

WHY ETHICS MATTER AND WHAT TO DO ABOUT THEM

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Ethical Lapses

- Student loan lenders
- Sallie Mae
- 17 universities
- Adelfia
- Boeing
- Cendant
- Computer Associates
- Tyco International
- General Electric
- Global Crossing
- Merrill Lynch
- Enron
- Qwest
- WorldCom
- Royal Shell
- Nortel
- Krispy Kreme
- Refco
- UnitedHealth Group
- IndyMac
- WaMu
- Allergan
- Merck
- Marsh & McLennan
- Chiquita
- World Bank
- BP
- Madoff Securities
- AT&T
- Titan
- Xerox
- Kmart
- Citigroup
- Lucent
- ImClone
- Arthur Andersen
- HealthSouth
- Royal Ahold
- Parmalat
- Apollo Group
- AIG (again)
- Lehman
- Goldman
- Pfizer
- AIG (thrice)(Putnam)Mercer)
- Fannie Mae (twice)
- KPMG (twice)
- GM
- Options scandals (250 companies)
- HP
- Universities and travel
- Siemens
- Countrywide Financial
- Société General
- Milberg Weiss
- Bear Stearns
- Satyam (India)
- Stanford Investments
- Bank of America
- Galleon Hedge Fund
- New Century Financial
- Toyota
- Downey S & L
- AstraZeneca
- Bristol-Myers Squibb
- J&J
- GlaxoSmithKline (2)
- Novartis

Government Issues

- Illinois – Gov. Ryan
- Illinois – Blago
- South Carolina – Sanford
- Nevada - Ensign
- Baltimore's mayor
- Detroit's mayor – Kwame Kilpatrick
- San Diego – \$1.1 billion pension fund deficit; skimming to meet city budget
- Connecticut – Gov. Rowland
- Chicago – Mayor's office and contracts
- Embezzlement – BLM
- Former Delay aides and guilty pleas
- Abramoff
- Duke Cunningham -- \$2.4 million from defense contractors
- State crime labs and scandals
- Tom DeLay
- Clark County Commissioner and the MyTai concession
- Philadelphia mayor and the pay-to-play contracting system
- Darlene Druyun and Boeing
- HR director of JeffCo County and the \$32,000 in personal expenses on county credit card that began at Starbucks
- Governors engaged in business relationships with those who receive state contracts
- BLM chief in Monterey doctoring invoices to embezzle
- US Attorney, Max Baucus, and affair
- Friends of Angelo at Fannie Mae
- SEC staffers and pornography
- MMS relationships with oil companies
- USDA employees and the \$100K for visas
- Dept. of Interior and forged documents
- Graduation rate manipulation
- VECO and Alaska officials
- Ted Stevens, former senator, Alaska
- Prosecutors in Ted Stevens' case
- Ethics officer for U.S. Marshall
- Rep. Charles Rangel, taxes, donations
- Timothy Geithner and the SS taxes
- University of Illinois admissions
- VA docs and research \$\$
- Gov. Mark Sanford & hiking
- Oil for food UN scandal
- Post-Katrina corruption in contract awards
- Iraq contract awards
- Rob Reiner using his favorite companies for California commission contracts and political purposes
- Arlen Specter's aide's spouse gets earmarked funds
- Arizona State treasurer investigation for conflicts: Maricopa County assessor and conviction: \$400 per low-income loan to seniors
- Mike Espy
- New Jersey
- Arizona and the selling of emissions passes
- SEC lawyer who traded in stock of companies he was investigating
- Henry Cisneros
- Taser and law enforcement officials' conflicts
- Colorado and the \$1,500 office chairs
- Contributions for changing the no-touching rule at San Diego strip clubs
- Scottsdale School District and the bids
- New York assistant principal who gave his son the answers to 35 questions on the Regents' exam
- Kerik and employment of illegal immigrants
- DMV employees who gave out licenses in exchange for cash
- William Jefferson and the cold cash
- Eliot Spitzer, former New York governor
- David Paterson, New York Governor
- Justice Department and monitors' conflicts
- U.S. Postal Service and the Ruth's Chris dinners
- The docs, research, and drug firms
- Firing of an IG
- British MPs and expense accounts
- The stock sell-off and Rep. Durbin
- Maricopa County official who failed to disclose loans from nonprofit that was awarded county contracts
- University of Illinois and the donors' sons and daughters
- TSA nominee using records for personal info
- Blumenthal and Vietnam service
- Pension issues

