

Ethics

April 2018



- What are Ethics?
- Trends in Business Ethics
- Where Does Ethics Falter?
- Where Do We Go From Here?

Ethics Training Video

What Are Ethics?

“-sometimes known as **moral philosophy**,
is a branch of philosophy that involves
systematizing, defending and recommending
concepts of right and wrong conduct, often
addressing disputes of moral diversity.”

Daniel Webster -“a doctrine of morals”

Plato - Human well-being is the highest aim of moral thought and conduct, and the virtues are the requisite skills and dispositions needed to attain it.

Socrates - Ethics are the norms by which acceptable and unacceptable behavior are measured. One develops ethics through maturity, wisdom and love.

Business Dictionary.com - The basic concepts and fundamental principles of decent human conduct. It includes study of universal values such as the essential equality of all men and women, human or natural rights, obedience to the law of land, concern for health and safety and increasingly, also for the natural environment. See also morality.

- Family
- Friends
- Co-Workers
- Religion
- Society
- Employer

How Ethical Are You?



1. You occasionally take home small supply items from the office like pencils and staples.
2. You would never pad your company expense account.
3. You surf the Net for non-work related matters during work time. Everyone does it.
4. Calling in "sick" is okay as long as it's not super-busy at work.
5. When your chatty co-worker gossips about everyone and anyone in the office, you simply say nothing.
6. You make an error and another employee gets blamed. No one would be able to trace the error back to you, but you immediately come forward to take responsibility.
7. A company supplier gives you a holiday gift of your favorite gourmet chocolates valued at \$50. You accept the gift and enjoy the chocolates.
8. A co-worker's paycheck in an unsealed envelope is placed on your desk by mistake. No one is around. You resist the temptation to peek and deliver the paycheck to its rightful recipient.
9. You go to the restroom and find a \$50-dollar bill. Finders keepers, losers weepers.
10. The boss is away, and your co-worker uses the time to make personal phone calls and play computer games at her workstation. Taking the opposite stance, you "give an honest day's work for an honest day's pay".

1. Most people's ethical judgments are easily manipulated by simply changing contextual factors. By telling them that their boss has a certain view, that their peers have a certain view, or even just by changing the scent in a room in which they make the decision, psychologists can alter people's ethical judgments.
2. Are you more ethical than your peers? You may be more ethical than your peers. But 85% or so of Americans also believe that they are and that is simply not mathematically possible.
3. Evidence shows when people answer ethical questions spontaneously, they tend to be more deontological (rule-based) in their responses ("Thou Shalt Not Kill"). With more reflection, they tend to take a more utilitarian (consequences-based) approach (taking one life to save many).
4. The "bystander effect" — the tendency of people to take their behavioral cues from those around them — impacts our ethical judgements. If a person were being mugged they may be better off with only one person nearby because that person will know that unless he or she helps, the victim will be in big trouble. If there are many people around, they may all look to each other to see what to do and if no one takes the lead, they may all end up doing nothing.

- Employee - Employer Relations
- Employee - Employee Relations
- Company - Customer Relations
- Company - Vendor Relations
- Company - Community / Public Interest

Certified Public Accountants are expected to apply and uphold the following basic tenets of ethical and professional conduct (Code of Professional Conduct):

Responsibilities

In carrying out their responsibilities as professionals, members should exercise sensitive professional and moral judgments in all their activities.

The Public Interest

Members should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate a commitment to professionalism.

Integrity

Integrity is an element of character fundamental to professional recognition. It is the quality from which the public trust derives and the benchmark against which a member must ultimately test all decisions.

Objectivity and Independence

A member should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities. A member in public practice should be independent in fact and appearance when providing auditing and other attestation services.

Due Care

A member should observe the profession's technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the member's ability.

