

Current Issues in Business Ethics - 2018

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Learning Objectives

- Understand attitudes of others related to ethics
- Understand and learn from current ethical violations
- Understand examples of unethical leadership
- Understand the benefits of ethical leadership



Ethical Attitudes

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Introduction to Ethics

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

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Why be ethical?

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

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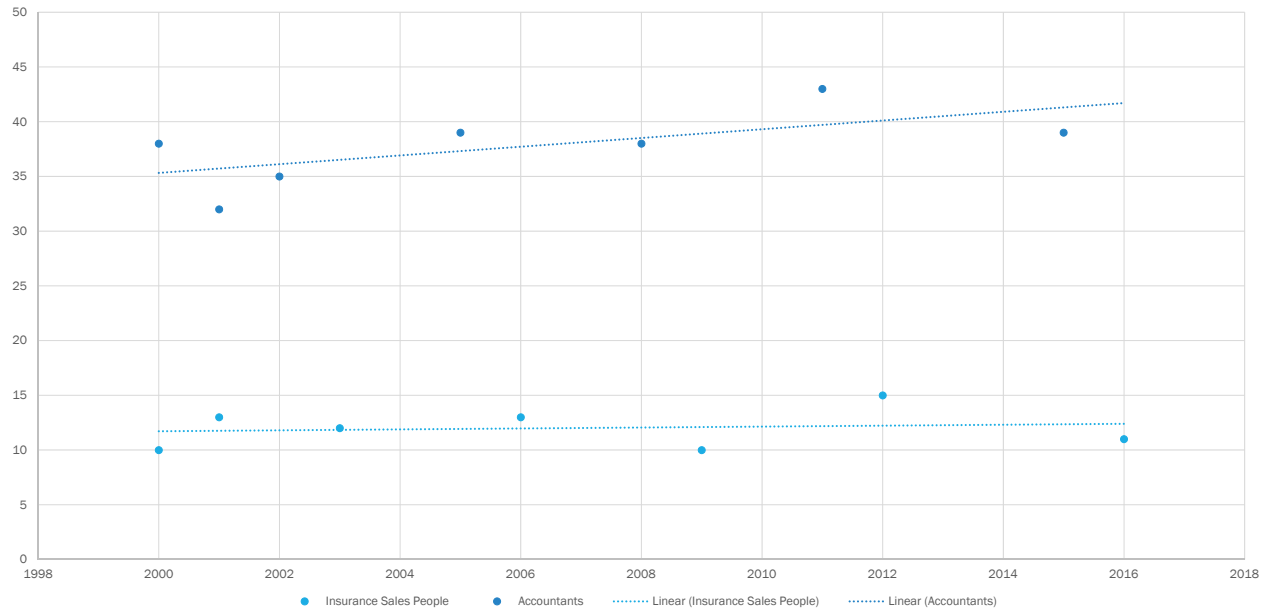
Gallup Poll – rate honesty and ethical standards “high” or “very high”

• Nurses	• 82%
• Military officers	• 71%
• Medical doctors	• 65%
• Police officers	• 56%
• Accountants	• 39%
• Auto mechanics	• 32%
• Newspaper reporters	• 25%
• Lawyers	• 18%
• Business executives	• 16%
• Insurance salespeople	• 11%
• Members of congress	• 11%

December 2017 – 1,000+ adults in the US (accountants from Dec 2015, Insurance salespeople from Dec 2016)

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Gallup - Percent surveyed who rate honesty and ethical standards high or very high



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Other research

Survey performed by The Institutes (3,000 insurance professionals):

- 90% feel that insurance professionals are largely ethical
- 55% believe the public feels insurance professionals are largely unethical
- 52% believe industry will become more ethical over next 10 years

Reasons to act unethically:

- Pressure to meet business objectives - 41%
- Working with unethical colleagues - 24%
- Being pushed by customers - 23%