Colleges and Universities

- Apollo and the University of Phoenix
 - DOE audit on recruiting and advising
 - Stock options back-dating investigation
 - The student loan scandals
- Maricopa County CCD had issues with three presidents
- Student financial aid offices
- Colorado State and the financial accounting questions
- University of Illinois and the two-track admissions
- Maricopa County Community College
 - Bond issue
 - Funding for campaign materials
 - Relationships with builders and others who stood to benefit from the approval
- Cornell and the research on lung cancer conflicts
- ASU and president's wife
- Harvard researchers and relationships with pharmas
- Academics' falsified research
- Heisman trophy winners

Colleges and Universities

- ⦿ Cloning fraud
- ⦿ Research conflicts of interest
- ⦿ Funding conflicts of interest
- ⦿ Relationships with students
- ⦿ Admissions favoritism
- ⦿ Double-dipping by faculty on pay systems
- ⦿ Text book conflicts
- ⦿ Grade inflation
- ⦿ College athletics
- ⦿ Construction and facilities
- ⦿ Research misconduct

The Coaches

- ⦿ Hiring coaches with NCAA violations at each of their previous schools
- ⦿ Failure to discipline coaches for failure to report
- ⦿ Affairs
- ⦿ Graduation rates

The Nonprofits

- Arizona Baptist Foundation collapse
- Red Cross use of funds
- 5 college and university presidents for misuse of funds
- Four Ivy League schools for research misconduct
- UNLV Foundation for conflicts
- New Era Philanthropy (Ponzi scheme)
- NPR and donors
The Madoff beneficiaries
- United Way and William Aramony
- Sports issues at colleges and universities
- The Catholic Church and abuse issues
- ACORN and advising clients on breaking the law
- Colleges and universities and student credit card solicitation
- The 92nd Street YMCA and the donation in exchange for admitting twins of an analyst in exchange for his favorable stock ratings

What can we learn?

a. These were not close calls.

- ⦿ Embezzlement
- ⦿ Personal charges on credit cards
- ⦿ Ponzi schemes
- ⦿ Conflicts
- ⦿ Bribery
- ⦿ Manipulating reports and data
- ⦿ Withholding or covering up information
- ⦿ Financial fraud

b. Those involved were aware of their ethical lapses.

The A-Rod Explanation

“I knew we weren’t taking Tic Tacs. . . . I wanted to prove to everyone that I was worth, you know, and being one of the greatest baseball players of all time.”

Alex Rodriguez on his steroid use from 2001-2003

The Board of Trustees and Pressure

“This came through [redacted] and the [redacted] kid’s parents are one of the owners of [redacted] -- Big money!!”

University Board of Trustee member (former) Thomas Lamont

Lehman's Former Chief Risk Officer

“In the course of performing my duties for the Firm, I have reason to believe that certain conduct on the part of senior management of the Firm may be in violation of the Code. The following is a summary of the conduct I believe may violate the Code and which I feel compelled, by the terms of the Code, to bring to your attention.”

Letter of Matthew Lee, dated May 18, 2008, as included and discussed in the Report of the examiner for the bankruptcy trustee in the Lehman bankruptcy

Ratings Analyst to Other Analysts

E-mail, December 15, 2006, 8:31 PM

“[We have created an] even bigger monster – the CDO market. Let’s hope we are all wealthy and retired by the time this house of cards falters.”

