

# Current Issues in Business Ethics – 2020

Boz Bostrom, CPA

Associate Professor of Accounting and Finance

College of St. Benedict / St. John's University

[bbostrom@csbsju.edu](mailto:bbostrom@csbsju.edu) (612) 414-9629

January 13, 2020

# Learning Objectives

- Understand attitudes toward ethics
- Learn how to set expectations without encouraging unethical behavior
- Ethical usage of social media for professional purposes
- Understand how to create a culture of integrity
- Understand how creating a reputation as an ethical business can deliver great financial results
- Understanding the benefits of ethical supervision and leadership

# Attitudes toward ethical issues

# Comprehensive Taxpayer Attitude Survey (CTAS) 2018

- Survey of about 2,000 Americans via phone and online
- Asked a variety of questions, mainly about:
  - Cheating
  - Fair share
  - IRS enforcement
  - Motivations
  - IRS services
    - Example – 87% said the IRS website was at least somewhat valuable for getting advice and information
  - Tax professionals
    - Example – 88% said paid tax professionals are at least somewhat valuable for getting advice and information

- What % said it is not at all acceptable to cheat on your income taxes?
- What % completely or mostly agree that it is every American's civic duty to pay their fair share of taxes?
- What % completely or mostly agree that it is everyone's personal responsibility to report anyone who cheats on their taxes?
- What % say it is very important the IRS ensures high income taxpayers are reporting and paying their taxes honestly?
- What % say it is very important the IRS ensures low income taxpayers are reporting and paying their taxes honestly?
- What % said it is at least somewhat important that 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
- Chiropractors
- Clergy
- College teachers
- Dentists
- Engineers
- Insurance salespeople
- Journalists
- Labor union leaders
- Lawyers
- Medical doctors
- Members of Congress
- Nurses
- Pharmacists
- Police officers
- Psychiatrists
- Senators
- State governors
- Stockbrokers

December 2019 – 1,000+ adults in the US

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

- 85%
- 66%
- 65%
- 64%
- 61%
- 14%
- 13%
- 13%
- 13%
- 12%
- 9%

December 2019 – 1,000+ adults in the US

# Impact of Pressures on Ethical Decision Making

# Case study

- You signed up to take a self-study continuing education course and have three attempts to pass it
- You failed the first two times and know that your boss will be informed if you fail a third time, and you may not be able to do any work for clients until you pass the course
- You know a colleague passed the test on their first attempt and are considering asking them for the answers
- What options do you have and what are the pros/cons of each?

# KPMG - The Initial Problem/Remedy

- Miller Energy Resources acquired oil and gas properties for about \$2M and shortly thereafter overstated the properties' value by over \$400M
- The company, CFO, and COO were charged with accounting fraud
- In 2017, the company's auditors, KPMG, were charged with failure to properly audit the financials
  - Fined \$6M
  - All audit personnel required to complete 12 hours of specialized training, which included 4 hours of fraud training
    - Repeated failures could result in:
      - Prohibition from doing audit work
      - Leaders being notified
      - Compensation being reduced

# Ethical Violations with the specialized training

- CPAs at all levels shared answers
- Lead audit engagement partners shared answers among themselves and provided and solicited answers to/from subordinates
  - Example, a senior partner solicited answers from a junior partner, who replied via text
- Upon learning of cheating, an investigation was launched
- After the investigation started and a document preservation notice was sent, the senior partner deleted texts and encouraged junior partner to do the same
- Senior partner encouraged junior partner to say texts were deleted by accident
- Senior partner replied to a written questionnaire that he had not received any answers
- Another lead engagement partner shared or solicited answers with his junior team members 10 times

# Ethical Violations with Other CPE

- 70% generally needed to pass self-study exams
- Participants were sent a hyperlink to take exam
- 28 auditors found how to manipulate the hyperlink to lower the passing rate
- One individual passed with a score of less than 25%

# Resolution

- Many sanctions, including:
  - Internal/external reviews, changes to policies
    - Assessing “whether KPMG’s culture is supportive of ethical and compliant conduct”
  - Minimum of 3 hours of ethics/integrity training each quarter for the next 3 years for all audit personnel (not just CPAs)
  - Fine of \$50M
- Indirect sanctions
  - Recruiting of talented employees
  - Loss of clients

# Goal setting to encourage ethical behavior

- Achievable goals
- Avoid “cliff” type of bonuses
- Adjust based on economic changes
- Discourage “borrowing” from the future
- Allow for local input
- Targets contain non-financial metrics

# **Ethical Usage of Social Media in Business**

# Case study

- You frequently share news about your company on social media
- You have learned about an exciting new group of customers your company has won the right to provide services for
- You are tempted to Tweet about this new development in order to generate excitement for your company
- What do you do?

# Elon Musk

- 47 year old CEO of Tesla (and Space X) - \$22B net worth
- In 2013, Tesla filed an 8-K indicating that Musk's Twitter account would be used to provide information
  - Commentators - Problem also was that he blocked people



**Elon Musk**

@elonmusk

Follow

Am considering taking Tesla private at \$420. Funding secured.

