

If I Were Trying to Get and Keep an Ethical Culture . . .

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Where we are

SOME SCARY SLIDES

Ethical Lapses

- Adelphia
- ADM
- AIG (three times)
- Allergan
- American Apparel
- American Express
- Apple (twice)
- Apollo Group
- Arthur Andersen
- AstraZeneca
- AT & T
- Autonomy
- Avon
- Bally Total Fitness
- Bank of America
- Barclays
- Bayer
- BCBS
- BCCI
- BDO Seidman
- Bear Stearns
- Berkshire Hathaway
- Biovail
- BNY
- Body Shop
- Boeing
- BP (three times)
- Bristol-Myers Squibb
- Calpers
- Cardinal Health
- Cendant
- Chase
- Chesapeake Energy
- Chiquita
- Chrysler
- Cintas
- Citigroup
- Columbia HCA
- Computer Associates
- Countrywide Financial
- CSFB
- CVS
- Davis-Besse (FENOC)
- Deloitte Touche
- Delphi
- Deutsche Bank
- Diamond Nuts
- Downey Savings & Loan
- Duke Energy
- DuPont
- Edward Jones
- Eli Lilly
- Ernst & Young
- Facebook
- Fannie Mae (twice)
- Fidelity Investments
- Galleon Hedge Fund
- General Electric
- GlaxoSmithKline (2)
- Global Crossing
- Global Research
- GM
- Goldman Sachs (2X)
- Google (3 times)
- GroupOn
- Hallmark Westland
- HealthSouth
- Helig-Myers
- Herbalife
- HP
- HSCB
- ImClone
- IndyMac
- Johnson & Johnson
- Kmart
- KPMG (twice)
- Krispy Kreme
- Lehman Brothers
- Lennar Corp.
- Lucent
- Madoff Investment Securities
- Marsh & McLennan
- McNeil (Tylenol)

Ethical Lapses

- Medtronic
- Mellon Bank
- Mercer
- Merck
- Merrill Lynch
- MF Global
- Microstrategy
- Milberg Weiss
- Moody's
- Morgan Stanley
- Navistar International
- New Century Financial
- New Orleans Saints
- Nortel
- Novartis
- Options scandals (200 companies)
- Oracle
- Olympus
- Parmalat
- Penn State
- Pfizer
- Prudential
- PriceWaterhouseCooper
- Putnam (twice)
- Qwest
- Razorfish
- RBS
- Reebok
- Refco
- Royal Ahold
- Royal Shell
- SAC Capital
- Saks Fifth Avenue
- Sallie Mae
- Samsung
- Satyam (India)
- Shaw Group
- Siemens
- Société General
- Standard & Poor's
- Stanford Investments
- Student loan lenders
- Taco Bell
- Taylor Beane
- Tenet
- Titan
- Toyota
- Tyco International
- UBS
- UnitedHealth Group
- Universities and sports
- UPS
- Wachovia
- WaMu
- Wells Fargo
- World Bank
- WorldCom
- Xerox
- Zynga

On a single day in January . . .

- “SAC Trader Falsified His Grades At Harvard,” *New York Times*, January 10, 2014, p. B1.
- “SAC Trader Expelled From Harvard Law School For Falsifying Grade Transcripts,” *Wall Street Journal*, January 10, 2014, p. C3.
- “Indian Envoy Indicted on Fraud Charges,” *Wall Street Journal*, January 10, 2014, p. A7.
- “After Being Indicted In Employment Case, Diplomat Opts to Leave,” *New York Times*, January 10, 2014, p. A18.
- “Indian Envoy Asked to Leave U.S.,” *USA Today*, January 10, 2014, p. 2A.
- “Lenders Warned On Illicit Dealings,” *Wall Street Journal*, January 10, 2014, p. C1.
- “British Crack Down on Faux Scotch,” *Wall Street Journal*, January 10, 2014, p. B4.

More from the same day . . .