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Quick Quiz

1. According to the FBI, what is the annual loss each year due to (non-health) insurance fraud?
 - A) \$40M
 - B) \$400M
 - C) \$4B
 - D) \$40B
 - E) \$400B

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Quick Quiz

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Top Ten Types of Insurance Fraud

1. Stolen Car
2. Car Accident
3. Car Damage
4. Health Insurance Billing
5. Unnecessary Medical Procedures
6. Staged Home Fires
7. Storm Fraud
8. Abandoned House Fire
9. Faked Death
10. Renter's Insurance

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Current Trends in Ethical Violations

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IRS 2017 Criminal Investigation Report

- More than 2,000 agents took part in over 3,000 investigations
- There were 2,300 indictments and 2,500 were sentenced
- How much tax fraud was identified?
- \$2.5 billion

- There are about 25 field offices, of which St. Paul is one
 - Covers Minnesota, Wisconsin, and the Dakotas

St. Paul Field Office - Highlights

- Mark and Ornella Hammerschmidt operated an immigration and tax preparation business, Prepared and filed more than 1,000 fraudulent federal income tax returns.
 - Incorrect filing statuses, fictitious losses, fictitious credits,
 - Often did not sign returns
- Mark Hammerschmidt was sentenced to 135 months in prison and ordered to pay \$1.8 million in restitution.
- Ornella Hammerschmidt was sentenced to 48 months in prison and ordered to pay \$45,000 in restitution.

St. Paul Field Office - Highlights



- Diane L. Kroupa and her husband, Robert E. Fackler, were sentenced to 34 months and 24 months in prison, respectively
 - Kroupa had been a Tax Court judge for 11 years!
- Between 2004 and 2010, Kroupa and Fackler deliberately understated their taxable income by about \$1,000,000
 - Mainly personal expenses on their Schedule C's
- Provided false documents to their tax preparer and to an IRS agent

Ethical Violations in the Insurance Industry

- Insurance Fraud committed by CPA's
 - Abraham Grossman from Long Island
 - 78 year old CPA, created a fake identity. Applied for unemployment insurance, retirement benefits and welfare benefits
 - Sentenced to two years in prison
 - Earle Turner Sr. from Georgia
 - 67 year old CPA took out life insurance on elderly clients for whom he prepared taxes
 - Collected only \$11,000 before caught
 - Faces up to 10 years in prison

Ethical Violations in the Insurance Industry

- Wells Fargo car insurance scandal
 - Charged 570,000 clients for car insurance not needed
 - To get an auto loan from Wells Fargo, must have comprehensive and collision insurance
 - Wells Fargo can buy insurance if client doesn't have it and then charge the client
 - But it did so for clients who already had the insurance
 - 20,000 had vehicles repossessed
 - \$1 billion fines
 - Another nearly \$100 million in restitution

Ethical decision making model

1. Identify the ethical issue(s) involved
2. Identify the two "clear" options
3. Consider how stakeholders would be affected by these two clear options
4. Use moral imagination to come up with "hybrid" options – usually the best result
 - Consider your 'blind spots' / Discuss with independent parties
5. Finalize and communicate decision
6. Change decision if needed

Unethical Behavior - Confidentiality

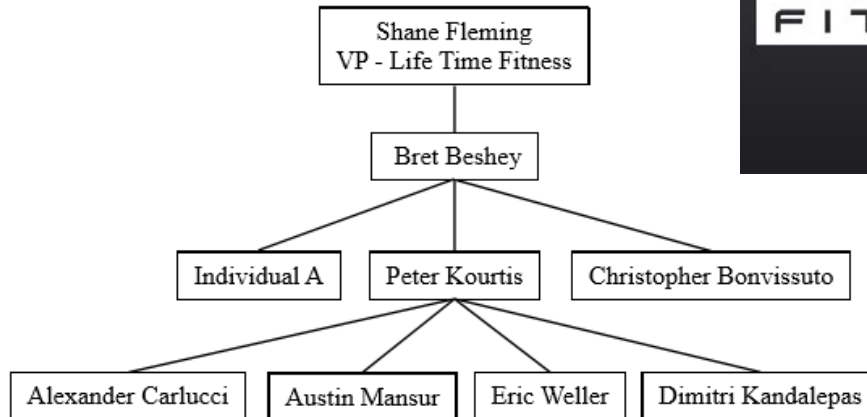
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Case Study