5:48 PM - 7 Aug 2018

15,803 Retweets 86,120 Likes



6.2K 16K 86K

Follow-up Tweet: “Investor support is confirmed. Only reason why this is not certain is that it’s contingent on a shareholder vote.”

# The Tweet

- Share price immediately jumped 6%
- Computed price based on a premium over prior day close
  - Actually computed \$419 / thought it would be funny to round up to \$420 due to marijuana significance
- Must warn NASDAQ 10 minutes in advance
  - Did not do so / trading halted for about 90 minutes
- On August 27, shares dropped 15% when Musk revised his stance and said the deal was off

# Fastenal



Minipat @ MiniPatbob · 5 p.m. · · ·

What kind of multi billion dollar company gifts it's Canadian employees barbecue sauce as a holiday gift? Yet the USA employees stuff their face with an actual holiday gift box! @ FastenalCompany @ FastenalCanada



# Taco Bell



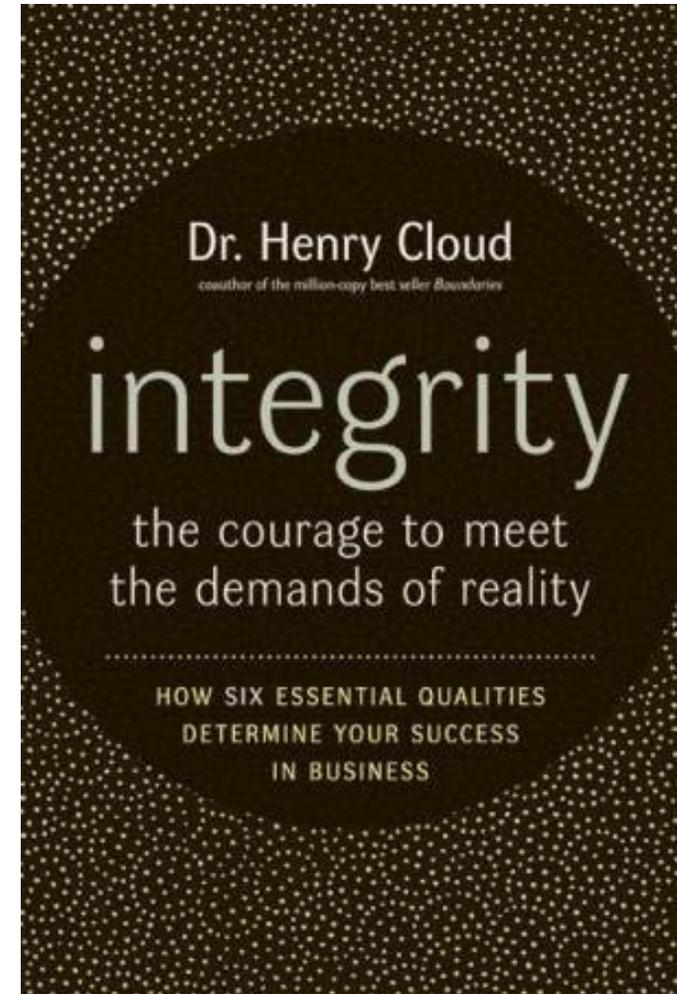
# Principles of Using Social Media for Work

- Keep it positive
- Share publicly available information
- Assume people will not understand context
- Consider private accounts

# Integrity

# 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

# 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

# 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

## 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
- Be care how tough you are on people 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
  - Response to crisis situations (Hurricane Katrina)
  - Duty to society (PepsiCo)

# **Ethical Leadership and Benefits**

# Exercise

- What are 2-3 companies you do business with because you respect their ethics?
  
- What are 2-3 companies you don't do business with because you disagree with their ethics?

# Studying corruption

- Transparency International
  - An unincorporated, international coalition
  - Objectives
    - Stop corruption
    - Promote transparency, accountability, and integrity
- 2018 Corruption Index (0-100, 100 is not at all corrupt)
  - Survey of experts
  - 10 (Somalia) to 88 (Denmark) with an average of 38



**TRANSPARENCY  
INTERNATIONAL**

## 2018 GDP / Corruption Index (higher is less corrupt)

1. United States	\$20.5T
2. China	\$13.4T
3. Japan	\$5.0T
4. Germany	\$4.0T
5. United Kingdom	\$2.8T
6. France	\$2.8T
7. India	\$2.7T
8. Italy	\$2.1T
9. Brazil	\$1.9T
10. Canada	\$1.7T
11. Russia	\$1.6T

## 2018 GDP / Corruption Index (higher is less corrupt)

1. United States	\$20.5T
2. China	\$13.4T
3. Japan	\$5.0T
4. Germany	\$4.0T
5. United Kingdom	\$2.8T
6. France	\$2.8T
7. India	\$2.7T
8. Italy	\$2.1T
9. Brazil	\$1.9T
10. Canada	\$1.7T
11. Russia	\$1.6T

# Wal-Mart Mexico – Bribery Scandal

- Began with Pulitzer Prize winning New York Times articles
- Allegations:
  - 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 leader became Vice Chairman of Wal-Mart Corp.
  - Internal auditor found it and upon reporting it was fired. Report was discarded.