- “Diamond Foods in SEC Fraud Settlement,” *Wall Street Journal*, January 10, 2014, p. B4.
- “Grand Theft Disability,” *Wall Street Journal*, January 10, 2014, p. A12.
- “Police Scrutinize Pensions; 6 More Arraigned in Fraud,” *New York Times*, January 10, 2014, p. A19.
- “Wall Street Predicts \$50 Billion to Settle U.S. Mortgage Suits,” *New York Times*, January 10, 2014, p. A1.
- “JPMorgan Lost Madoff In a Blizzard of Paper,” *New York Times*, January 10, 2014, p. B1.
- “Mortgage Rules Aim to Halt Risky Loans,” *USA Today*, January 10, 2014, p. 2B.
- “22% suspect their significant other has lied about money; 13% lie to their significant other about money,” *USA Today*, January 10, 2014, p. 1B.

Still more from that day . . .

- “Penn State Ill-Advised to Look at Franklin,” *USA Today*, January 10, 2014, p. 1C.
- “Christie Moves to Contain Fallout From Bridge Scandal,” *Wall Street Journal*, January 10, 2014, p. A1.
- “Gov. Christie Fires Aide, Apologizes to New Jersey,” *USA Today*, January 10, 2014, p. 3A.
- “Christie: ‘I Am Not a Bully,’” *USA Today*, January 10, 2014, p. 1A.
- “Christie Moving to Limit Damage in Bridge Scandal,” *New York Times*, January 10, 2014, p. A1.
- “FBI Director Confused by Talk of Snowden as Whistle-Blower,” *USA Today*, January 10, 2014, p. 7A.
 - “I have trouble applying the whistle-blower label to someone who just disagrees with the way our country is structured and operates.”

Less than one week later . . .

- "Air Force Finds Cheating Among Nuclear-Missile Crews." *Wall Street Journal*, January 16, 2014, p. A5.
- "Cheating Accusations Among Officers Overseeing Nuclear Arms." *New York Times*, January 16, 2014, p. A11.
- "Missile Officers Caught Cheating on Exams." *USA Today*, January 16, 2014, p. 4A.

Percentage of employees who have seen ethical issues at work during the past year

- 2007 55%
- 2011 45%
- 2013 41%
- 60% of what employees witnessed as ethical lapses involved managers

◆ Ethics Resource Center (2013)

A Scary Headline

- *“Federal Jury Convicts Former Shaw Group Safety Manager Of Major Fraud Against The United States: Injuries Hidden at TVA Nuclear Sites to Obtain Over \$2.5 Million in Safety Bonuses”*
 - Shaw Group for contractor work at Brown’s Ferry, Sequoyah, and Watts Bar
 - February 21, 2013
- *“Engineering Safety Manager Sentenced to 78 Months.”*
 - April 13, 2013

Background

- 80 injuries, including broken bones, torn ligaments, hernias, lacerations, and shoulder, back, and knee injuries were not properly recorded by safety engineer Walter Cardin
- Result was a \$2.5 million bonus paid by TVA to Shaw
- Safety bonuses were tied to injury rate
- Shaw paid a \$6.2 million fine to settle a civil fraud case

Some Observations

**a. This can happen to anyone,
and has happened to many,
even the best of the best.**

b. Nothing Happened That Was a Close Call: Clear Ethical Lapses

- Conflicts of interest
- Lying to employees
- Withholding information from investors
- Lying about products and commissions
- Misuse of funds or embezzlement
- Alteration of documents
- False reports and stonewalling auditors
- False résumés
- Office affairs

c. Those involved were aware of their ethical lapses.

Gregg Williams – New Orleans Saints

"It was a terrible mistake, and we knew it was wrong while we were doing it."

-on the bounty program he coordinated

S & P Congressional Report

“Rating agencies continue to create [an] even bigger monster — the CDO market. Let’s hope we are all wealthy and retired by the time this house of cards falters.”

Standard & Poor’s analyst on mortgage-backed instruments and their ratings

Knowing, but doing nothing.

