

Chapter 11

Business Ethics, Code of Conduct and Anti-Bribery

CASE STUDY

CASE STUDIES ON ETHICAL DILEMMA

Example 1 Peeps into Mythology (From Mahabharata)

Let's have a read of this episode from the Mahabharata.

At the end of imparting training in archery and other martial skill to all the Pandavas and Kauravas, Dronacharya, their mentor, called up Arjuna and conferred on him the Supreme brahmastra.

Ashwatthama, Drona's own son and a Kauravite, was incensed at this and argued with his father:

'What disparity it is to deny the brahmastra to your own son, and bestow it upon Arjuna? I simply cannot take this lying down. You must give one to me too...'

Drona refused to yield. But the obstinate pressure tactics used by Ashwatthama aroused the sentimental father in Drona, and he gave away another piece of brahmastra to his son.

Why was Drona so reluctant for long to equip Ashwatthama with this deadliest of weapons?

We have to wait for an answer to this question in the climactic phase of the Mahabharata war, when the leading Kauravites had fallen in Kurukshetra, and Ashwatthama was at the helm. Violating the strictest injunction of Drona against the use of the brahmastra, to both Arjuna and Ashwatthama, the latter hurled it to annihilate the Pandavas in a fit of impetuous anger. The whole earth was in peril because of the impending collision of the two weapons, for Arjuna too had released his weapon in self-defense. Sensing the imminent catastrophe, the Sage Vyasa tried to mediate and prevail on them both. Arjuna responded, and could withdraw the weapon he had shot, but Ashwatthama lacked such capacity. Vyasa did devise a poignant compromise to avert the total devastation which the unretracted weapon of Ashwatthama could have wrought.

What are the insights embedded in this two-stage drama?

- Drona discriminated in favour of Arjuna and against Ashwatthama on the ground of values alone. He knew, as a guru, that his son may be no less than Arjuna in skill, but his value-system was in a mess.
- Drona was conscious of the reality that powerful instruments in the hands of 'value-weak', 'skill-strong' individuals are apt to be used destructively. Before and since Drona's time the world has witnessed countless such events.
- The acharya in Drona could initially snub and bridle the father in him. Yet later on, even a man of his willpower and wisdom succumbed to familial emotions. How much more demanding then is the task of cultivating and retaining objectivity in managerial roles donned by much lesser mortals! Unaware, the values of much-hyped objectivity in decision-making are caught in the quick-sands of subjectivity.
- Individuals with a strong sense of values can rise above temporary provocations, can contain their small egos without nursing a feeling of humiliation or loss of face, even when required to dispense with a legitimate retaliatory move. This magnanimity is what Arjuna demonstrated when Vyasa pleaded with him. Is this weakness or strength?

Example 2

In a large public sector undertaking the corporate chief of finance was long engaged in a duel with one of the profit centre heads for establishing supremacy in financial decisions.

Tragically, the profit centre accountant became the shuttlecock in this game. For observing corporate financial norms he was answerable to the corporate finance chief.

But when he would report financial irregularities, after repeated prior information to the profit centre head, to the corporate boss, his life would be made difficult by the former. If he did not report, the CFO would be at his throat.

The sensible solution would seem to be that the two bosses met and resolved their conflicts.

But that would never happen – each party continuing to use the junior accountant to fight out their egoistic battles through proxy.

Both the bosses were pursuing a contingency approach – each waiting for the other to make the first move.

One of the ultimate outcomes of these egoistic tussles was the quitting of the demoralized junior accountant after a few months.

Example 3

The Managing Director-designate of a pharmaceutical company had presented the General Manager – Finance with an entertainment bill of Rs.15,000/- for reimbursement. But there were no vouchers.

The GM was in a moral fix, for, even LTC allowances to junior officers were being denied unless accompanied by proper papers.

So the GM mustered enough courage to talk about the matter with the MD.

It transpired that apparently this sum was spent by him in Delhi to entertain certain senior officials who held the key to his confirmation as the MD (he happened to be an MBA from a leading management institute).

The entire accounts department was in a stir with this episode. It was a culture-shock for them because the recently-retired MD had for years shown impeccable integrity in such matters.

But the new MD seemed to grab his pound of flesh – at any cost.