Internal auditors are expected to apply and uphold the following principles:

Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

Objectivity

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

Confidentiality

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Competency

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

Source: iia.org

Core Concepts of Data Ethics

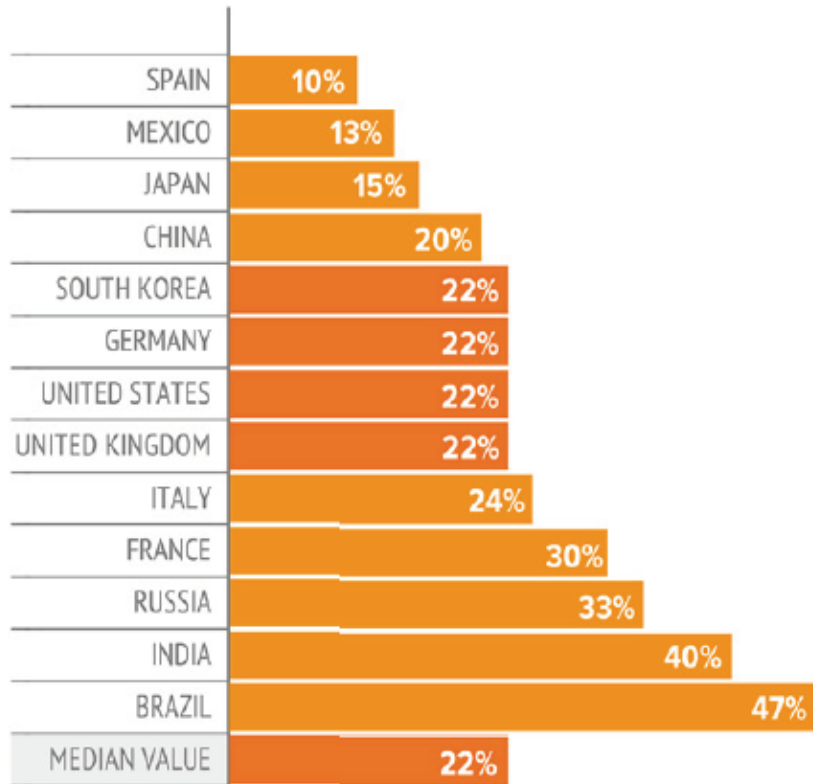
- Impact on People
- Potential for Misuse
- Economic Value of Data

Lots of Regulation In Place and Coming

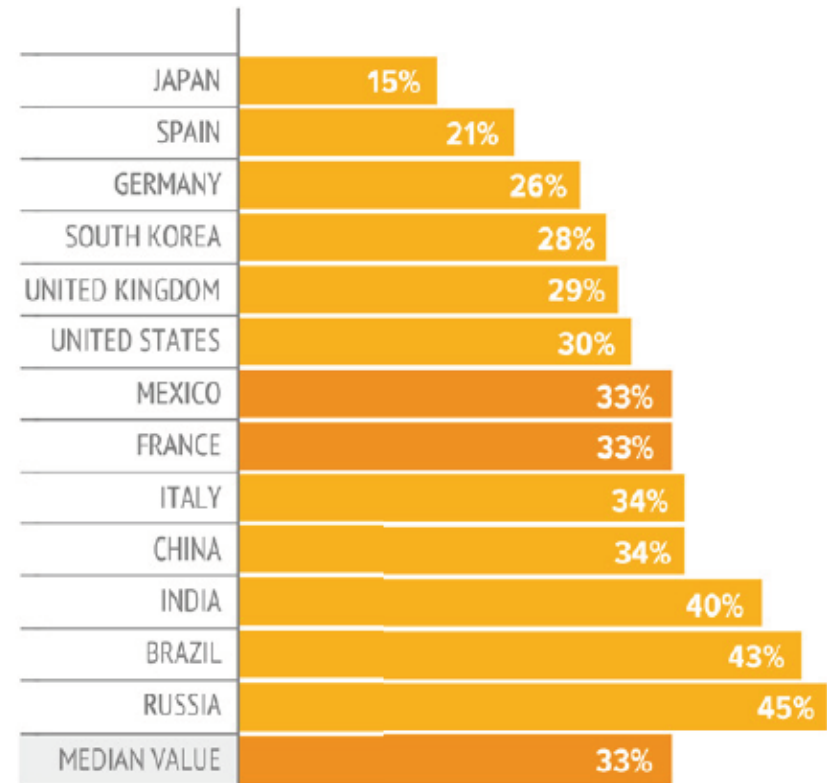
- HIPPA
- PIPEDA
- GDPR
- OECD Fair Information Processing Principles

