

Case Studies on
Ethics and Corporate Governance – Vol. I

Edited by

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OVERVIEW

Business ethics deals with ethical rules and principles necessary for a successful business. It explains the various moral or ethical problems that can arise in a business setting and the responsibilities of persons who are engaged in an organisation. It provides us with perspectives about what is right or wrong.

There are many external and internal factors forcing companies to address ethical standards. These include the increasing influence of Non-governmental Organisations (NGOs); an all-pervasive media in search of stories; the domino effect of corporate accountancy scandals such as Enron and WorldCom; increasing legislation and the growth of Socially Responsible Investment as well as changing consumer and employee expectations.

An ethical policy is a good governance practice and is one of the indices of a well-run business. It can reassure investors and other stakeholders about the company's approach to its non-financial risks. Besides providing a license to operate, having an ethical policy can also help to protect and enhance corporate reputation, can motivate and encourage loyalty among staff, and can be useful in terms of risk management. Ethics in the workplace can be managed through use of codes of ethics, codes of conduct, role of ethicists and ethics committees, policies and procedures, procedures to resolve ethical dilemmas, ethics training, etc.

Corporate governance is the set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled. Corporate governance also includes the relationships among the many players involved (the stakeholders) and the goals for which the corporation is governed. The principal players are the shareholders, management and the board of directors. Other stakeholders include employees, suppliers, customers, banks and other lenders, regulators, the environment and the community at large.

Many issues of corporate governance centre around reconciling different legitimate values. Though return on equity is important, equally important is conducting business without compromising on principles. Shareholder activism is valuable, but they must also be willing to let management discharge its duties. Attention to rules and procedures is useful, but so is the flexibility and willingness to change established rules and procedures.

This book will induce the reader to reflect and think whether there is a best approach to corporate governance. Are the directors, shareholder activists, top managers, general counsels, ethicists, and others inevitably bound to pursue diverse and sometimes conflicting approaches to corporate governance, based on their diverse values and interests? If diversity in values and interests is an enduring reality, can one establish an optimal governance process in a company that allows different values and interests to be taken into account and balanced and reconciled effectively? Are the different checks and

balances in the corporate governance of a company adequate enough to ensure that the board of directors acts in the interest of their stakeholders, and does not merrily siphon off funds to meet the selfish interests of a few officials? What further reforms in corporate governance are necessary?

The objective of this book is to make readers reflect on the nature of ethics and corporate governance in different companies, and to judge for themselves what went wrong. It will induce them to think what preventive measures should have been in place to avoid such occurrences. Rather than advocating a uniform framework, an attempt is made to mirror a variety of perspectives.

S.No.	Case	Industry	Primary Concept
1	Adecco – Accounting Scandal or a Communication Gap?	Staffing and Recruitment Services	Corporate public communication failure leading to a public relations disaster
2	Boeing’s Defense Deals and Ethical Issues	Aerospace and Defense	Unethical practices at Boeing and their fallout
3	“Brand CEOs”: The Case of Martha Stewart	Publishing	Promises and perils of personal branding
4	CEO Compensation and Corporate Governance at NYSE	Stock Exchanges	Separation of the offices of the Chairman and the CEO
5	Chuck Prince’s Biggest Challenge – Saving Citi’s Reputation	Banking	Ethical dilemma of businesses in balancing Wall Street expectations with ensuring high ethical standards
6	Citibank’s Sunset in Japan?	Banking	Violation of Japan’s Banking laws by Citibank, and the quantum of penalty imposed on it
7	Coca-Cola: Contentious Overseas Business Practices	Beverages	Effect of allegations on the brand image
8	Corporate Governance in India	Generic	Corporate Governance practices in India
9	Eliot Spitzer: A Crusader of Corporate Reform	Generic	Effectiveness of unconventional methods to expose unethical practices
10	Fannie Mae: The US Mortgage Giant’s Accounting Controversies?	Mortgage Banking	Violation of mortgage accounting practices
11	Halliburton – Costly Connections?	Construction	Effect of bad publicity on companies’ performance in the market

12	Hollinger International and Conrad Black: The Corporate Governance Conundrum	Publishing	Financial accountability of the Board of Directors
13	Mitsubishi Product Recall: A Self-made Scandal?	Automobile manufacturing	Effect of product recalls on the company's image
14	National Australia Bank: The Forex Scandal and the Boardroom Battles	Banking	Loopholes in the Bank's policies and systems leading to the Forex scam
15	Parmalat's Collapse: The Banks' Bad Debts	Dairy	To discuss the ingenious illegal methods employed by Parmalat in raising funds through banks
16	Sarbanes Oxley and the Travails of Being a Small Cap Public Company	Generic	To examine the costs of complying with the Sarbanes Oxley Act
17	The Failing CFOs and Corporate Scandals	Generic	Role of CFOs in perpetrating corporate frauds
18	The Specialists at NYSE	Generic	Role of specialists in the violation of federal securities laws
19	Whistleblowers – The New Corporate Conscience Keepers?	Generic	Role of whistle blowers in exposing corporate scandals

Adecco – Accounting Scandal or a Communication Gap?, describes the fallout of the company's announcement that it would delay its results for the year 2003, citing the reason of 'material weaknesses in internal controls' in its North American branch. The case throws light on how the communication policy of the company created confusion, leading to a public relations disaster. The case also provides scope to discuss how the situation could otherwise have been handled.