Example 4

First-hand experience of Mr. A.K.Chattopadhyay, Sr. Vice President of ACC Ltd., Refractories Divisions, Nagpur, India. Formerly he was Executive Director, Tata Refractories Ltd. And Deputy Chairman of IRMA.

'One incident happened sometime back when a man who had previously worked for ACC supplied and installed some refractory material to one of our customers. He represented himself to his customer as an ACC employee and claimed that the material had come from ACC, which was not true. So the client agreed to let him do the work because he used the ACC name. It so happens that the work that he did failed after two months.

'The customer came to Mr.Chattopadhyay and talked with him about what had happened. He went through all the purchase orders, but could not find one for that specific job. Then he mentioned the name of the man who did the work. I told him that that man had not worked for us for over six months. The customer assured me that this man told him that he worked for ACC and that he was using ACC materials.

'In this situation, we had no legal obligation. The work was not done by our people or with our materials. But I felt it was our moral responsibility to stand behind this job because this customer gave the job to this man based on the ACC name. I replaced the material and sent my engineer out to install it. We lost heavily as there was no income whatsoever on this job. Even though I faced a lot of audit queries about this, I had the support of ACC management behind me.

'People who want to be spiritual-based leaders sometimes face conflict when they try to listen to their inner self. They are sometimes afraid to follow their conscience because they do not want to lose money. When I gave the approval to have our people install new material for this job, that we had not originally done, losing a lot of money on it, I clearly told our people, "I am willing to take this loss, because I know there is a much bigger gain." This is the dilemma that we must face sometimes, when we listen to our inner voice. We will face opposition and difficulties. However, the more the aspiring spiritual-based leaders do this, the more they will be successful. As a leader I must also help them to achieve the se successes. As there are successes, then they will grow in their courage to continue on this path to being a spiritual-based leader.'

Example 5

Surya meets his best childhood buddy Arnav after a decade. Surya had settled down in a different country after completing higher studies and has just returned to the country with a new job at a very senior position in a multi- national company.

Surya discovers that the warmth, camaraderie, openness and joy that they had felt years before had matured instead of fading out.

When Surya asks Arnav about his work, Arnav initially avoids but on coaxing reveals that he is having serious issues at his office where his colleagues are taking undue advantage of his simplicity and sincerity. He knows that Arnav has this innate goodness in him and is aware that this can be taken advantage of by others. On further probing Surya comes to know that Arnav works in the same organization that he will be joining but at several levels lower in hierarchy. But he abstains from revealing this to Arnav.

Surya joins the organization on the scheduled date and as expected, after a few days, Arnav comes to know of this. Arnav visits Surya in his personal chamber and congratulates him. He seems to be genuinely happy that both the friends share the same workplace.

Concerned that Arnav may make a habit of visiting him often in office as a friend sending wrong signals to others, Surya gently but expressly tells Arnav to maintain the hierarchical decorum in office. Arnav does not return to his chamber after that day but the office grapevine finds out about their childhood friendship.

After a few days, Arnav's appraisal report comes to Surya for his approval. He is shocked to find below average grades in almost all the parameters of performance. He knows this cannot be a correct assessment but hesitates to probe into this. He is concerned that his thoughts may be prejudiced or may be considered prejudiced by the others. So he signs the report. Consequently, Arnav, who is truly honest, sincere and dedicated to his work, is denied once more of his due appreciation from the organization.

Example 6

Ramesh is in charge of the stationary department of a large software organization. Employees who need notepads, pens, scissors, and such stationary items enter their employee id, department name, project name and the items that they take in a register that he maintains. The organization has about a 10,000

employees and there are hundreds of entries in the register. At the end of the day, he enters these entries into the computer and updates stock. No one crosschecks the manual entry with the data entered in the system. At home, he is the only bread-earner of a relatively large family with 3-4 school-going children. One of the children needed a special marker pen for a project in his school. It is quite an expensive pen and would make Ramesh go beyond his monthly budget. Suddenly Ramesh realizes that the inventory that he maintains has these pens and various projects frequently uses these. There is an initial hesitation rising in him which he dismisses with the reason that the loss is less than negligible to the organization while it will be an enormous financial relief to him. Thinking thus, he makes an additional entry in the system for the pen against a project and picks it up for the child at home. When his wife asks him about the price, he mumbles a random value to her.

