

The Darkside of the Paypal Empire

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BSM 538

MGT432 Organizational Behavior

June 21, 2011

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Peter Andreas Thiel was born in 1967 in Frankfurt, Germany. Americans see him as an entrepreneur, hedge fund manager, libertarian, and venture capitalist. Mr. Thiel co-founded PayPal along with Elon Musk and Max Leuchin as a merger of WWW.X.com and WWW.Confinity.com. WWW.X.com provided technical and financial expertise while Confinity.com provided many of the early engineers. Mr. Thiel was the first chief executive officer of the newly founded PayPal. He took the company public on February 15, 2002 and sold the company to EBay for \$1.5 billion later that same year.

He is referred to as the 'don of the PayPal mafia' in Silicon Valley circles. He is highly regarded for his views on management. He is also highly regarded for his observations into the positive correlation between low CEO salaries and the success of start-up companies.

PayPal now boasts over 94.4 million people using the service worldwide. Some of the contributing factors of their success include free registration for new accounts. They collect fees by taking a percentage of each transaction with many transactions being completely free. They allow users to attach either a credit card or a debit card to their account. Money left in PayPal accounts is allowed to collect interest, another way in which PayPal makes money. They even offer new users \$10 to join and bonuses for referring friends to the site. Users can also add money to their PayPal account by using Moneypak. They advertise themselves as 'the safer way to pay and get paid.'

One biggest factor in PayPal's growth is its association with the online auction site EBay. EBay uses PayPal as the primary means of exchange when items are bought and sold on the site. Originally EBay had a proprietary payment system which they called Billpoint. The increased

functionality of PayPal caused EBay's own bill payment system to secondary to PayPal and encouraged EBay to acquire the company in 2002.

Personal financial information is store securely on PayPal servers and never shared with sellers. The idea behind PayPal is to allow buyers and sellers from all over the world can connect to each other via the internet (merchant account or PayPal, 2005). That is why it available in over 190 markets and with transactions able to be taken place in 24 different currencies. It was founded on the idealistic vision of a company that was borderless, currency free from government controls.

Hackers, scam artists and organized crime groups use the service for frauds and money laundering. Regulators and the attorney generals of many states fined PayPal for perceived violations. They investigated the company's business practices and several of them, including Louisiana, even banned PayPal from operating within their states. PayPal responded by increasing security measures and acquiring state licensure which allowed them to operate within those states.

PayPal is encryption software to make financial transfers between computers which have open the doors to the world of methods of online payments to individuals and businesses. This allows individuals and businesses to transfer funds electronically. To have a PayPal account all that is required to send funds to anyone is have a valid e-mail address.

To sign up for an account does not require using any personal bank account information; although, a checking account or credit card is needed to use any PayPal's extra services that may be offered. PayPal offers many different accounts; such as, personal, business or premier accounts. If planning to use PayPal for occasional purchases then the personal account is a good choice. If you use PayPal to accept any payments for selling merchandise then the business or

premier account would be more appropriate. To add funds to your PayPal account from your checking account, or vice versa, you will need to enter and verify your bank account with PayPal. When entering the account number and routing number, PayPal will make two micro payments to that account. There will be a payment of five cents per transaction. These amounts will be verified and will be on your bank statement.

PayPal is in other words, acts as a middleman (Wilmot, 1995). PayPal deals with the buyer and the seller having provided the bank account or the credit card information. PayPal handles all the transactions from various banks and credit card companies and pays the interchange. PayPal collects fees which charge for receiving money, as well as the interest collected on money left in PayPal accounts. PayPal has sending limits which are placed on new accounts. The limits are around \$2,000 dollars. PayPal's user agreement does not make it clear why the limits change or what charges count toward the limits.

Transaction process for a standard account through PayPal are simple; first, a customer selects a payment method in the checkout; secondly, the credit card payment are made directly to the seller's web site which then is processed; and the final step, is the buyer completes the order on the web site and the payment is received to the seller in nearly seconds.

Once the money is transferred electronically, a message will be sent about the funds and the receiver will then just have to sign up for their own account to collect the money. If a user has provided information regarding a valid bank account, there are many options the funds can be directly handled; such as, into the bank account, request a check from PayPal, get cash from a PayPal debit card and/or shop online with a PayPal virtual card.

PayPal extra security feature is everyone's information including credit card numbers, bank account numbers and addresses is somewhat stays secure with PayPal. All the money held

in PayPal accounts is placed into one or more bank accounts, where PayPal collects interest. The account holders do not receive any of the interest gained on their money. Some critics claim PayPal locks accounts and put people through a long and frustrating appeal process so they can keep the funds in the bank longer to collect more interest on the money.