SEC Report, July 2008.

What makes good and smart people at great organizations, agencies, and companies do really ethically dumb things?

Three Reasons

- ① We've lost sight of why ethics matter.
- ② We hate ethics.
- ③ We make ethics too complex.

Why ethics matter

A. This stuff costs, really costs

Some Sample Fines

- Boeing..... \$615 million
- Tenet \$725 million + int. = \$900 M
- Columbia/HCA \$1.7 billion
- AIG \$1.5 billion
- Marsh McLennan \$850 million
- Fannie Mae \$400 million
- KPMG \$465 million
- Tyco \$750 million
- Cardinal Health \$600 million
- Pharmas \$2.4 billion
- Prudential \$2.5 billion
- UnitedHealth Group \$915 million
- Wachovia \$144 million
- Siemens \$5.8 billion
- UBS \$18.6 billion
- LG, Sharp, and Chunghwa \$585 million
- Merrill \$10 billion
- Citi \$7.3 billion
- Eli Lilly \$1.5 billion
- Bank of America \$33 million
- Pfizer \$2.3 billion

The Earthquakes and the Differences

- Haiti
- 7.0 RS
- 52 aftershocks
- 230,000 deaths
- 300,000 injured
- 1,000,000 homeless
- 250,000 residences destroyed
- 30,000 commercial buildings destroyed
- Concepción, Chile
- 8.8 RS
- 130 aftershocks
- 521 deaths
- Limited injuries
- 300,000 homeless
- 370,000 homes damaged

More Costs

- ◎ “The Speed of Trust”
- ◎ How distrust slows us down
- ◎ The damage to reputation

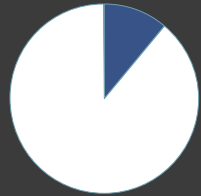
B. Ethics Matter Because We're Not Doing So Well: A State of the Union on Ethics

A Look At Your Future Work Force

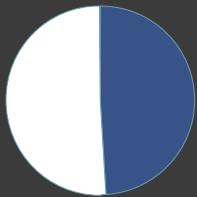
- 64% of high school students cheated on an exam in the last year at least once
- 62% have lied to a teacher in the past year
- 82% have copied another's homework
- 82% have lied to their parents in the past year
- 42% have lied to save money
- 30% stole from a store in the past year
- 26% admitted lying on their answers to the survey