CASE STUDY

RESOLVING ETHICAL DILEMMA – A CASE STUDY

You are a senior manager in a major firm of investment managers.

Your employer is an international firm with a publicly stated commitment to the highest standards of ethical behaviour. The company is making losses and is due to make a very important presentation to a major corporate client, and if the deal falls through it would turn around the company. Management feels that this activity will provide a lucrative return to the successful bidder for the business and a number of major investment managers have been asked to make presentations.

Your firm is keen to win the mandate for the business and has committed considerable resources to its bid, for which initial presentations were held last week. Following the initial presentation, you learn that the proposal was well received and you are on the shortlist against only one other major firm. You realize that there is a substantial variation in the bid from the original presentation but you leave it to the judgement of the team. It is soon discovered by you that your team had got hold of the bid book of the competitor which was inadvertently left by them in the waiting room.

In business, however highly competitive, there are rules and principles to ensure that certain ethical standards are maintained.

The ethical dilemma projected in this case should be resolved. Applying the steps to resolving an ethical dilemma:

STEP I — List the alternative courses of action available.

What are the Options?

- i) Keep quiet and let things take their own course.
- ii) Inform the company seeking the bid about the incident and let them decide whether to have a re-bid or not.
- iii) Inform your competitor about the incident and let them decide whether to seek for a re-bid or any other corrective measures at their end.
- iv) Withdraw the tender/bid and let the competitor get the deal.

STEP II—What are the consequences and evaluation of action?

Think carefully about the range of positive and negative consequences associated with each of the different paths of action available.

- Who/what will be helped by what is done?
- Who/what will be hurt?
- What kinds of benefits and harms are involved and what are their relative values?
- What are the short-term and long- term implications?

Option 1

- i. In all probability the deal would be awarded to my company. The competitor was careless in leaving the bid-book, and therefore there is nothing wrong if my team took advantage of the situation. In any case, it is in the best interest of the company.
- ii. There is however a risk that the competitor would discover his mistakes and approach the company seeking the bid company for a re-bid. In that eventuality, the reputation of my company “as being committed to the highest ethical standards” will get affected. In addition, my company would not get the deal.

Option 2

- i. The company seeking the bid, inspite of knowing about the incident, may award the deal to my company and not take any cognizance of the incident keeping in view the cost of the tendering process, the time involved, etc. or may decide to seek bids again.
- ii. May award the deal to the competitor by disqualifying my company.
- iii. May seek a re-bid.

Option 3

- i. The competitor, in spite of being aware of the incident, may decide not to take up the matter with the company seeking bids, which may get me the deal.
- ii. The competitor may approach the company seeking the bid. I inform them about the incident and tell them that they were informed by my company about the same, and may : (a) either seek the company making the bid to seek bids again or; (b) let them decide whether or not to seek the bid again.

Option 4

The deal would rightfully have been awarded to the competitor but for the incident, and hence it is most appropriate that my company should withdraw.

STEP III – Make decision and act with commitment

Both the parts of the analysis should be complied and conscious decision should be made. Once the decision is made, it has to be followed through with commitment irrespective of the consequences.

STEP IV – Evaluate the system.

What my team did was ethically wrong. Even if the bid book was carelessly left by the competitor, my team had no right to capitalize on the same. They should have returned it to the competitor. In any case, the competitors would have discovered their mistake. This would put the reputation of my company at stake.

The employees of the company need to be sensitized about the ethical practices and the culture of the company through appropriate training.

SOME MORE CASE STUDIES ON BUSINESS ETHICS**1) Apple Suppliers & Labour Practices****a) Largest turnover and Profit in 2014 and 2015**

With its highly coveted line of consumer electronics, Apple has a cult following among loyal consumers. During the 2014 holiday season, 74.5 million iPhones were sold. Demand like this meant that Apple was in line to make over \$52 billion in profits in 2015, the largest annual profit ever generated from a company's operations.

b) Hides more complicated set of business ethics

Despite its consistent financial performance year over year, Apple's robust profit margin hides a more complicated set of business ethics.

c) Sourcing is done overseas and not domestically

Similar to many products sold in the U.S., Apple does not manufacture most its goods domestically. Most of the component sourcing and factory production is done overseas in conditions that critics have argued are dangerous to workers and harmful to the environment.

d) Sourced in Indonesia

For example, tin is a major component in Apple's products and much of it is sourced in Indonesia. Although there are mines that source tin ethically, there are also many that do not.

e) Children working in unsafe conditions

One study found workers—many of them children—working in unsafe conditions, digging tin out by hand in mines prone to landslides that could bury workers alive.

