
- Phone call rule
- Sageworks – 15 Best Run Community Banks in America
  - Based on return on average assets
  - 3rd place

# Stearns Bank's Top 10 NOs:

1. No busy work
2. No top heavy staff
3. No overdoing rules
4. No time wasting meetings
5. No excuses
6. No unnecessary anything
7. No fear of being different
8. No substituting reams of paper for productivity
9. No throwing away money
10. No end to the possibilities

# Simon Sinek

# Leaders Eat Last: Why Some Teams Pull Together and Others Don't by Simon Sinek

- We exist as individuals and groups
  - At the same time – creating conflicts
  - Who do we put first when we have to choose?

- https://www.youtube.com/watch?v=ReRcHdeUG9Y

# Simon Sinek

- “In the military, they give medals to people who are willing to sacrifice themselves so that others may gain. In business we give bonuses to people who are willing to sacrifice others so that we may gain. “

# Denis McDonough

# Denis McDonough

# Denis McDonough

- Graduated from Stillwater, then Saint John's, then Georgetown
- Specializes in foreign policy and national security issues
- Current Chief-of-Staff for President Obama

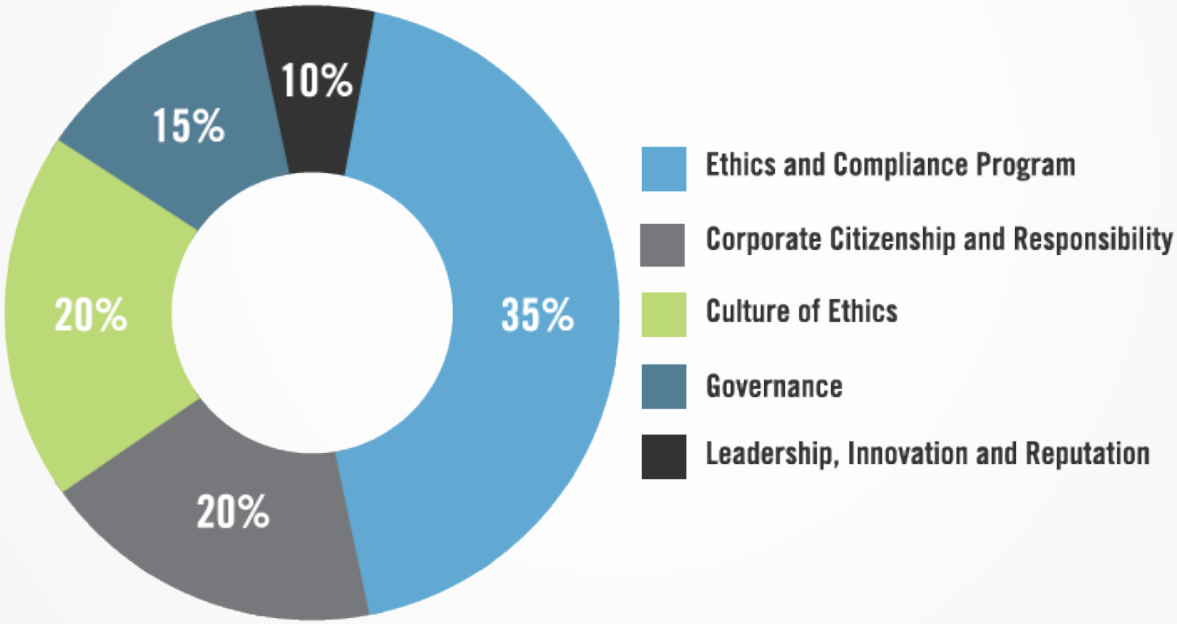
# Benefits of acting ethically

# What do the following companies have in common?

| | |
|---|---|
| Aflac Incorporated | Accenture |
| Deere & Company | Cisco Systems, Inc. |
| Ecolab | Cummins Inc. |
| Fluor Corporation | Eaton |
| Gap Inc. | General Electric Company |
| International Paper | Henkel AG & Co. KGaA |
| Johnson Controls | Jones Lang LaSalle Incorporated |
| Kao Corporation | Marriott International, Inc. |
| Milliken & Company | Premier, Inc |
| PepsiCo, Inc. | salesforce.com, inc. |
| Starbucks Coffee Company | Symantec Corporation |
| Texas Instruments Incorporated | The Aerospace Corporation |
| Xerox Corporation | Waste Management |