- You receive an email from your boss asking you to pull together an analysis
- In scanning the email chain, you see that your company is negotiating the acquisition of a competitor, and you see information detailing how the price was derived
- You realize the partner probably didn't mean to send you that confidential information
- What do you do?

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Lifetime Fitness Insider Trading Scandal



Timeline

- Shane Fleming
 - VP of Sales at Lifetime Fitness
- Feb 23, 2015 – In-house lawyer tells Fleming that LTM is being acquired. Fleming passes info along to a friend and business partner, Bret Beshey
 - Agreed that Beshey would trade (or tell others to do so) and share profits with Fleming



Brett's phone call to brokerage firm

“If you are trading, and I’ve heard of, uh, companies that are trading and eventually they sometimes are bought and they go private and the company will buyout all of the existing stock that is outstanding, you know. So how does that work? Like, say for example if I had, uh, if I had just bought options on a stock, if I bought, uh, options on a stock, and say I bought the options, like say I bought March 25s on it. . . . If I bought calls, for the March 25 and say that went up to, say the company, say the stock was trading at like 20, uh, say it was trading at 24 and my options are at 25, and say the company gets bought for 30, then do they cover the outstanding options?”

Timeline

- Feb 24 – March 5 – Information passed to 7 more individuals. About 2,300 call options purchased (along with a small amount of shares)
 - Stock price around \$58 per share, options mainly purchased at \$65/share
 - Almost all would expire in less than one month
- March 5 (after close of trading) – Wall Street journal reports LTM will be purchased.
 - Share price jumps to as high as \$69 per share. Most options sold
- March 16 – LTM announced deal. Stock jumps to \$71 per share
 - Final options sold
- June 10 – LTM sold / de-listed

Was it worth it?

- About \$900,000 of total gains
- Fleming received \$10,000
- Beshey netted \$15,000
- The biggest profiteer was Eric Weller (over \$500,000) who didn't give his "up-line" any cash, but instead...
- 10 pounds (\$20,000) of marijuana!

Now what?

- Shane - Pled guilty to a count to commit securities fraud
 - Up to 5 years in prison / \$250,000 fine
- Future employment of all involved
 - Ages 28 to 54
- Family / personal shame and guilt

Unethical Behavior – Conflicts of Interest

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Case Study

- You have been building a relationship with a potential client for the past couple of years. They finally invite you to provide them with a proposal and make it clear that your first offer better be your best offer – they don't want to haggle about price.
- You e-mail across the proposal, which is the lowest price your company will allow you to offer. You stop out at their offices a couple days later.
- They quickly say, "Your offer is close to what I am paying now. I understand you can't lower your price anymore but I'd like to give you the business." With a wink they say, "What else can you do for me?"
- What do you do?

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 (300%?)
- 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

Unethical Leadership

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Case Study

- You are in upper (but not top) management at your organization and you hope to continue to advance up the chain
- Your top manager, a superstar performer, has become increasingly “edgy”
 - Rough language
 - Jokes about employees of other genders, ethnicities, etc.
 - Comments of a sexual nature
- You have dropped some subtle hints that the manager should tone it down
- Their reply, “Maybe I should go somewhere I am more welcome.”
- This manager’s strong performance has greatly helped your own performance metrics and has you positioned for your next promotion
- What do you do?

Uber – Initial Success

- 2009 - Founded
- 2016 - \$4 billion revenue, \$69 billion valuation



The Infamous “Miami E-mail”

From: Travis Kalanick

Date: Friday, October 25, 2013

Subject: 九 Info: URGENT, URGENT - READ THIS NOW OR ELSE!!!!!!