About 70% of the tin used in electronic devices such as smartphones and tablets comes from these more dangerous, small-scale mines.

f) Interview and Investigation by BBC

An investigation by the BBC revealed how perilous these working conditions can be. In interviews with miners, a 12-year-old working at the bottom of a 70-foot cliff of sand said: "I worry about landslides. The earth slipping from up there to the bottom. It could happen."

g) Control over Monitoring

Apple defends its practices by saying it only has so much control over monitoring and regulating

its component sources.

- h) **Complex process as many of them sell through middle-men**
The company justifies its sourcing practices by saying that it is a complex process, with tens of thousands of miners selling tin, many of them through middle-men.
- i) **Refuse to source from whole Indonesia**
In a statement to the BBC, Apple said “the simplest course of action would be for Apple to unilaterally refuse any tin from Indonesian mines.
- j) **Pros and Cons of Refusing to source**
According to the company’s management the mentioned approach would have been easy for them and would certainly shield them from criticism. But at the same time it would have been a lazy and cowardly path also, as it would have done nothing to improve the situation. The company chose to stay engaged and attempted to drive changes on the ground.
- k) **Corrective course of action by Apple**
In an effort for greater transparency, **Apple released annual reports detailing their work with suppliers and labor practices.**

While more recent investigations have shown **some improvements to suppliers’ working conditions**

Apple continues to face criticism as consumer demand for iPhones and other products continues to grow.

2) Artic Offshore Drilling

- 1) **Alaska, Calufornia, Louisiana, Texas**
Offshore oil and gas reserves, primarily along coastlines in Alaska, California, Louisiana, and Texas, account for a large proportion of the oil and gas supply in the United States.
- 2) **Authorised Royal Dutch Shell in 2015**
In August 2015, President Obama authorized Royal Dutch Shell to expand drilling off Alaska’s northwest coast. His decision brought into sharp relief the different, oftentimes competing views on the expansion of offshore drilling.
- 3) **Increase national security, economy and workforce**
Many proponents of offshore drilling argue that tapping into the vast amount of oil and gas reserves in the Arctic will help shore up national security interests for the United States, bolster its economy and workforce, and offer Americans a reliable, safe supply of oil.
- 4) **Enormous amount of energy**
According to Robert Bryce, senior fellow at the Manhattan Institute for Policy Research, there are “enormous amounts of recoverable energy resources in the Arctic.
- 5) **Four times oil reserves of Kuwait**
The Department of Energy estimates them at something on the order of 400 billion barrels of oil equivalent in natural gas and oil. That’s four times the crude oil reserves of Kuwait.”
- 6) **Mitigate risk from dependence of foreign oil**
Framed this way, drilling in the Arctic presents a way for Americans to mitigate risks from

dependence on foreign oil and build the local and national economies by creating jobs and supplying cheap oil.

7) **Risk to environment**

A competing point of view charges that offshore oil drilling poses immense risk to the environment while reinforcing a reliance on dirty, environmentally unfriendly sources of energy.

8) **Harm Native animals**

Critics claim that industrial activity associated with offshore drilling in the Arctic could harm native animals, including polar bears, walrus, seals, and whales already jeopardized by climate warming and declining levels of sea ice.

9) **Not demonstrated capabilities to clean up oil spill**

Environmentalists argue that oil companies have not demonstrated the capability to clean up an oil spill in water obstructed by ice. Furthermore, they contend, extracting oil only perpetuates a fossil-fuel economy and will contribute dangerously to rising global temperature thereby exacerbating climate change.

10) **Protect Arctic**

“Granting Shell the permit to drill in the Arctic was the wrong decision, and this fight is far from over,” said Michael Brune, executive director of the Sierra Club. “The people will continue to call on President Obama to protect the Arctic and our environment.”