- *A janitor reported what he saw the then-defensive coordinator doing to a 10-year-old boy in the showers, but no one investigated or even tried to identify the boys involved.*
 - Grand jury findings in the Penn State allegations

Penn State

- *“How can you justify not filing a report on this?”*
 - Question raised to campus public safety office on the treatment of a Sandusky complaint

Chase:

The “London Whale Trader”

- *“Why has he been at work for three days in the same clothes?”*
 - Employee in operations at the London office who wondered if something was going on that was untoward

What can we do to create and keep an ethical culture?

1. Follow the rules.

Learn and Remember the “Why” Behind the Rule

- Behind every law, rule, and hospital policy, there is a wise reason.
 - The Yosemite accident
 - The Yale student in the lab
- The importance of the brand and reputation, with patients, with the public, and with regulators

2. Don't let pressure convince you that it's okay to break a rule.

Pressure: Probability from the Financial Analysts Institute

$$P = f(x)$$

P = probability of an ethical outcome

x = amount of money involved

Pressure's irrational results?

We ignore rules!

- 46 of 71 runners investigated in NYC Marathon for extraordinary times
- *"The cost is costing us huge \$\$\$\$."*

"... desperately at least need to turn the Raw Peanuts on our floor into money . . . We have other peanuts on the floor that we would like to do the same with."

- ◆ Stewart Parnell, CEO of Peanut Corporation of America, e-mail sent January 19, 2009 on findings of salmonella in the company's product. The company declared Chapter 7 bankruptcy.
- ◆ 5 executives, including Parnell and a food broker indicted for falsifying records

$$P = f(\mathbf{X})$$

“We could ship peanut meal from Plainview..., [b]ut they need to air hose the top off though because they are covered in dust and rat crap.”

Employee e-mail to Stewart Parnell

“Clean ‘em all up and ship them...”

Parnell’s response

“PLEASE, PLEASE make sure someone air hoses off the totes before they are loaded on the truck. They are filthy on top.”