To: Uber Team

Hey guys, I wanted to get some important information out there. I've put together a Q&A that we can use when other folks ask what we're doing here, and have some DOs and DON'Ts for our time here in Miami.

You better read this or I'll kick you're a**.

The Infamous “Miami E-mail”

- I have gotten a list of concerns from the legal department. I have translated these concerns into a clear set of common sense guidelines. I've also added a few items of my own.

The Infamous “Miami E-mail” DON'T's

- 1) No lives should begin or end at 九
- 2) We do not have a budget to bail anyone out of jail. Don't be that guy.
#CLM
- 3) Do not throw large kegs off of tall buildings. Please talk to Ryan McKillen and Amos Barreto for specific insights on this topic.
- 4) TBA
- 5) Drugs and narcotics will not be tolerated unless you have the appropriate medicinal licensing.
- 6) There will be a \$200 puke charge for any public displays on the Shore Club premises. Shore Club will be required to send pictures as proof.

The Infamous “Miami E-mail” DON'T's

7) DO NOT TALK TO PRESS. Send all press inquiries to Andrew - anoyes@uber.com Additionally, stay vigilant about making sure people don't infiltrate our event. If and when you find yourself talking to a non-Uber (look for the wristband), keep confidential stuff confidential... no rev figures, driver figures, trip figures... don't talk about internal process, and don't talk about initiatives that have not already launched.

The Infamous “Miami E-mail” DON'T's

4) Do not have sex with another employee UNLESS a) you have asked that person for that privilege and they have responded with an emphatic "YES! I will have sex with you" AND b) the two (or more) of you do not work in the same chain of command. Yes, that means that Travis will be celibate on this trip. #CEOLife #FML

Uber – Recent Concerns

- Feb 19, 2017 – Blogpost discussing sexual harassment
 - Perhaps not taken seriously when reported to management
- Feb 28, 2017 – Dashcam video of CEO arguing with driver
- June 6, 2017 – Uber fires 20 employees when investigation reveals harassment
- June 8, 2017 – Miami E-mail surfaces (sent October 2013)
- June 20, 2017 – CEO resigns
- Investors cut valuations by 15%

An Ethical Example

Costco vs. Wal-Mart Survey

- Do you consider one of the companies to be more ethical than the other?
- All things being equal (distance, memberships, etc.), which store would you prefer to shop at?

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Costco/Wal-Mart leadership styles

Costco has certain extra costs:

- Pays employees more
- Pays additional in benefits:
 - Health insurance and 401(k)
- Promotes from within 98% of the time

But, Costco has certain benefits:

- Lower employee turnover,
- Lower inventory shrinkage,
- And...

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Costco/Wal-Mart leadership styles

- Revenues – past 4 years
Costco up 23%
Wal-Mart up 4%
- EPS – past 4 years:
Costco up 31%
Wal-Mart down 13%
- Total shareholder return – past 5 years
Costco up 89%
Wal-Mart up 38%

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Costco/Wal-Mart leadership styles

- Survey – not scientific – Boz’s Facebook friends
- 59 replies
 - 20 women, 39 men
 - 34 and under – 25
 - 35 and older – 34
- Do you consider CostCo to be more ethical than Wal-Mart?
 - Yes, very much so – 25
 - Yes, somewhat - 12
 - They are about the same – 6
 - I haven't thought about it – 16
- 63% of people think CostCo is more ethical, including 86% who have considered the issue

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Costco/Wal-Mart leadership styles

All things being equal...

More likely go to Costco	37
More likely go to Wal-Mart	5
No preference	5
I don't have a Costco membership	12

Gender

- No significant differences

Younger individuals

- Much more likely to have considered it
- None would go to Wal-Mart

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An Ethical Leader

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Indra Nooyi Chair and CEO of PepsiCo

- Born and raised in India
- Undergrad in India / Master's from Yale in 1980
- Joined PepsiCo in 1994 as a Senior VP of Strategic Planning
- Became CFO, then President, then Chair and CEO in 2006
- How many of the Fortune 500 CEO's are women?