Trends in Business Ethics

IN MOST GBES COUNTRIES, PRESSURE TO COMPROMISE STANDARDS IS FELT BY MORE THAN 1 IN 5 EMPLOYEES



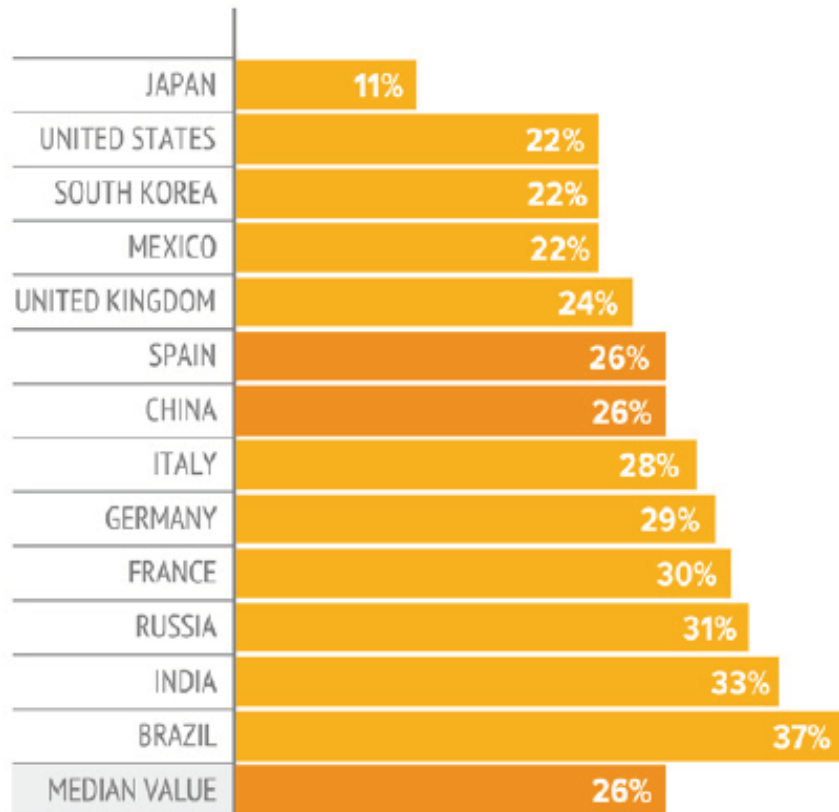
MISCONDUCT IS OBSERVED BY LARGE NUMBERS OF EMPLOYEES ACROSS GBES COUNTRIES



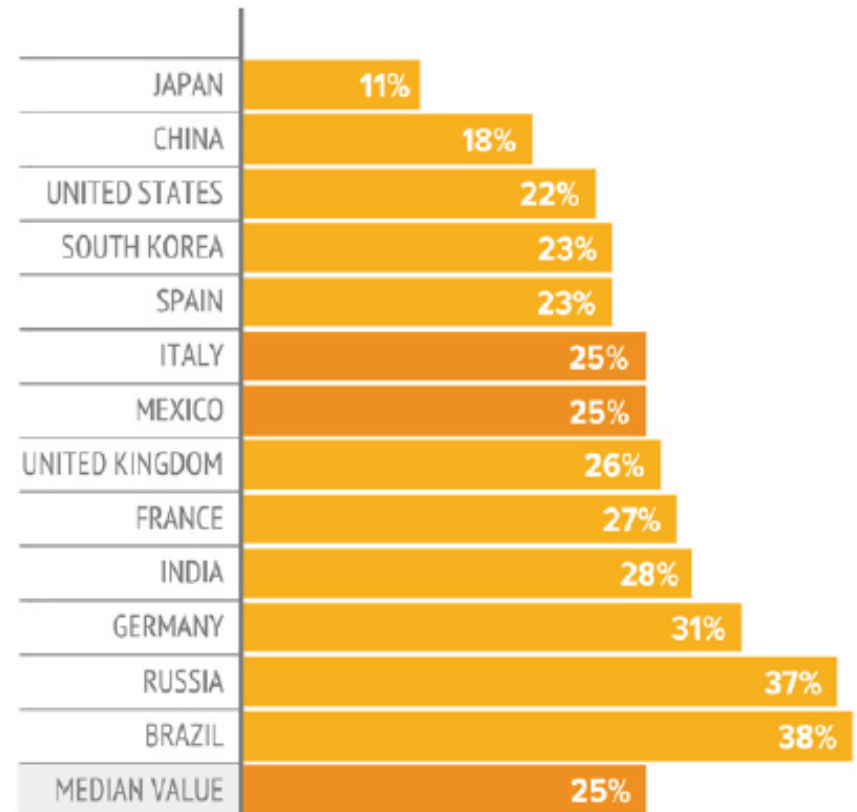
What is the Most Prominent Bad Conduct?