Plainview manager’s e-mail in following Parnell’s instructions



3. Help others with the rules and the pressure.

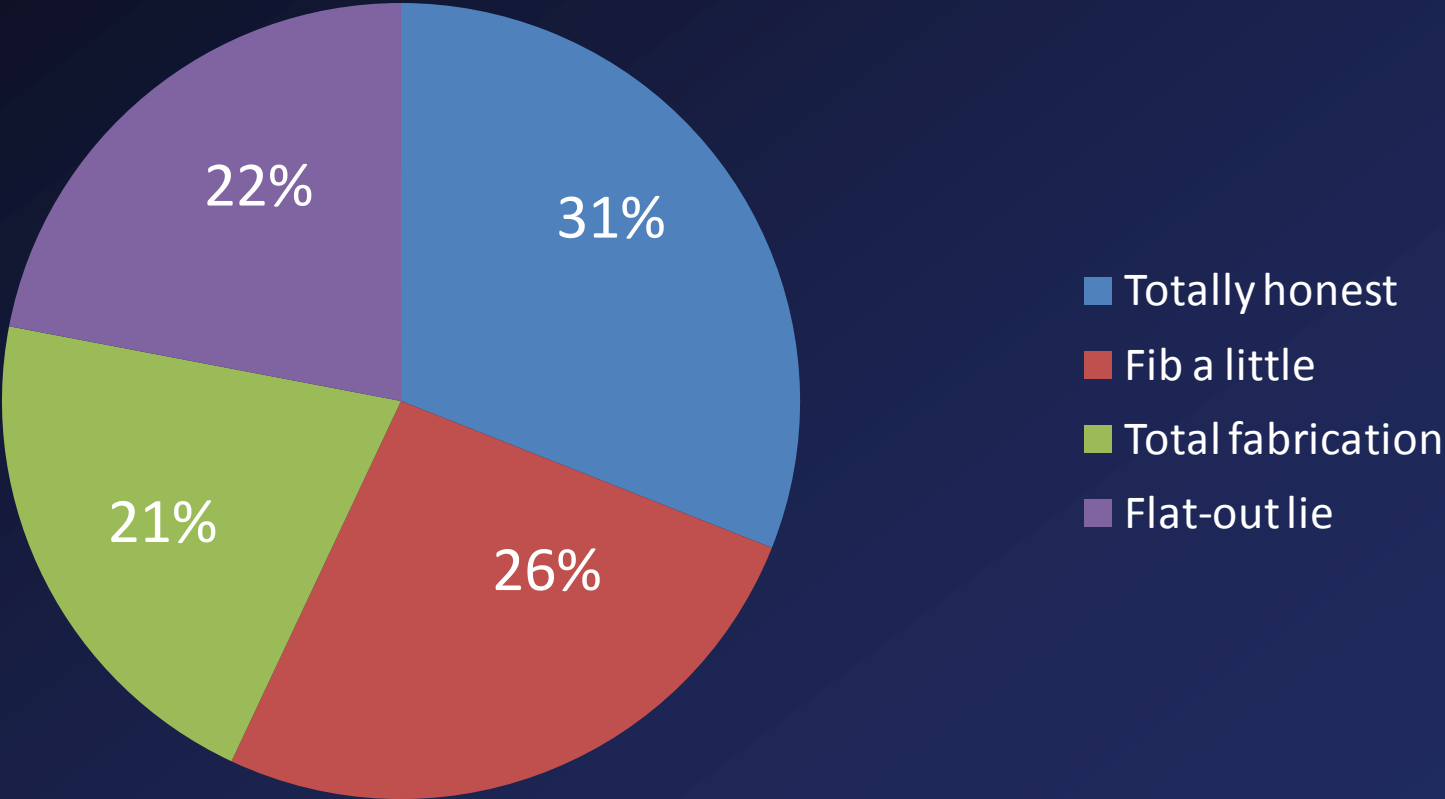
A Look At Our High School Students

- 52% of high school students cheated during a test
- 55% have lied to a teacher in the past year
- 74% have copied another's homework
- 76% have lied to their parents in the past year
- 38% have lied to save money
- 20% stole from a store in the past year
- 30% admitted lying on their answers to the survey (up 4.3%)

Josephson Institute 2012

Honesty in Social Networking

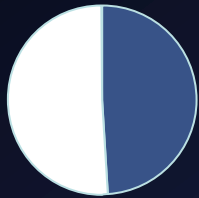
How honest?



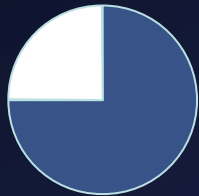
Cheating in College



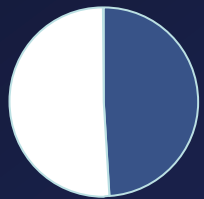
11% reported cheating in
1963



49% reported cheating in
1993



75% reported cheating in
2003/2005/2006



85% reported cheating in
2013 (Eric Alder – Ohio State)
50% graduate students
reported cheating
(2006)(McCabe – Rutgers)

If you see something . . . Say something.

- Ask the question
- Raise the issue
- Use the reporting systems now available to you
- Never make a mistake alone . . . Ask, and keep asking until someone responds and corrects the situation.

The 1/3 Syndrome

- 1/3 are involved
- 1/3 are aware and benefit
- 1/3 are aware and do not participate, but remain sullen and mute
- The Bystander Effect

Getting a core ethical culture: The Credo

- The Organizational Credo (company)
- The Personal Credo
- Deciding issues in advance so that resolution when pressure hits is more clear
- Helps ease pressure
- If you could draft a credo today, what would you include?

4. Be careful – no one wakes up one day and embezzles \$100,000 – you work your way up from taking pens.

Despite Our Conduct: We all think we are ethical.

- None thought their ethical standards were lower than those of their peers in their organization (1%)

Society of Human Resource Managers

What I Did in the Past Year

“Was charged the wrong amount at a restaurant (less than I was supposed to be charged) and I let it slide.”

“I accepted cable I had not paid for.”

“While opening a car door I bumped the car next to me and did not let the driver know.”

“Had to complete an essay for my child for homework.”

What I Did in the Past Year

“I told relatives who called that we would not be at home so that they wouldn’t come visit.”

“I lied in a personal reference by giving a glowing review.”

More . . . Family issues

“I told my wife this seminar started earlier than it really did.”

