Drivers of unethical business strategies and behaviors

* Obsession with Wealth
  + Power, status, and self interest
* Amoral management
  + General disregard for ethics
* Faulty Oversight
  + Enables unethical pursuit of personal gain by managers
* Heavy pressure on managers
  + To meet or beat short term performance goals
* Poor company culture
  + Puts profitability and business performance over ethical behavior

Faulty Oversight

* Corporate managers hide unethical behavior
  + Internal and external oversight groups are necessary to prevent managers from unethical pursuit of wealth
* Self-dealing
  + Managers use position to advance self interest
  + SAC Capital / $14 Billion hedge fund / 8 managers convicted of insider trading / $1.8 Billion in penalties / 2014
* Subprime Mortgage Crisis
  + Lower lending standards
  + Landers earned fees / repackaged mortgages to hide true nature / sold to unsuspecting investors / huge loses when borrowers defaulted on payments
  + $26 Billion settlement by 5 largest banks
    - Bank of America, Citigroup, JPMorgan Chase, Wells Fargo, and Ally Financial
  + New Oversight rules implemented as a result of the crisis

Heavy Pleasure on Managers

* Pleasure from executives
  + “Do whatever it takes”
  + Executives fear a decrease in stock value if a company posts a loss for a quarter
  + Executives want to appear as though the company is always doing well
* Short-term over long-term
  + Because managers feel pressure to never have negative profits in a quarter
  + They may be subtly or not so subtly encouraged to peruse immoral business practices
  + Lower threshold for ethical behavior
    - Snowball effect
    - Slippery slope
* EX: Diamond Foods
  + Falsifies cost to inflate stock price
  + $5 million dollar settlement
  + Loss of pringles Acquisition
* Executive compensation
  + Large rewards for meeting/exceeding target performance
* Problem with Short-Termism
  + Creates no value for customers
  + High Risk
    - Tarnished image
    - Steep stock decline

Poor Corporate Culture: Profit over Ethics

* Management encourages unethical behavior
  + “Everyone else does it”
  + “It’s ok to break the rules to get the job done”
* ENRON
  + Employees ranked and fired
    - Lowest 20% fired
    - Encourages unethical behavior
    - Disproportional compensation for best workers
  + Erosion of Ethical standards
    - Company built on shaky business practices
  + $64 Billion lost in bankruptcy
* Ethical company culture leads to stronger company

Why should a company be ethical?

* Moral Case
  + It’s the right thing to do
  + Attracts ethical employees
* Business case
  + Damages reputation
    - Lost revenue, low profits, high cost
  + Visible Cost
    - Fines, lawsuits, low stock price
  + Administrative costs
    - Legal costs, Educating employees, ensuring future compliance
  + Intangible cost
    - Customer defection
    - Loss of reputation
    - Lost employee moral
    - High turnover
    - Low employee productivity