- Bribery
- Fraud
- Hiding regulatory violations
- Lying
- Abusive Behavior
- Anti-competitive behaviors
- Decisions made for personal benefit
- Human rights violations

LYING



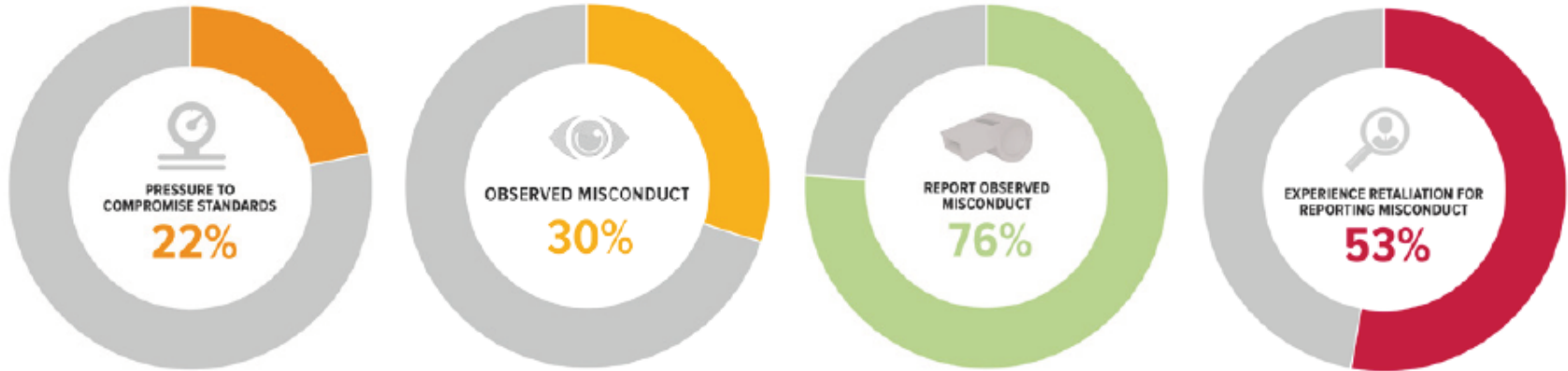
ABUSIVE BEHAVIOR



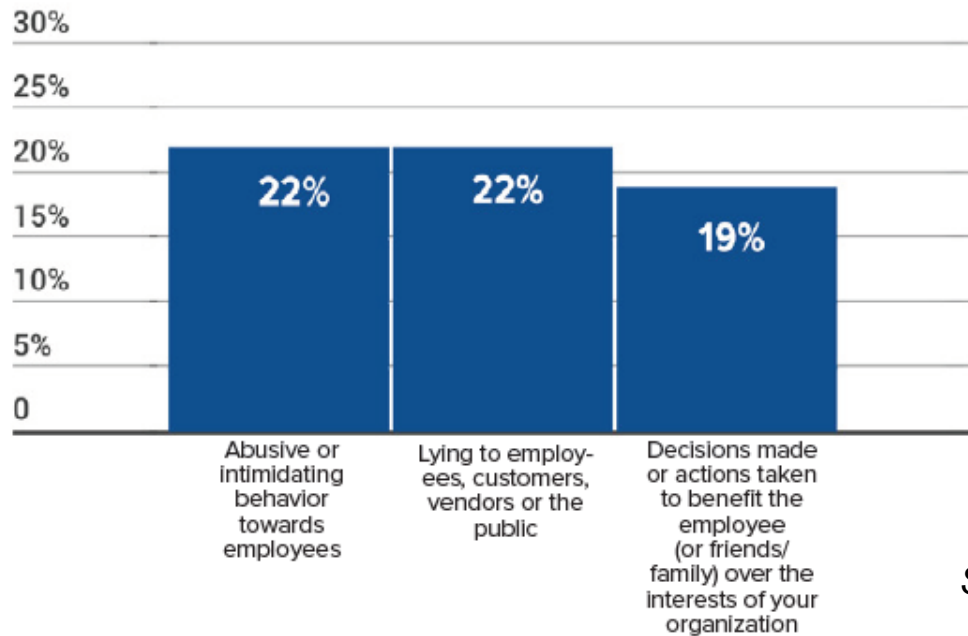
KEY METRICS	COMPANIES THAT ARE <u>NOT</u> SUPPLIERS	COMPANIES THAT ARE SUPPLIERS ²⁰
Pressure to compromise standards	18%	26%
Personally observe misconduct in previous 12 months	27%	38%
Report observation of misconduct	54%	66%
Experience retaliation for reporting misconduct	27%	39%