Josephson Institute 2008

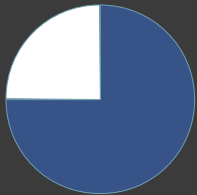
Cheating in College



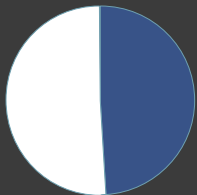
11% reported cheating in 1963



49% reported cheating in 1993



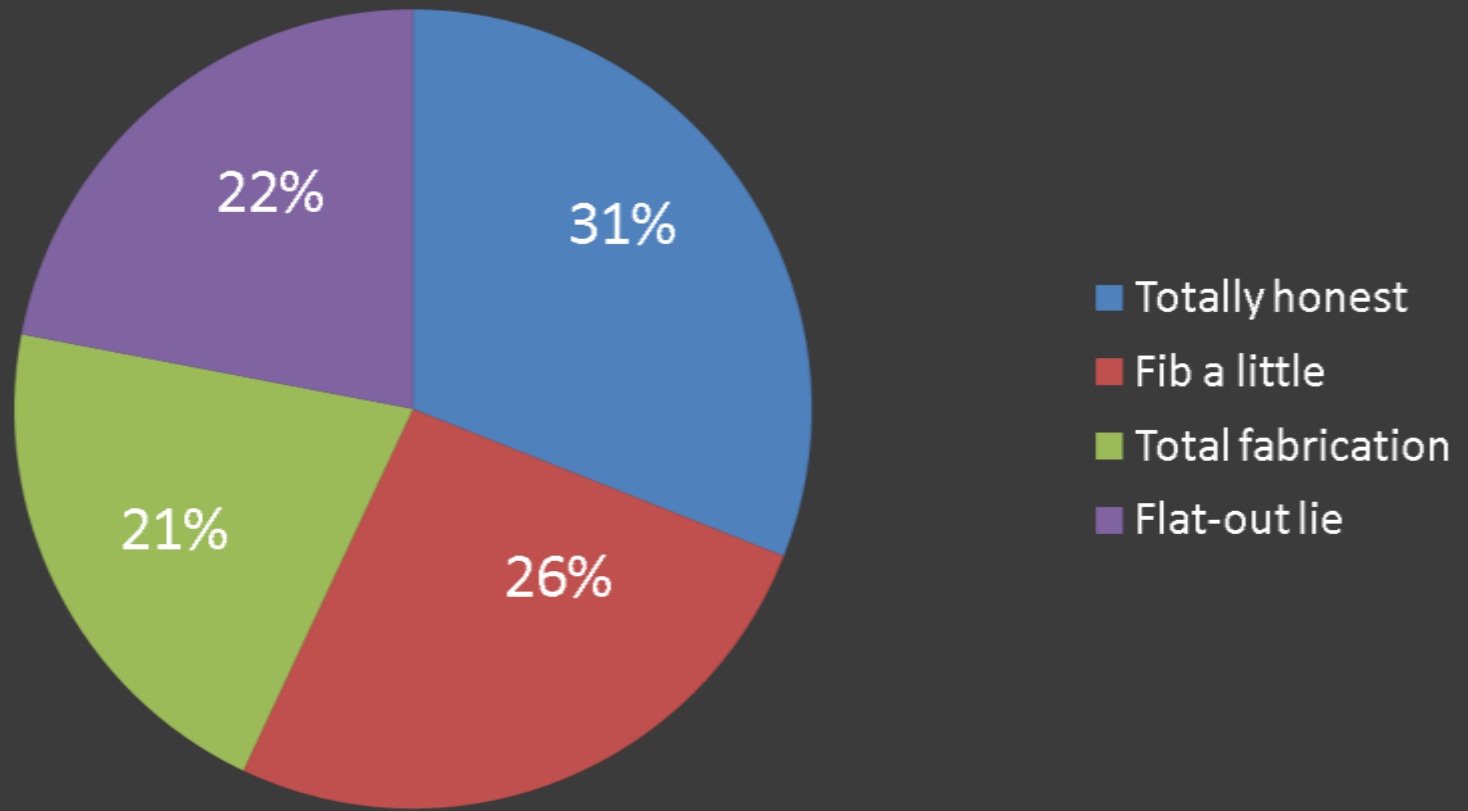
75% reported cheating in
2003/2005/2006



50% graduate students
reported cheating (2006)

Honesty in Social Networking

How honest?



Work: Résumé puffing into deception

- ◎ 50% had false information
- ◎ The false information was material: degree; job title; previous employment
- ◎ Examples
 - West Virginia University and the governor's daughter's MBA

Ethics at Work

KPMG 2000 Survey

- 76% of employees observed a high level of illegal or unethical conduct at work in the past 12 months
- 49% of employees observed misconduct that, if revealed, would cause their firms to “significantly lose public trust”

KPMG 2005 Survey

- 74% of employees observed a high level of illegal or unethical conduct at work in the past 12 months
- 50% of employees observed misconduct that, if revealed, would cause their firms to “significantly lose public trust”

KPMG 2008 Survey

- 74% of employees observed a high level of illegal or unethical conduct at work in the past 12 months
- 50% of employees observed misconduct that, if revealed, would cause their firms to “significantly lose public trust”
- 74% feel pressure to “do whatever it takes”

C. Ethics matter because we lose organizational effectiveness:

There is never a problem with spotting the ethical issue, but there is a huge problem with getting the issue to the right people and getting a response!