- 8 or 9 out of the past 9 years

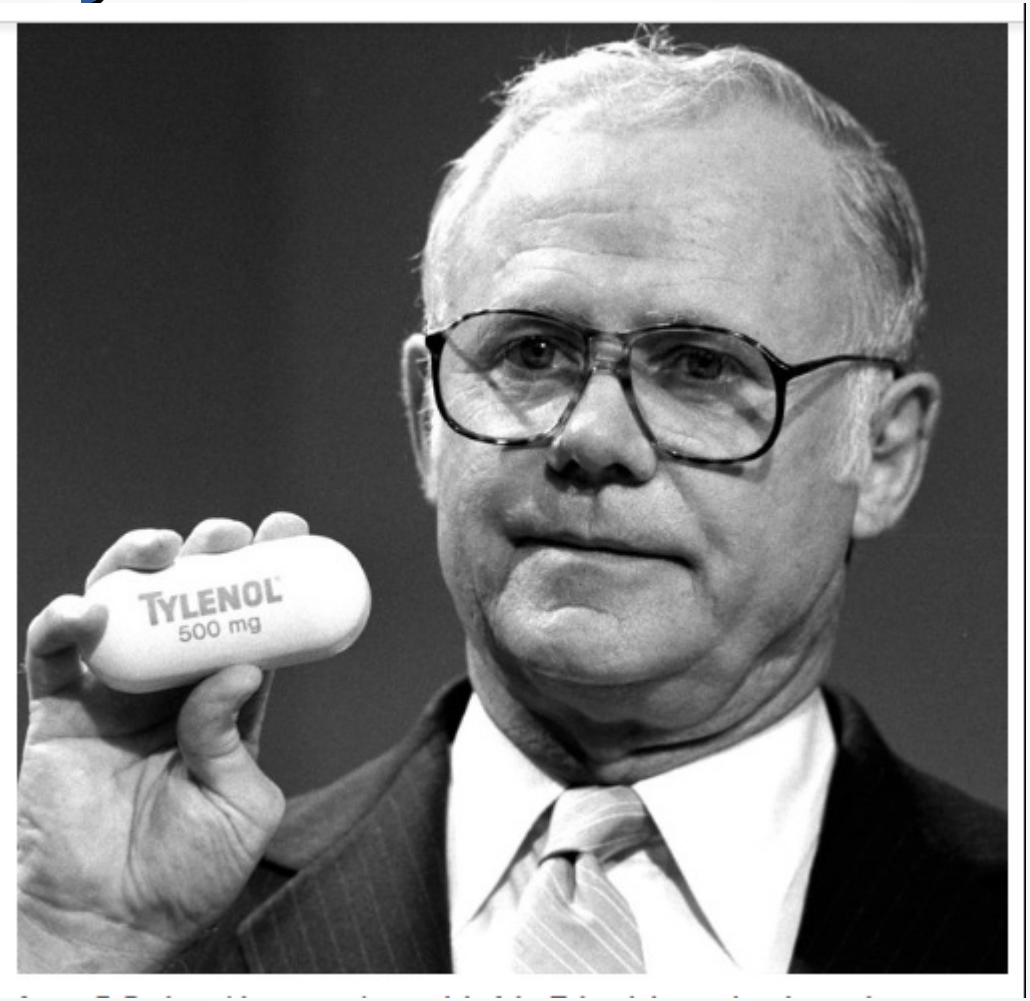
# Ethisphere Methodology



# Investment returns

- 10 year compounded annual growth of S&P 500 Index
- Average 10 year compounded annual growth of "ethical" companies
- Is this difference material?

# James Burke



# Our Credo Values

The values that guide our decision making are spelled out in Our Credo. Put simply, Our Credo challenges us to put the needs and well-being of the people we serve *first*.

Robert Wood Johnson, former chairman from 1932 to 1963 and a member of the Company's founding family, crafted Our Credo himself in 1943, just before Johnson & Johnson became a publicly traded company. This was long before anyone ever heard the term "corporate social responsibility." Our Credo is more than just a moral compass. We believe it's a recipe for business success. The fact that Johnson & Johnson is one of only a handful of companies that have flourished through more than a century of change is proof of that.

# Credo

- 1st responsibility
  - All who use our product
- 2nd responsibility
  - Our employees
- 3rd responsibility
  - Our community
- Final responsibility
  - Our shareholders