Source: 2016 Global Business Ethics Survey

KEY METRICS



OBSERVED MISCONDUCT: MOST COMMON TYPES



Volkswagen – Dieselgate

At Issue: installed software on millions of vehicles to trick the EPA that cars were more environmentally friendly than they actually were

Result: lost \$20B in market cap, customer compensation, reputation hammered and regulatory fines

FIFA – Corruption at the Soccer Field

At Issue: bribery for broadcasting and hosting rights about \$150M

Result: 20 indictments of FIFA and FA officials, 5 indictments of sports marketing/broadcasting execs

Toshiba – More Earnings

At Issue: overstated earnings by \$2B over seven years

Result: CEO resigned, reputation damaged

Turing Pharmaceuticals – 5000% Price Increase

At Issue: increased the price of 62-yr old drug that treats HIV patients from \$1 to \$750 a pill.

Result: CEO is gone and other pharma's accused of using the "Turing Playbook"

Mylan Pharmaceuticals – EpiPen Price Jack

At Issue: EpiPen went from \$124 in 2009 to \$609 in 2016. Ever since Mylan started raising EpiPen prices in 2009, the profit margin of the Mylan division that sells the drug has quadrupled. CEO Bresch earned nearly \$19 million in total compensation last year. And over the past three years, she made \$54 million.

Result: reputation risk

Panama Papers – Offshore Secrecy

At Issue: internal papers of Panama-based law firm Mossack Fonseca showed potential money laundering operations for some famous/infamous people and companies

Result: Mossack Fonseca fined \$440,000. Canada, India, UK, Pakistan and US investigating hundreds of individuals named in the papers for illegal activity, mostly tax evasion.

Theranos – Too Much Power

At Issue: company's proprietary Edison device yields unacceptably inaccurate and highly erratic results for a significant number of critical blood tests

Result: the termination of company's partnership with Walgreens, CEO was banned from operating labs for two years, criminal and civil investigations

Wells Fargo – Eight is Great

Wells Fargo Scandal

- 9/8/16** Bank fined \$185 million for opening more than 2 million bank accounts or credit cards without customer permission or knowledge between May 2011 and July 2015. Bank terminated 5,300 employees involved.
- 9/13/16** Bank ended aggressive employee sales goal program that was believed to be root cause of misconduct
- 9/16/16** Customer file class action lawsuit against bank
- 9/22/16** Former employees lawsuit
- 9/27/16** CEO forgoes \$41M of compensation, forgoes \$19M Head of Community Banking division of compensation
- 10/14/16** CEO is replaced
- 8/31/17** Review finds 1.4 million additional suspect accounts

Mitsubishi Motors

At Issue: Admitted to falsifying fuel efficiency tests for “improper conduct” in fuel consumption testing.

Result: Offices raided by Japanese authorities, investigation into products manufactured for overseas markets to be conducted.

WannaCry Ransomware

At Issue: Email was used to exploit hazards in outdated, unpatched Microsoft Windows operating systems, specifically XP and 7.

Result: Corporate data seized, encrypted, and held hostage until a specified payment is made in Bitcoin. Possible breach disclosures.

Health Care Fraud

At Issue: Health care providers are accused of billing Medicare and Medicaid for drugs that were never purchased, collected money for false rehabilitation treatments and tests, and gave out prescriptions for cash.

Result: More than 400 arrests were made, covering years of activity and spanning across more than 20 states.