If employees see the issue, then what happens?

- 65% DIDN'T REPORT (1999)
- 37% DIDN'T REPORT (2003)
- 41%-50% DIDN'T REPORT (2006)
- 50% DIDN'T REPORT (2007)
- 42% DIDN'T REPORT (2008) (ERC)

So, why didn't they report?

- 96% feared being accused of not being a team player (same 1999, 2003)
- 81% feared corrective action would not be taken (2005 data leaning toward this as #1)
- 68% feared retribution from their supervisors
- 57% feel pressure to do “whatever it takes” to meet business targets
- 49% believe they are rewarded for results, not the means by which they achieve them

(SHRM and industry surveys)

Getting rid of the sandwich effect

- ⦿ Those at the top assume folks would speak up
- ⦿ Those at the bottom assume that they don't want to hear it
- ⦿ The insights of MBWA

D. Ethics Matter Because Everyone Thinks They Are Ethical.

- High Ethical Self-Esteem

We all think we are ethical.

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

Society of Human Resource Managers

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.

What I Did in the Past Year

“I will admit, I stole a towel here and there not thinking it was a big deal.”

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.”

More . . .

- ⦿ I walked out of Costco knowing that the register did not catch an item in my basket.
- ⦿ I sold a bike to a friend and it was later stolen. He asked me to inflate the sales price (on the claim form) so he could get a larger sum from the insurance company.

A Quiz Question

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

Guess who said it?

"Ethical standards and practices in the workplace are the pillars of successful employment and ultimately the benchmark for a strong business."

Guess Who Said It?

*“I have done
absolutely nothing
wrong.”*

Guess Who Said It!

“Embezzlement cannot be condoned in any manner. Not 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... He should receive the maximum sentence.”

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.”

A Final Quiz Question

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

E. Ethics Matter Because Truth Percolates

Truth and Its Percolating Quality

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

a. Three people can keep a secret if two are dead.

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

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

- Dostoevsky

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

- Anonymous

Some Percolations

- ⦿ The Chinese Gymnasts
- ⦿ The Gulf Fishers and BP claims
- ⦿ Student at the airport

II. GETTING OVER THE HATRED AND AWKWARDNESS OF ETHICS

A. Processing Pressure Better: Probability from CFA Institute

$$P = f(x)$$

x = amount of money
involved

- The discovery of the relationship between maintenance and botulism

Peanut Corp of America

*“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 has declared Chapter 7 bankruptcy.

B. Enforcement is Inconsistent and Rather Than Absolute, Unequivocal, and Egalitarian

- *“If the janitor had taken the liquor, he would have been fired.”*

Student’s observation on discussion of tolerance for a manager who “borrowed” three bottles of vodka on a Friday night for her birthday party after work and brought in replacements on Monday morning

- The nonprofit that would not fire the embezzler

C. We prefer the comfort of rationalizing

“Everybody else does it.”

“I think all teams do that. That’s been going on forever.”

Jacksonville Coach Jack Del Rio on the Patriots’ videotaping to steal defensive signals

What is right is right even if no one is doing it.

What is wrong is wrong even if everyone is doing it.

Source unknown

Rationalizing, Not Analyzing

- ⦿ “If we don’t do it, someone else will.”
- ⦿ “It doesn’t really hurt anyone.”
- ⦿ “If you think this is bad, you should have seen”
- ⦿ “That’s the way it’s always been done.”
- ⦿ “That’s the way they do it at _____.”

Funds Use: Stanford's Creative Costs

Overhead funds from federal grants used for:

- \$3,000 cedar-lined closet for Kennedy's home
- \$2,000 flowers
- \$2,500 grand piano refurbishing
- \$7,000 sheets
- \$4,000 wedding reception
- \$184,000 yacht depreciation

The Language of An Ethical Breach

December 18, 1990

“What was intended as government policy to build the capacity of universities through reimbursement of indirect costs leads to payments that are all too easily misunderstood. Therefore, we will be reexamining our policies in an effort to avoid any confusion that might result. At the same time, it is important to understand that the items currently questioned, taken together, have an insignificant impact on Stanford’s indirect-cost rate.”