# Market Response

| Date | JNJ Close | Volume | JNJ | S&P Close | S&P |
|---|---|---|---|---|---|
| 1/4/1982 | 36.62 | 3,547,200 | | 122.74 | |
| 9/29/1982 | 46.12 | 4,184,000 | | 121.63 | |
| Avg Volume | | 3,511,898 | | | |
| Total Return | | | 26% | | -1% |
| | | | | | |
| 9/30/1982 | 43.12 | 19,540,800 | | 120.42 | |
| 10/1/1982 | 43.88 | 36,923,200 | | 121.97 | |
| 10/4/1982 | 41.25 | 41,697,600 | | 121.51 | |
| 10/5/1982 | 39.00 | 33,555,200 | | 121.98 | |
| Avg Volume | | 32,929,200 | | | |
| Total Return | | | -15% | | 0% |
| | | | | | |
| 10/6/1982 | 41.75 | 51,995,200 | | 125.97 | |
| 10/7/1982 | 40.38 | 9,892,800 | | 128.80 | |
| 10/8/1982 | 42.62 | 22,612,800 | | 131.05 | |
| 10/11/1982 | 43.50 | 24,022,400 | | 134.47 | |
| 12/31/1982 | 49.62 | 1,830,400 | | 140.64 | |
| Avg Volume | | 8,723,252 | | | |
| Total Return | | | 27% | | 15% |
| | | | | | |
| Return for all of 1982 | | | 35% | | 15% |

# Ethics Resource Center – 2014 Report on Ethical Leadership

Employees are least likely to feel pressure to compromise standards if:

- Top management gives credit to employees and does NOT blame others
- Top management does NOT put self-interest above the good of the company
- Supervisor sets a good example
- Supervisor is held accountable for violating company ethics standards

# Ethics Resource Center – 2014 Report on Ethical Leadership

Employees are more engaged and likely to stay with the company when:

- Top management considers best interests of employees
- Top management keeps promises and commitments
- Supervisor's personal life is ethical
- Supervisor defines success by how achieved

# AICPA Code of Professional Conduct – A look at Integrity

# Integrity

- **0.300.040 Integrity**
- **.01** *Integrity principle*. To maintain and broaden public confidence, *members* should perform all professional responsibilities with the highest sense of integrity.

# Integrity

- **.03** Integrity requires a *member* to be, among other things, honest and candid within the constraints of *client* confidentiality. Service and the public trust should not be subordinated to personal gain and advantage.

# Dr. Henry Cloud – "Integrity"

- Establishing trust
- Oriented toward truth
- Getting results
- Embracing the negative
- Oriented toward increase
- Oriented toward transcendence