Boeing's Defense Deals and Ethical Issues outlines the circumstances that tarnished the image of Boeing in the eyes of its customers and employees. The case study also highlights two of the scandals that eventually led to the resignation of its CEO, Phil Condit.

"Brand CEOs": The Case of Martha Stewart, through the episode of Martha Stewart's conviction, attempts to trigger a discussion on the benefits and challenges a company faces in the wake of a personal crisis of its brand CEO.

The case, *CEO Compensation and Corporate Governance at NYSE*, through the instance of Dick Grasso, raises the issues of excessive compensation to the CEOs, separation of the offices of chairman and CEO, and the independent functioning of the boards.

Chuck Prince's Biggest Challenge – Saving Citi's Reputation details the nature and causes of Citi's regulatory and reputation problems. It offers scope for discussion on the dilemmas of businesses to delicately balance the ever-increasing expectations of Wall Street in terms of financial performance and ensuring high ethical standards.

Citibank's Sunset in Japan? offers scope to discuss whether the severe punishment meted out to Citibank was justified, given that the Japanese banking system itself had several drawbacks, whether the punishment meant a possible closure of Citibank in Japan, and the need for a change in its corporate culture at the global level.

The case, *Coca-Cola: Contentious Overseas Business Practices* describes several controversial business allegations faced by the company against its overseas operations since the 1990s that posed a serious challenge to the fascinating brand.

Corporate Governance in India deals with the evolution of the concept in India and the factors that triggered it. The case also throws light on how the framing of mandatory corporate governance laws by the Indian regulatory authorities influenced the companies in the country.

Eliot Spitzer: A Crusader for Corporate Reform elucidates the unconventional methods Spitzer, the New York state Attorney General, adopted to expose unethical business practices in firms across industries, especially financial services.

The case study *Fannie Mae: The US Mortgage Giant's Accounting Controversies?* provides an insight into the various charges levelled by the Office of Federal Housing Enterprise Oversight (OFHEO) and Fannie Mae's defence of those charges. It also encourages discussion on the future of Fannie Mae in the wake of the legislation, which aims at withdrawing all benefits extended to Fannie Mae as a Government-sponsored Enterprise (GSE) and the effect on the US mortgage rates and the economy as a result of the fallout of such a big company.

The case *Halliburton – Costly Connections?* offers a detailed account of the allegation of overcharging the government by the company for its services. It offers scope for discussion on whether negative publicity harms companies' performance in the market, and if so, to what extent.

Hollinger International and Conrad Black: The Corporate Governance Conundrum gives an insight into how an inactive board, an ineffective audit committee and a dominant CEO can damage the corporate governance structure, which can be detrimental to shareholders' interests.

Mitsubishi Product Recall: A Self-made Scandal? helps to examine the causes of Mitsubishi's self-destruction due to its attempt to hide customer complaints on products

and subsequent product recalls that had tarnished its image. The case also helps a discussion on its last chance of survival as an automaker.

The case *National Australia Bank: The Forex Scandal and the Boardroom Battles* helps to analyse the Forex scam along with several loopholes in the Bank's policies and systems that caused it to snowball. This case also helps to discuss the fallout of the scandal followed by the company's handling of the total fiasco.

The case study *Parmalat's Collapse: The Banks' Bad Debts* delves into the financial details of Parmalat which employed subsidiaries to raise money from the banks, termed as 'one of the largest and most brazen corporate frauds in history' by the US market watchdog, Securities and Exchange Commission.

Sarbanes Oxley and the Travails of Being a Small Cap Public Company aids discussion on the costs of going public, complying with the Sarbanes Oxley Act on corporate governance and the travails of sustaining as a public company.

The Failing CFOs and Corporate Scandals is intended to serve as a role-play for discussing the larger role of CFOs in the corporate scandals. This case elicits a discussion on ethics and corporate governance.

The Specialists at NYSE examines the role of specialists that has been called into question in the wake of allegations of irregular trading.

Whistleblowers – The New Corporate Conscience Keepers? illustrates three cases of whistleblowing: Sherron Watkins of Enron, Russel Hayes of CMC, and Barron Stone of Duke Energy Corp. It attempts to explore the psychology of a whistleblower and attempts to analyse the effectiveness of the provisions for whistleblower protection as envisaged in the Sarbanes Oxley Act passed in 2002.