“I went to an entertainment venue without my wife knowing.”

“I didn’t tell my wife about a bonus payment I received.”

What I Did in the Past Year

“I lied to get reimbursement for items not really damaged in a lightning strike.”

“We did some remodeling without a permit and needed to have one for that work.”

“Overstated my charitable deductions for tax purposes.”

Why do we all think we're the most ethical person in the room?

1. We are not talking about it with others.
2. We have rationalized, labeled, and defended ourselves into believing we are ethical.
3. We're doing so well that we equate performance with ethics.
4. We're doing so well that we are offended when ethical issues are raised.
5. The failure to internalize and reflect.

Guess who said it!

"How many times do I have to say it? ... Well, it can't be any clearer than 'I've never taken drugs.'"

Lance Armstrong 2005



A Few Quiz Questions

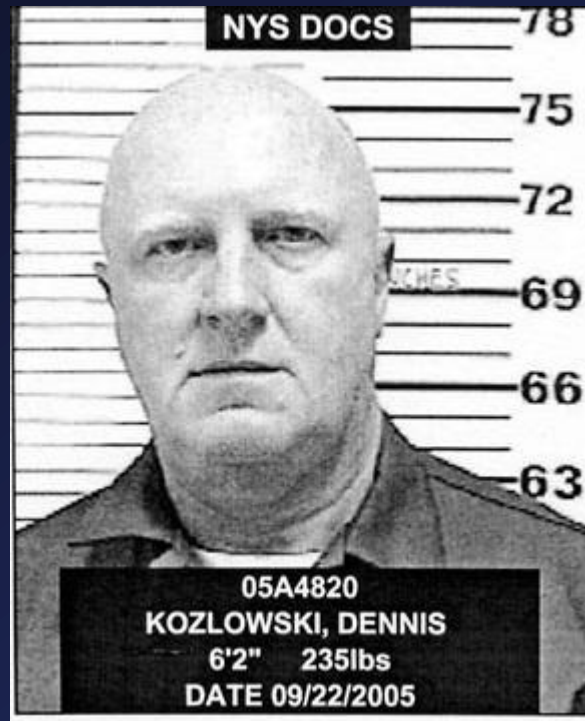
What CEO said, “We are the good guys. We are on the side of angels.” and “We are doing God’s work here.”?

Jeffrey Skilling – while CEO of Enron
Lloyd Blankfein – CEO of Goldman
Sachs

Guess Who Said It!

“Embezzlement cannot be condoned in any manner. [n]ot only did he steal from the stockholders . . . But he breached the fiduciary duty placed in him. Wrongdoing of this nature against society is considered a grave matter. . . . [h]e should receive the maximum sentence.”

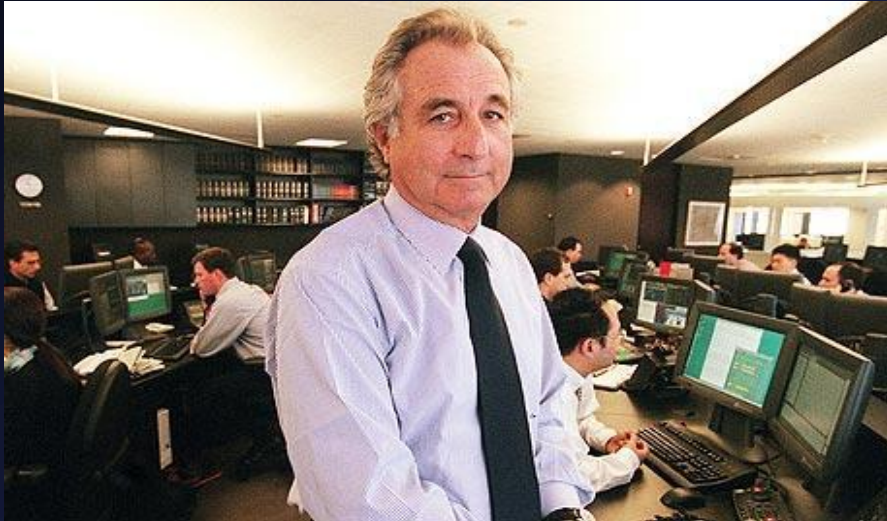
Dennis Kozlowski, former CEO of Tyco, doing 15-25 for embezzlement.