3) **Buying Green- Consumer Behaviour**

a) **Growing segment**

Green consumer products, such as organic food, fair trade coffee, or electric cars, represent a fast growing segment of the consumer market. In the area of organic food alone, data from the Organic Trade Association reveals that consumer demand in the United States has seen **double-digit growth every year since 1990.**

b) **2014- \$40 billion in Sales**

In 2014, the organic food market reached almost \$40 billion in sales.

c) **Consumer deemed more ethical**

Consumers of these products tend to be seen in a more positive light—they are deemed more ethical and kinder than people who do not buy green products.

d) In a series of experiments comparing consumption of green and “conventional” products, psychologists Nina Mazar and Chen-Bo Zhong demonstrated that those people who bought green products—like eco-friendly laundry detergent or organic yogurt—were less likely to share money with a stranger, more likely to cheat on a task in which they could earn money, and more likely to steal money when they thought they would not get caught. As the psychologists stated, “purchasing green products may license indulgence in self-interested and unethical behaviors.”

e) **Halo effect of green products**

Mazar and Zhong, whose study received considerable media attention in their native Canada, as well as in American and British publications, said the results surprised them.

Initially, they expected green products to provide a halo effect, whereby the positive impressions associated with green consumption would lead to positive outcomes in other areas. “Given that green products are manifestations of high ethical standards and humanitarian considerations, mere exposure [to them would] activate norms of social responsibility and ethical conduct,” said Mazar and Zhong in an interview.

f) **Opposite can be true**

But as the results indicate, the opposite can be true. "The message of this research is that actions which produce a sense of self content and moral glow can sometimes backfire," Mazar stated in another interview.

These patterns have been shown to extend to other shopping scenarios. For example, one study tracked scanner data and shopper receipts at a California grocery store. Those shoppers who **brought reusable grocery bags with them were more likely to buy environmentally friendly products, like organic food. But they were also more likely to buy indulgent products, like ice cream, cookies, candy, and cake.**

g) **Licensing effect only when the decision was at shoppers discretion**

The researchers followed up this study with a series of experiments that showed these moral licensing effects only happened when the decision to bring the reusable bags was at the shopper's discretion. When shoppers were told that the store required customers to use cloth bags, licensing effects disappeared and customers chose not to buy indulgent products. Only when consumers felt like using cloth bags was their own idea did the moral licensing effects hold.

4) Negotiating Bankruptcya) **John Gellene to represent equipment company**

John Gellene, a bankruptcy lawyer at the law firm Milbank Tweed, worked directly under Wall Street attorney Larry Lederman. In 1994, Lederman asked Gellene to represent mining equipment company Bucyrus-Erie (BE) in a reorganization bankruptcy that became increasingly complicated.

b) **Accepted infusion of cash to handle bankruptcy**

In an attempt to initially ward off bankruptcy, BE had, pursuant to the legal advice of Milbank Tweed and the financial advice of Goldman Sachs, accepted a \$35 million infusion of cash from an investment fund called South Street.

c) **Lien on all company's equipment to South Street**

In exchange, BE gave South Street a lien on all of the company's manufacturing equipment, putting it ahead of other BE creditors, including Jackson National Life (JNL).

d) **JNL largest creditor was unsecured**

JNL was BE's largest single creditor, but was unsecured. BE had posted no collateral in return for JNL's loan, so JNL was in line in bankruptcy court behind all of BE's creditors that had demanded collateral.

e) **Former Goldmans Sachs controlled South Street and also advise to BE**

South Street was controlled by Mikael, a former Goldman Sachs banker who had previously provided financial advice to BE and was advised by Lederman.

f) **Appoint him and Milbank as BE's counsel**

When Gellene filed a Chapter 11 bankruptcy petition on behalf of BE, he was required to ask the court to appoint him and Milbank Tweed as BE's counsel for purposes of the proceedings.

g) **Disclose potential conflict of interest**

At that time, he filed documents under oath that were supposed to disclose any potential conflicts of interest that Milbank Tweed had in the proceedings.

For reasons unknown, Gellene did not disclose to the bankruptcy judge (who would appoint counsel) the fact that Milbank Tweed was representing both South Street and Salovaara regarding various matters.

h) **Speculated that he did not disclose the potential conflict of interest**

Legal scholars and attorneys reflecting on this case years later have speculated as to why Gellene did not disclose what might seem to be obvious connections that could be potential conflicts of interest for Milbank Tweed. Lawyer Steve Sather suggests that the lack of disclosure may have been inadvertent, or that Gellene did not see the connections as inherent conflicts, among other possible reasons.