“Moreover, Stanford routinely charges the government less than our full indirect costs precisely to allow for errors and allowances.”

The Language of An Ethical Breach

January 23, 1991

“Because acute public attention on these items threatens to overshadow the more important and fundamental issue of the support of federally sponsored research, Stanford is voluntarily withdrawing all general administration costs for operation of Hoover House claimed for the fiscal years since 1981.”

University statement

Evolutionary Progress

February 19, 1991

“I am troubled by costs that are perfectly appropriate as university expenditures and lawful under government rules but I believe ought not be charged to the taxpayer. I should have been more alert to this policy issue, and I should have insisted on more intensive review of these transactions.”

Remarks to alumni

The Lesson

March 23, 1991

Our obligation is not to do all the law permits, but to do what is right. Technical legality is not the guiding principle. Even in matters as arcane as government cost accounting, we must figure out what is appropriate and act accordingly. With respect to indirect-cost recovery, we pursued what was permissible under the rules, without applying our customary standard of what is proper . . .

Remarks to alumni

Rationalizing: “It’s a gray area.”

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, sportsillustrated.cnn.com, June 2, 2009

And, we use “warm” language

The “way harsh” language	The “warm” language
“Cooking the books”	“Financial engineering”; “Getting results”; “Smoothing earnings”; “Managing earnings”
“Copyright infringement”	“Peer-to-peer file sharing”
“Manipulated the appraisal”	“Got a second opinion”
“Changed the numbers”	“Pro forma adjustment”; “Deseasonalized the data”
“Backdating options”	“Periodic look-backs”
“You lied”	“I misremembered”
“You lied”	“I misspoke”
“You lied”	“I just managed expectations”
“The employee stole from inventory.”	“The employee showed poor judgment.”

More warm language

The “way harsh” language	The “warm” language
“That’s cheating!”	“That was creative thinking!”
“Suspended from school”	“Just restricted”
“Conflict of interest”	“It wasn’t so much a conflict of interest as it was a confluence of conflicting motives.”
“We don’t really know.”	“It’s just engineering judgment.”
“Bribes”	“Useful expenditures”

D. The ethics thing is difficult.

- ⦿ Not difficult in concept
- ⦿ Difficult in application
- ⦿ Can only see losses; cannot see rewards or results
- ⦿ Can't always quantify the effects of ethical choices
- ⦿ Game Theory and Excel are not good prediction tools in this area
 - Need to observe
 - Need to interact

III. NOT MAKING ETHICS SO COMPLEX

There Are Moral Absolutes: The Role of a Credo

The lines you would never cross to be successful, to win, to gain a contract, to meet the numbers . . .

Chicago Alderman Doherty's analysis of the Illinois governor's pay-to-play

“This is not like a guy taking \$500 for a zoning change. This is selling a U.S. Senate seat.”

Chicago Alderman Brian Doherty

Judy Keen, “Blagojevich case is a blot on Chicagoans’ pride,” *USA Today*, December 11, 2008, p. 5A

The Parable of the Ham

Define Dilemmas by Values, Not Circumstances

Avoid the “either/or” conundrum and its false security ***

- The ease of resolution vs. the long-term implications
- Losing sight of our values
- Failure to define the issue properly

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.***

Why you do what you do

“Fifteen years from now, my son will meet the son or daughter of one of our people who died that day, and I will be judged on what that kid tells my son about what Sandler O’Neill did for his family.”

Jimmy Dunne III

Sole surviving senior partner
from Sandler O’Neill
9/11/01 WTC attacks

One of 17 survivors out of a firm
of 83

The Story of the Pack of Gum

Watching Out for the Fog!