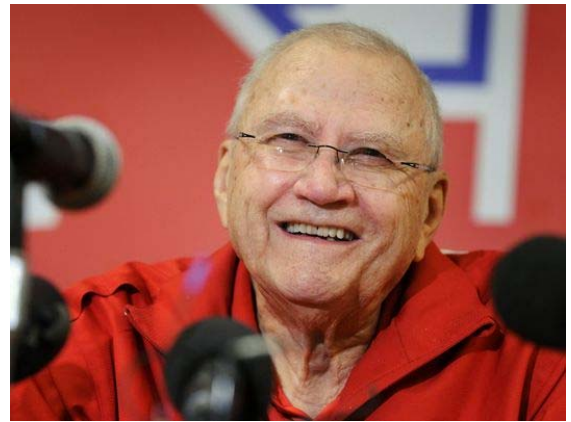
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Another Ethical Leader

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John Gagliardi

- 70 years as a head football coach
 - 489 wins - Most winning coach in college football history
 - 4 national championships
 - 3,000 players coached
- 64 years as a professor
 - Theory of Coaching Football
 - Leadership Lessons



Practice the Golden Rule – Application to Business Ethics

John

- Interest in Others
- Temperament
- Water, Contact in practice

Business Professionals

- Make (some) time for everyone
- Dealings with clients/vendors
- Flexibility (with accountability)
- Evaluations / Feedback



Benefits of Ethical Leadership

What do the following 18 companies have in common?

Accenture	Kao Corporation
Aflac Incorporated	Marriott International, Inc.
Cummins Inc.	Milliken & Company
Deere & Company	PepsiCo, Inc.
Ecolab Inc	Premier Inc
Fluor Corporation	Starbucks Coffee Company
GE	Symantec Corporation
International Paper Company	Texas Instruments Incorporated
Johnson Controls, Inc.	Xerox Corporation

- 11 or 12 of the past 12 years



Investment returns

- 10 year compounded annual total growth of S&P 500 Index?
- 8.5%
- Median 10 year compounded annual growth of “ethical” companies?
- 10.3%

The S&P 500 logo, consisting of the text 'S&P 500' in a bold, blue, sans-serif font. The text is set against a light blue rectangular background with a subtle gradient and a reflection effect below it.

Questions to consider

- Is your direct supervisor very ethical?
- Is senior leadership at your organization very ethical?
- Do you love your job?
- Do you plan to stay at your company for a long time?
- Do you work hard for your company?

Survey Results - General

	Senior leadership is very ethical	Direct supervisor(s) is very ethical
Strongly disagree	2%	1%
Disagree	1%	0%
Neutral	4%	5%
Agree	36%	29%
Strongly agree	58%	65%

Survey Results - Details

Senior leadership is very ethical	I love my job	I plan to stay at my company for a long time	I work very hard for my company
Neutral, disagree, or strongly disagree	3.1	3.1	4.0
Agree	3.8	3.6	4.4
Strongly agree	4.4	4.3	4.7

Survey Results - Details

My direct supervisor(s) is very ethical	I love my job	I plan to stay at my company for a long time	I work very hard for my company
Neutral, disagree, or strongly disagree	3.4	2.9	3.9
Agree	3.6	3.6	4.4
Strongly agree	4.3	4.3	4.7

Final Tips

- Discuss decisions with others
- Have a long-term view. STP = LTG
- Avoid financial and other pressures which can increase ethical pressures
- Assume your decision will be publicized
- Be willing to walk away from an unhealthy environment
- WIN, don't LOSE

WIN vs. LOSE

Work
Intelligently
Now

Lack
Of
Sustained
Effort