Regardless, Gellene did successfully guide BE through the reorganization process.

i) **JNL sued Milbank tweed**

The failure to disclose was not discovered until years later by JNL, which then sued Milbank Tweed. Criminal charges were filed against Gellene for three felony counts of making false statements under oath in regard to Milbank Tweed's ability to serve as bankruptcy counsel. Gellene was convicted and sent to prison for 15 months.

5) **Selling ENRON**

a) **California deregulated electricity market and opened for private sector**

In the late 1990s, the state of California deregulated many of its electricity markets, opening them up to private sector energy companies.

b) **Enron succeeded and become a model**

Enron Corporation had long lobbied for deregulation of such markets and would likely have profited greatly had California's experiment succeeded and become a model for other states.

c) **CEO Statement on ethical standards**

Enron CEO Ken Lay wrote a public statement saying that Enron "believes in conducting business affairs in accordance with the highest ethical standards... your recognition of our ethical standards allows

d) **Employees avoid unethical situation**

Enron employees to work with you via arm's length transactions and avoids potentially embarrassing and unethical situations."

At the same time, Tim Belden, a key Enron employee in its energy trading group, noticed that California's "complex set of rules...are prone to gaming."

e) According to Bethany McLean and Peter Elkind, authors of The Smartest Guys in the Room: The Amazing Rise and Scandalous Fall of Enron:

f) **Drawbacks**

Demand which was not there

Enron submitted a schedule reflecting demand that wasn't there...

Transmission schedule

Another was a variation of the Silverpeak experiment: Enron filed imaginary transmission schedules in order to get paid to alleviate congestion that didn't really exist...

g) **Impact on customers**

The impact on customers was clear: electricity prices rose and rolling blackouts occurred. Enron's profits, however, quadrupled.

An Enron lawyer later wrote that the Enron traders did not think "they did anything wrong."

Another employee admitted, "The attitude was, 'play by your own rules.' ...

The energy markets were new, immature, unsupervised. We took pride in getting around the rules.

h) **Public knowledge in October 2001**

In October 2001, Enron's unethical and illegal business practices became public knowledge.

i) **Filed bankruptcy in Dec 2001**

Enron's stock prices plummeted, and the company filed for bankruptcy in December 2001.

6) The Collapse of Barings Banka) **Background of Barings Bank**

Founded in 1762, Barings Bank was a United Kingdom institution with worldwide reach. Even the Queen of England had an account there.

b) **Hired Nick Leeson**

In 1989, Nick Leeson was hired at Barings, where he prospered. He was quickly promoted to the trading floor and appointed manager in Singapore where he traded on the Singapore International Monetary Exchange (SIMEX).

c) **Aggressive trader**

Leeson was an aggressive trader, making large profits in speculative trading.

d) **1993**

His profits constituted almost 10% of Barings' total profits.

e) **Reputation developed**

He had developed a reputation for expertise, for near-infallibility, and his superiors in London gave him little supervision.

f) **July 1992- Small Loss**

In July 1992, a new Barings employee suffered a small loss on Leeson's watch. Leeson did not wish to lose his reputation for infallibility, or his job, so he hid the loss in an error account.

g) **Attempt to make back the loss led to even bigger loss**

Leeson attempted to make back the loss through speculative trading, but this led to even bigger losses, which again were hidden in this account. He kept doubling up his bets in an attempt to get out from under the losses.

h) **Leeson later said:Massive Losses**

"I wanted to shout from the rooftops...this is what the situation is, there are massive losses, I want to stop. But for some reason you're unable to do it. ... I had this catastrophic secret which was burning up inside me—yet...I simply couldn't open my mouth and say, 'I've lost millions and millions of pounds.'"

i) **Short term bet on index in Japan-several earthquake and loss was huge**

Leeson took out a short-term, highly leveraged bet on the Nikkei index in Japan. At the same

time, a severe earthquake in Kobe, Japan sent the index plummeting, and his loss was so huge that he could no longer hide it.

j) **Bank collapsed**

Barings, a 233-year old bank, collapsed overnight and was bought by ING for £1.

k) **Arrested and extradicted**

Leeson fled to Malaysia, Thailand, and finally to Germany, where he was arrested and extradited to Singapore. He plead guilty to two counts of deceiving bank auditors (including forging documents) and cheating the SIMEX. Leeson was sentenced to six and a half years of prison in Singapore, but only served four years due a diagnosis of colon cancer, which he ultimately survived.