Sexual Harassment Abounds

Gun Sales

Walmart

Dick's

NRA

Hertz Car Rental

MetLife

Delta Airlines

Symantec

Avis

Best Western

Wyndham

FNB Omaha

The costs of unethical behavior for the corporation, for the perpetrators, and for other stakeholders are potentially catastrophic:

1. Insolvency
2. Decimated stock values
3. Monetary fines
4. Jail terms
5. Ruined reputations
6. Employee turnover
7. More regulations

- The ethics situation has become **so critical** that Congress, the Securities and Exchange Commission (SEC), and several large pension funds are forcing the private sector to focus on, and clean up, corporate governance.
- The Sarbanes-Oxley Act (a.k.a. the “**corporate responsibility act**”), passed in 2002, requires all chief executives and chief financial officers to certify the accuracy and veracity of financial reports, calls for harsh penalties for accounting fraud, creates a felony for securities fraud, and establishes a federal oversight board for the accounting industry.
- The Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted by Congress in 2010 in a bid to head off a repeat of financial misconduct that contributed to the 2007-2009 recession, included a number of measures to encourage employees to report misconduct.
- Foreign Corrupt Practices Act, passed in 1977, makes it illegal for companies and their employees to influence foreign officials with any personal payments or rewards.

Example out of 144 Honorees

~~Gap Inc.~~_____

Cummins Inc.