Guess who said it!

“In today’s regulatory environment, it’s virtually impossible to violate the rules. It’s impossible for a violation to go undetected, certainly not for a considerable period of time.”

Bernie Madoff: 150 years for a \$50 billion/18-year Ponzi scheme



Guess Who Said It?

“I have done absolutely nothing wrong.”



**Rod R. Blagojevich,
former governor of Illinois**

Guess Who Said It!

*“I have not done
anything wrong.”*

Lois Lerner – head of IRS Exempt Organizations Unit – on administrative leave



A Final Quiz Question

What company had a 64-page, award-winning code of ethics?

ENRON

Introspection Breeds Caution

- Catching ourselves on the little things
- Ethics as a skill that can be developed, brought to the forefront, improved, and used
 - *“You are not going to rob a bank if you won’t steal a pencil.”*

Rationalizing brings great comfort

“Everybody else does it.”

- *“I looked up the word ‘cheat’ in the dictionary and decided it didn’t apply, given that it meant ‘to gain an advantage on a rival or foe.’ I didn’t view doping that way. I viewed it as a level playing field.”*
 - Lance Armstrong, January 2013

Rationalizing is comforting and easier.

“That’s the way they do it at _____.”

“That’s the way it’s always been done.”

“It doesn’t really hurt anyone.”

“If we don’t do it, someone else will.”

“If you think this is bad, you should have seen ..”

“The system is unfair.”

“Who’s to know?”

“Rankings/ratings will suffer.”

“For all I do around here...”

“I was just following orders.”

“It’s a gray area.”

So, we make it all gray!

- Why is it important that it be gray to you?
- Is it legally gray?
- Is it ethically gray?
- Is it a good-faith disagreement?
- What if it's not a gray area?
- Does everyone believe it's a gray area?
- Interpretation vs. loophole vs. nondisclosure of relevant information

“There will always be a gray area.”

M.M. Jennings

Racing and Gray Areas

- *Dan: If you could take a performance-enhancing drug and not get caught, would you do it if it allowed you to win Indy?*
Danica: Well then it's not cheating, is it? If nobody finds out?
Dan: So you would do it?
Danica: Yeah, it would be like finding a grey area. In motorsports we work in the grey areas a lot. You're trying to find where the holes are in the rule book

- Danpatrick.com. www.sportillustrated.cnn.com.
June 2, 2009

5. Simplicity helps us avoid slippage

Some Simple Tests for Resolving Ethical Dilemmas

Categorical Imperative

How would you want to be treated? Are you comfortable with a world with your standards?

Christian principle: The Golden Rule

Do unto others as you would have them do unto you. Luke 6:29-38

Thou shalt love thy neighbor as thyself.

Luke 10:27

Confucius:

What you do not want done to yourself, do not do to others.

Aristotle:

We should behave to our friends as we wish our friends to behave to us.

Resolving Ethical Dilemmas

Islam:

No one of you is a believer until he loves for his brother what he loves for himself.

Hinduism:

Do nothing to thy neighbor which thou wouldst not have him do to thee.

Sikhism:

Treat others as you would be treated yourself.

Plato:

May I do to others as I would that they should do unto me.

Judaism:

What you hate, do not do to anyone.

Buddhism:

Hurt not others with that which pains thyself.

TREAT PEOPLE THE WAY YOU WANT THEM TO TREAT YOU.

Another test

- It's all coming out anyway – it is simply a matter of time.

Truth and Its Percolating Quality

The laws of probability do not apply when it comes to the surfacing of unethical or illegal conduct

Three people can keep a secret if two are dead.

- Hell's Angels' motto (courtesy B. Franklin)

Lying is good. It's the only way we ever get at the truth.

- Dostoevsky

Circumstances beyond your control will cause bad acts to be discovered.

- Anonymous

- Don't underestimate probability of truth coming out.
- Don't overestimate your ability to manage the truth.