7) **Wells Fargo and Moral Emotions**

a) **Wells Fargo Irregularity**

On September 8, 2016, Wells Fargo, one of the nation's oldest and largest banks, admitted in a settlement with regulators that it had created as many as two million accounts for customers without their permission. This was fraud, pure and simple.

b) **Reason of fraud**

It seems to have been caused by a culture in the bank that made unreasonable demands upon employees.

c) **Fines and Penalties**

Wells Fargo agreed to pay \$185 million in fines and penalties.

d) **Cross-sell by employees**

Employees had been urged to "cross-sell." If a customer had one type of account with Wells Fargo, then top brass reasoned, they should have several.

e) **Strongly incentivized**

Employees were strongly incentivized, through both positive and negative means, to sell as many different types of accounts to customers as possible.

f) **Eight is Great- Eight financial product by one customer**

"Eight is great" was a motto. But does the average person need eight financial products from a single bank? As things developed, when employees were unable to make such sales, they just made the accounts up and charged customers whether they had approved the accounts or not.

g) **PIN without knowledge to enroll**

The employees used customers' personal identification numbers without their knowledge to enroll them in various products without their knowledge. Victims were frequently elderly or Spanish speakers.

h) **Guilt and embarrassing to employee**

Matthew Castro, whose father was born in Colombia, felt so bad about pushing sham accounts onto Latino customers than he tried to lessen his guilt by doing volunteer work. Other employees were quoted as saying "it's beyond embarrassing to admit I am a current employee these days."

i) **Whistle blowing was ignored**

Still other employees were moved to call company hotlines or otherwise blow the whistle, but they were simply ignored or oftentimes punished, frequently by being fired.

j) **Employee challenge retaliation**

One employee who sued to challenge retaliation against him was “uncomfortable” and “unsettled” by the practices he saw around him, which prompted him to speak out. “This is a fraud, I cannot be a part of that,” the whistleblower said.

k) **Improper terms on loans, insurance , credit card**

Evidence surfaced that the bank improperly changed the terms of mortgage loans, signed customers up for unauthorized life insurance policies, overcharged small businesses for credit-card processing, and on and on.

l) **CEO appeared before Congress**

In September of 2016, CEO Stumpf appeared before Congress and was savaged by Senators and Representatives of both parties, notwithstanding his agreement to forfeit \$41 million in pay.

m) **Theft, A criminal enterprise**

The members of Congress denounced Wells Fargo’s actions as “theft,” “a criminal enterprise,” and an “outrage.”

n) **CEO took full responsibility**

Stumpf simultaneously took “full responsibility,” yet blamed the fraud on ethical lapses of low-level bankers and tellers. He had, he said, led the company with courage.

o) **Retirement and replaced**

Nonetheless, by October of 2016 Stumpf had been forced into retirement and replaced by Tim Sloan.

p) **More Allegations**

Over the next several months, more and more allegations of wrongdoing arose.

Illegally repossessed cars

The bank had illegally repossessed cars from military veterans. It had modified mortgages without customer authorization.

Auto insurance charged

It had charged 570,000 customers for auto insurance they did not need.

Excessive credit card fees

It had ripped off small businesses by charging excessive credit card fees.

Fake account increase

The total number of fake accounts rose from two million to 3.5 million.

Wrongly fined

The bank also wrongly fined 110,000 mortgage clients for missing a deadline even though the party at fault for the delay was Wells Fargo itself.

q) **Refunds and settlement**

By September, 2017, Wells Fargo had paid \$414 million in refunds and settlements and incurred hundreds of millions more in attorneys’ and other fees. This included \$108 million paid to the Department of Veterans Affairs for having overcharged military veterans on mortgage refinancing.

r) **Shareholder was angry in AGM**

Sloan was still CEO when the company had its annual shareholders meeting in April 2018.