# Wal-Mart Mexico – Bribery Scandal

- Several year major federal investigation
  - Justice Department
  - Federal Bureau of Investigation
  - Securities and Exchange Commission
  - Internal Revenue Service’s criminal investigations unit,
- Wal-Mart spent over \$700M investigating the bribes and improving its policies
- Found that thousands of bribes were paid in India and Brazil:
  - Move goods through customs
  - Real estate permits
- How much of a fine did Wal-Mart accrue on its 01/31/18 financials?
- \$283 million!
- June 2019 – Agreed to pay \$282 million

# Other Criticisms

- Wages
- Working Conditions
- Wrongful Terminations
- Labor relations / overseas labor
- Discrimination
- Animal welfare
- Pricing pressures on vendors

---

# Costco Confidential Ethics Hotline for Suppliers

We have implemented a global confidential ethics hotline as part of our continuing efforts to assure compliance with our Code of Ethics, our Vendor Code of Conduct, and other legal and ethical policies. [www.costco.ethicspoint.com](http://www.costco.ethicspoint.com)

This is a confidential tool available for use by any supplier who has reason to believe a Costco employee or supplier is in violation of these policies. (Transactional issues, such as deliveries, payments or other related items should not be addressed through this channel.)

We encourage supplier reports of possible violations of policy and other misconduct, including violations of:

- Antitrust and competition laws;
- The U.S. Foreign Corrupt Practices Act;
- Insider trading restrictions;
- Accounting, financial reporting, and internal control rules;
- Health, safety, and environmental laws; and
- Costco's Vendor Code of Conduct.

The hotline also allows suppliers to raise issues involving personal misconduct by Costco employees or employees of Costco suppliers, including:

- Conflicts of interest;
- Gifts, favors, entertainment, and other payments;
- Confidential information;
- Political contributions; and
- Discrimination and sexual harassment.

Contacts can be made confidentially. Reports will go to the Office of the General Counsel and the Chief Compliance Officer, who will investigate and discuss with the appropriate senior executive officer.

# Wal-Mart vs. CostCo

- 5 year change in

	WMT	COST
• Number of Stores	8%	15%
• Revenues	9%	36%
• Pre-tax income	-54%	49%
• Shareholder Return	46%	161%



# Ethical Leadership – July 2018 Survey

	<b>Senior leadership is ethical</b>	<b>Direct supervisors are ethical</b>
<b>Strongly agree</b>	<b>52%</b>	<b>59%</b>
<b>Agree</b>	<b>40%</b>	<b>35%</b>
<b>Neutral, disagree, or strongly disagree</b>	<b>8%</b>	<b>5%</b>

## Survey results - details

<b>Senior leadership is ethical</b>	<b>I love my job (3.9)</b>	<b>I plan to stay at my company for a long time (4.1)</b>	<b>I work very hard for my company (4.6)</b>
<b>Strongly agree</b>	<b>4.3</b>	<b>4.4</b>	<b>4.8</b>
<b>Agree</b>	<b>3.7</b>	<b>3.9</b>	<b>4.5</b>
<b>Neutral, disagree, strong disagree</b>	<b>3.0</b>	<b>3.1</b>	<b>4.1</b>

# Survey – other findings

1. Only 26% strongly agreed that they loved their job
  - But is 43% for those who strongly agreed that senior leadership and director
2. Directly asked if the ethical environment impacts:
  - Love for job – 4.4
  - Plans to stay with company – 4.4
  - Work ethic – 4.1 (women 4.3, men 4.0)

# Survey – other findings

3. How ethical is senior leadership (overall score of 4.4 on a 5 point scale)?

- 4.7 senior leaders, 4.1 staff
- 4.5 men, 4.3 women (similar spread with direct supervisors)

4. I have someone I can talk to about ethical issues – 4.6

- But staff only 4.1

5. Ethics impacts recommendation for:

- Promotions – 4.7
- Suppliers – 4.3
- Customers – 4.3

## Survey – other findings

6. Is your company performing better than its peers? – 3.9 overall
  - Strongly agree senior leadership is ethical – 4.1
  - Agree senior leadership is ethical - 3.7
  - Neutral or disagree senior leadership is ethical - 3.1
  
7. How ethical are you compared to average?
  - 56% said at least somewhat more ethical
    - 58% men, 52% women
    - 51% tax, 76% audit
    - 78% of those under 30
  - Only 2% said at least somewhat less ethical

**What do the following 16 companies have in common?**

<b>Accenture</b>	<b>Johnson Controls, Inc.</b>
<b>Aflac Incorporated</b>	<b>Kao Corporation</b>
<b>Cummins Inc.</b>	<b>Milliken &amp; Company</b>
<b>Deere &amp; Company</b>	<b>PepsiCo, Inc.</b>
<b>Ecolab Inc</b>	<b>Premier Inc</b>
<b>Fluor Corporation</b>	<b>Starbucks Coffee Company</b>
<b>GE</b>	<b>Texas Instruments Incorporated</b>
<b>International Paper Company</b>	<b>Xerox Corporation</b>

- 12 or 13 of the past 13 years



# Investment returns

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