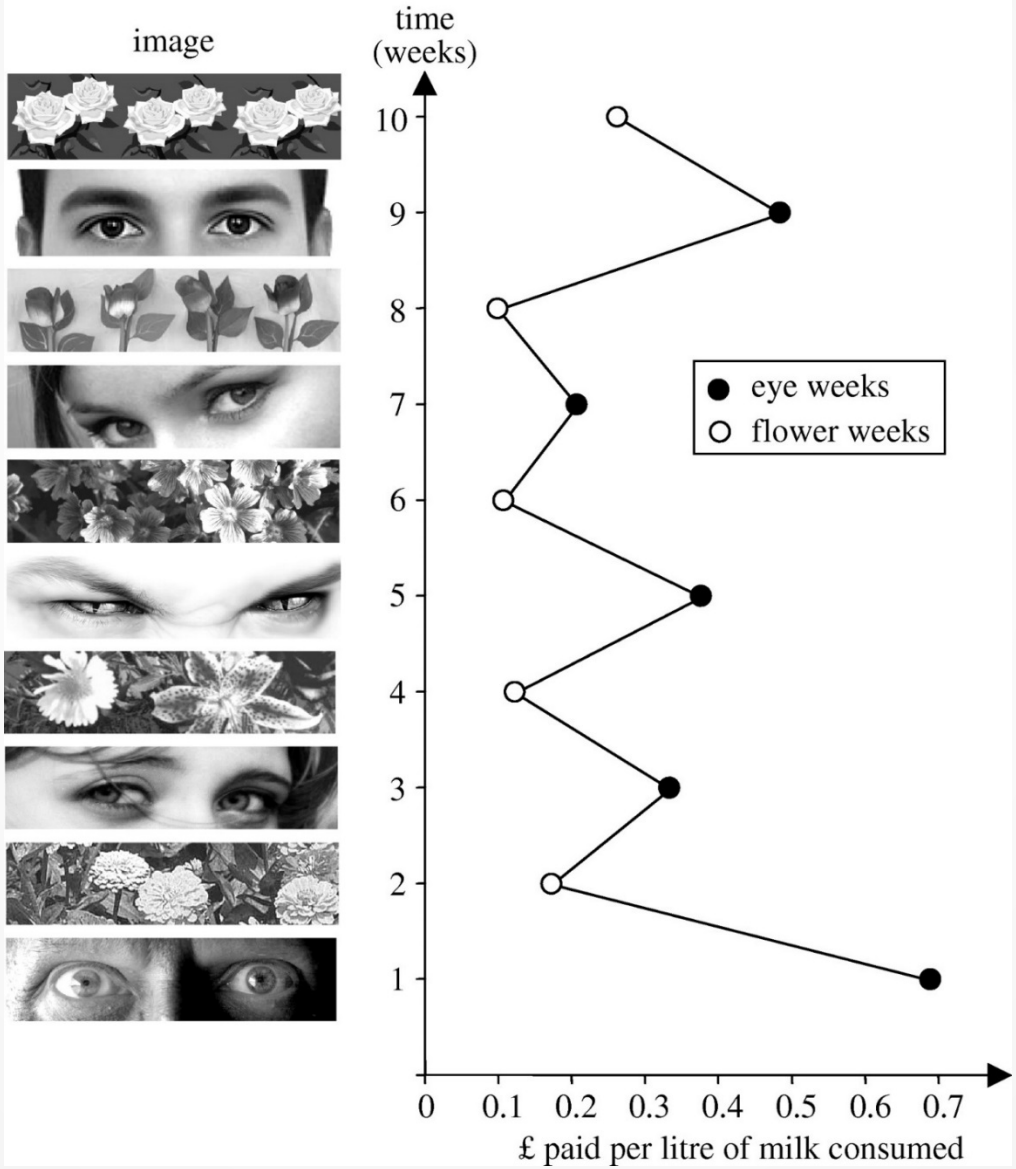
# Establishing trust

- Trust is about the heart – gain someone's trust and you gain their desire and passion
- Empathy – Listen in a way that communicates understanding
- Avoid invalidation…Or they will find someone who will validate them
- Do others feel like they need to watch their backs around you?
- Be FOR others
- Possess strength and likeness, be warm and imperfect
- https://www.youtube.com/watch?v=ZJQtx4DCi5U

# Oriented toward truth

- People can deal with the truth, however unpleasant, they can't deal with deceit
  - Consequences of deceit are larger
- Seek reality / don't assume you know everything
  - Give up false security

# Honesty Box Study



# Career Builder Survey

- What percent of workers admitting they tell lies at the office at least once a week?
- What percent of managers say they have fired an employee for being dishonest?
- What percent of workers reported they were caught in a lie at the office?
- What percent of hiring managers say they are less likely to promote an employee who has lied to them or other members of the organization?

# Career Builder Survey

- May/June 2014 – Over 2,000 hiring managers and HR professionals
- 51% would dismiss a candidate if a lie is caught. Most common lies:

- Embellished skill set
- Embellished responsibilities
- Dates of employment
- Job title
- Academic degree
- Companies worked for
- Accolades/awards

# Most memorable resume lies

- Applicant included father's job experience

- Applicant claimed to have been a high school basketball free throw champion.

- Applicant claimed to be the assistant to the prime minister of a foreign country, but…
- Country doesn't have a prime minister

- Applicant claimed to have been a construction supervisor, but…
- Bulk of his experience was in the completion of a doghouse

- Applicant claimed to have 25 years of experience, but…
- Was only 32 years old

# Industries where lies are more likely

1. Financial Services
2. Leisure and Hospitality
3. Information Technology
4. Health Care
5. Retail

# Getting results

- Have a well defined identity
  - What are you good at vs. not
    - Spend energies accordingly
  - Surround yourself with those who complement you
  - Are you a #2 or a #1? Either is fine
- Avoid rash decisions
  - Hiring the charming person
- Make decisions when needed / hard calls
- Cut your losses and move on
- Lose well, and you will learn to lose less

NY
44

# Did Reggie "Lose Well"?

- All time rank in hits?
- All time rank in homeruns?
- All time rank in strikeouts?

# Embracing the negative

- Face into problems
- Schedule tough discussions
- Separate your person from the results
- Leaders take ownership for results / no blame
- Don't beat people up when they make mistakes
- Confront in a way that shows you care about a person
- Avoid doing things that make you cringe

# Oriented toward increase

- Strive to become more than you are
- Exercise your brain like your muscles
  - What is put to use…grows
- Will you look different in a year?
- Believe that growth can happen and enable others
- Risk in increments
- Surrounded yourself with those who push you to grow – and invest in growing others
- Make wise choices with your time – make time for the important

# Business Insider Article

- 150 years ago, how many hours per week did people work on average?
- Today, how many hours per week do people work on average?
- Today, how many hours per week do people watch TV?

- http://www.businessinsider.com/how-humans-spend-their-time-2014-12

# Oriented toward transcendence

- It's not about you
- Who is impacted by your decisions?
- Want to win?
  - Live out your values
- What do we value?
  - Look at your checkbook and calendar
- Response to Hurricane Katrina

# Thanks for attending!