Let's begin by first stating that PayPal is not a bank and does not provide its merchants with a Real Merchant Account (merchant account or PayPal, 2005). PayPal provides its merchants with a PayPal account. There is a Very Big Difference. With a *real merchant account*, your funds are deposited into your personal or business bank account, which you control and which is also protected by Federal Banking Regulations. With PayPal, your money is deposited into a PayPal Account, which PayPal Fully Controls. Since PayPal is NOT a bank; they do not need to follow federal banking regulations. These regulations are in place to help the "Average Joe" avoid issues like having their bank account frozen for 6 months with no explanation... (Imagine if your bank was permitted to do that!)

Because PayPal is not regulated in the same way as a Real Merchant Account, PayPal accounts are frozen for almost anything and without warning. The account can usually receive money while it is frozen, but it certainly cannot withdrawal money. Once an account is frozen, the funds are often held by PayPal for months on end with Absolutely No Recourse for the merchant. Merchants finding them on the wrong end of a frozen PayPal account will still have to find some way to pay their obligations and fill orders for the weeks and months while the account is restricted. A domino effect occurs when a merchant's account is frozen, leaving them with No Means to Fill Orders. Those orders are then disputed by customers, creating more chargeback's and the illusion of fraudulent activity on the part of the merchant. "Welcome to the PayPal Nightmare." The Best Solution is to get a Real Merchant Account.

According to the San Francisco Chronicle, there are approx. 100,000 complaints outstanding at PayPal. In many instances disputes can run on for months leaving people frustrated and out of pocket as they are unable to access their accounts. So what happens to the millions of dollars tied up in frozen accounts and disputes? Well, here is a clip from the San Francisco Chronicle that basically sums it up: U.S. District Judge Jeremy Fogel of San Jose refused to dismiss a lawsuit that seeks class-action status on behalf of thousands of PayPal customers nationwide (U.S. judge orders PayPal to court, 2006). A common allegation is that the company brushes off or stalls customer grievances for months and meanwhile freezes the customer's account and pockets the interest.

As you will come to discover during this paper, PayPal has some tough allegations to deal with. Allegations of mishandling money, unnecessarily locking funds, not providing adequate customer support, freezing accounts with no explanation and disregarding customer complaints, just to name a few. In early 2002, Plaintiffs Roberta Toher and Jeffrey Resnick filed separate lawsuits against PayPal, Inc. These two cases were later consolidated into one lawsuit in the United States District Court for the Northern District of California.

The lawsuit alleges, among several other issues, that PayPal has placed inappropriate restrictions or other limits on customers' accounts and engaged in several other improper practices. Based on these improper practices, the lawsuit sought damages for money unjustly held, negligence, and violations of consumer protection statutes. Rather than dealing with a lengthy public trial and being forced to clean up their act, PayPal decided to settle out of court and pay \$9.25 Million Dollars to Tens of Thousands of PayPal merchants who processed with PayPal between October 1, 1999 and January 31, 2004 (A mere slap on the hand for a company this size).

Instead of a Judge forcing PayPal to change their questionable business practices, PayPal agreed to pay the settlement and walk away from the entire allegation. So what does this mean to current PayPal merchants? Unfortunately, this means that PayPal is free to continue operating in the exact same way it always has with poor business ethics.

PayPal will have to enter the next year with a completely different business approach. The general public has lost the ability to do a trusting financial relationship with PayPal. The ability to send your company into a profitable future will depend on the public view of your company. PayPal needs to rebuild from the lowest level of the company. The first and most important remedy is to Create and adopt a formal written Company Code of Ethics for their business and distribute a copy to all employees. Creating and implementing a formal system for reviewing, updating and enforcing the Company Code of Ethics. Communicate the Company Code of Ethics and provide orientation and training for all employees helps to make sure everyone in the company is committed to the same goal.

PayPal needs to Commit to ongoing training and reinforcement of ethical behavior and require employees to take refresher ethics course. The upper management will have to lead by example and "walk the talk" of the adopted Company Code of Ethics. Reward ethical conduct in the company will help to reinforce the company's goals. The company will have to Deal with unethical behavior swiftly, firmly and justly when it occurs. Management and all employees must be treated in the same fair and impartial manner.

PayPal will have to encourage all employees to take responsibility for their behavior and maintain a strong personal code of ethics. The company will need to appoint an ombudsman or other confidential channel for employees to voice their concerns or report unethical behavior in a confidential manner and without fear of retribution.

And finally to self check the new approaches; appoint a formal committee to consider ethical issues in accordance with the Company Code of Ethics. PayPal will have to above all promote zero tolerance for unethical behavior.

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