Ford Motor Company

Accenture

~~Google, Inc.~~

~~Salesforce.com, Inc.~~

~~Mattel, Inc.~~

Kellogg Company

L'OREAL

UPS

Target

Starbucks

Petco Animal Supplies

~~Time Warner~~

Aflac

General Electric

3M

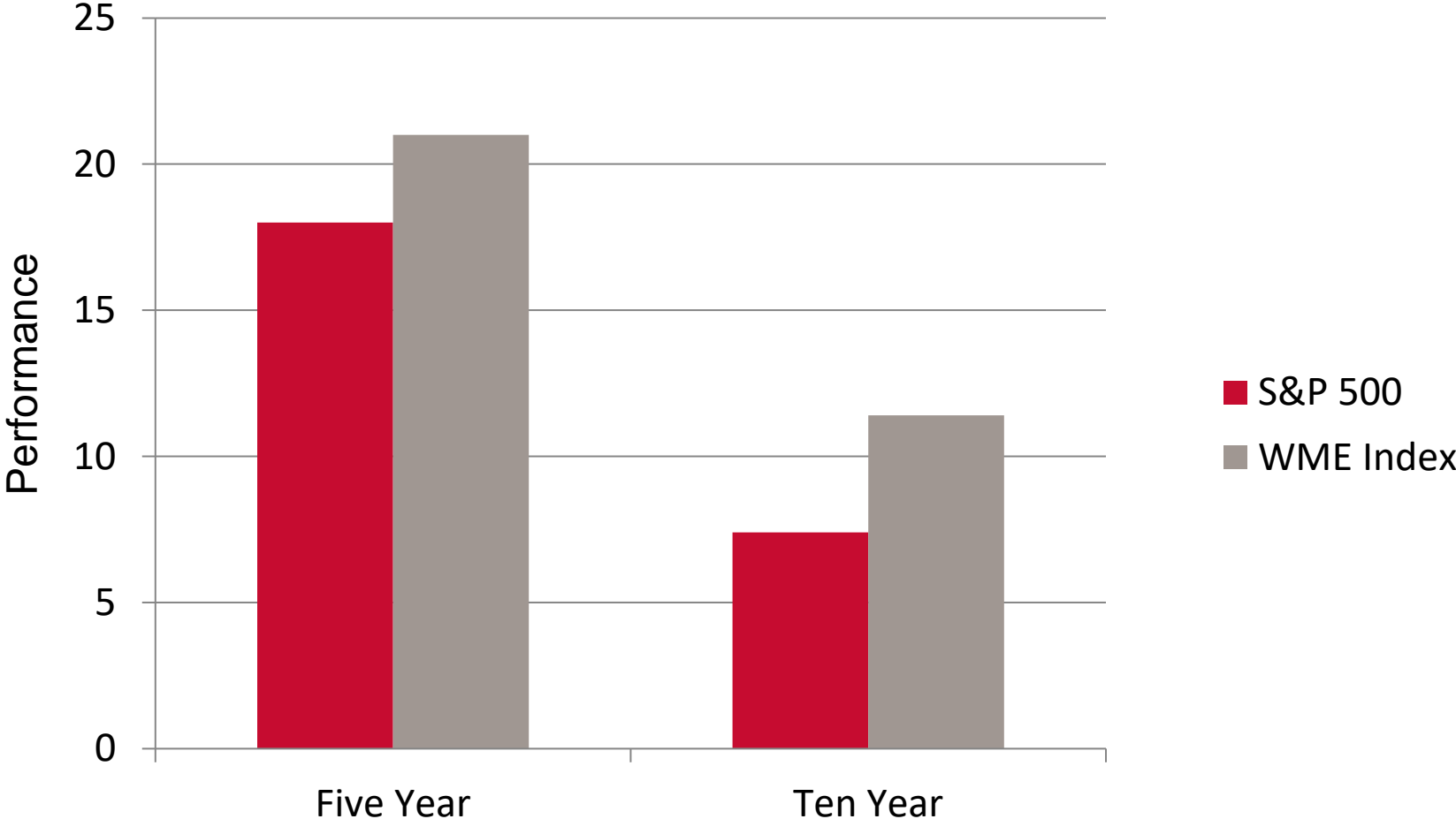
Cleveland Clinic

PepsiCo

TATA Power Company

Microsoft

U.S. Bank



Source: Ethisphere Institute

Where Does Ethics Falter?

Who is the Biggest Offender?



SPECIFIC BEHAVIOR	MORE LIKELY FOR TOP MANAGERS TO BE PERPETRATORS ¹¹	MORE LIKELY FOR MIDDLE MANAGERS TO BE PERPETRATORS ¹²	MORE LIKELY TO OCCUR FOR TWO YEARS OR MORE ¹³
Abusive or intimidating behavior towards employees	✓	✓	✓
Accepting bribes, kickbacks and/or inappropriate gifts	✓	✓	—
Decisions made or actions taken to benefit the employee (or friends/family) over the interests of your organization (conflicts of interest)	✓	✓	—
Engaging in anti-competitive behavior (e.g., price fixing, bid rigging)	✓	✓	✓
Hiding (potential) violations before on-site inspections	✓	✓	✓

Source: 2016 Global Business Ethics Survey

Who is the Biggest Offender? *(Continued)*

SPECIFIC BEHAVIOR	MORE LIKELY FOR TOP MANAGERS TO BE PERPETRATORS ¹¹	MORE LIKELY FOR MIDDLE MANAGERS TO BE PERPETRATORS ¹²	MORE LIKELY TO OCCUR FOR TWO YEARS OR MORE ¹³
Human rights violations ¹⁴	✓	—	—
Improper contracting or violating contract terms with customers or suppliers	✓	✓	—
Inappropriate alteration, falsification and/or misrepresentation of your organization's documents or records	—	✓	✓
Lying to employees, customers, vendors or the public	✓	—	✓
Offering bribes, kickbacks and/or inappropriate gifts	—	✓	✓
Violations of health and/or safety regulations	—	—	✓

Source: 2016 Global Business Ethics Survey

- Tone at the Top
- Company Culture
- Business Decision Making Process
- Ill-conceived Goals
- Motivated Blindness
- Indirect Blindness
- Slippery Slope
- Rewarding Outcomes

Where Do We Go From Here?

- The percentage of companies providing ethics training rose from 74% to 81% between 2011 and 2013;
- Two-thirds of companies (67%) included ethical conduct as a performance measure in employee evaluations, up from 60% in 2011;
- Almost three out of four companies (74%) communicated internally about disciplinary actions when wrongdoing occurs;
- One in five workers (20%) reported seeing misconduct in companies where cultures are “strong” compared to 88% who witnessed wrongdoing in companies with the weakest cultures;
- The percentage of companies with “strong” or “strong-leaning” ethics cultures climbed to 66% in 2013, compared to 60% in the previous survey.

Source: 2013 National Business Ethics Survey

- Openly discuss ethical gray areas;
- Acknowledge the complexities that can arise in work situations;
- Treat ethics as an engrained way of behaving;
- Celebrate displays of ethical conduct;
- Show respect for those with different opinions and difficult personalities;
- Expect everyone to meet ethical standards.

Ted Talks on Ethics