Shareholder and protestors were both extremely angry with Wells Fargo. By then, the bank had

paid an additional \$1 billion fine for abuses in mortgage and auto lending.

s) **Federal Reserve Board**

Federal Reserve Board had ordered the bank to cap its asset growth. Disgust with Wells Fargo's practices caused the American Federation of Teachers, to cut ties with the bank. Some whistleblowers resisted early attempts at quiet settlements with the bank, holding out for a public admission of wrongdoing.

t) **May 2018 share price dropped**

In May 2018, yet another shoe dropped. Wells Fargo's share price dropped on news that the bank's employees improperly altered documents of its corporate customers in an attempt to comply with regulatory directions related to money laundering rules.

u) **Removed cross- Selling incentives**

Ultimately, Wells Fargo removed its cross-selling sales incentives.

v) **Employees were suffering**

CEO Sloan, having been informed that lower level employees were suffering stress, panic attacks, and other symptoms apologized for the fact that management initially blamed them for the results of the toxic corporate culture, admitting that cultural weaknesses had caused a major morale problem.

8) **The COSTCO Model**

a) **Ethical companies in the world**

Costco is often cited as one of the world's most ethical companies. It has been called a "testimony to ethical capitalism" in large part due to its company practices and treatment of employees. Costco maintains a company code of ethics which states:

"The continued success of our company depends on how well each of Costco's employees adheres to the high standards mandated by our Code of Ethics... By always choosing to do the right thing, you will build your own self-esteem, increase your chances for success and make Costco more successful, too."

b) **Higher wages can yield greater success**

In debates over minimum wage in the United States, many commentators see Costco as an example of how higher wages can yield greater company success, often pointing to competitors such as Walmart and Target as examples that fall short in providing for their employees.

c) **Only one factor easily replicable**

Other commentators do not see Costco's model as being easily replicable for different types of businesses, citing wages as only one of many factors to consider in companies' best practices.

d) **40% more payout**

Costco tends to pay around 40% more and provides more comprehensive health and retirement benefits than Walmart and Target, saving large amounts in employee turnover costs.

e) **Resist layoff and invest in training employees**

The company resists layoffs, invests in training its employees, and grants them substantial autonomy to solve problems.

f) **U.S. Secretary of Labor Thomas Perez stated:**

“And the remarkable loyalty that [employees] have to [Costco cofounder Jim Sinegal] is a function of the fact that he categorically rejects the notion that, ‘I either take care of my shareholders or my workers.’ That is a false choice.”

g) **Business model favours higher productivity**

While few disagree with the benefits of fair treatment of employees, some commentators credit the success of Costco to its broader business model that favors higher productivity, not employee satisfaction.

h) **Columnist and economist Megan McArdle explains:**

“A typical Costco store has around 4,000 SKUs [stock keeping units], most of which are stacked on pallets so that you can be your own stockboy. A Walmart has 140,000 SKUs, which have to be tediously sorted, replaced on shelves, reordered, delivered, and so forth. People tend to radically underestimate the costs imposed by complexity, because the management problems do not simply add up; they multiply.”

Furthermore, McArdle notes that Costco mainly serves as a grocer rather than department store and caters to a generally affluent customer base in suburban areas.

9) **Cadbury: An Ethical Company Struggles to Insure the Integrity of its Supply Chain**

a) **Affordable luxury associated with romance**

Chocolate had always been considered an affordable little luxury, associated with romance and celebrations.

b) **Production of Cocoa**

Therefore in 2000 and 2001, revelations that the production of cocoa in the Côte d'Ivoire involved **child slave labor** set chocolate companies, consumers, and governments reeling.

c) **Label- Slave Labour free**

In the United States, the House of Representatives passed legislation mandating that the FDA create standards to permit companies who could prove that their chocolate was produced without forced labour to label their chocolate “slave-labour free.”

d) **4 years to curb abusive practices**

To forestall such labelling, the chocolate industry agreed to an international protocol that would give chocolate producers, governments, and local farmers four years to curb abusive practices and put together a process of certification.

e) **Paid close attention to the welfare of workers and sourcing partner**

Furthermore, Cadbury's culture had been deeply rooted in the religious traditions of the company's founders, and the organization had paid close attention to the welfare of its workers and its sourcing practices.

f) **Change after 100 years**

In 1908, the company had ended a sourcing relationship that depended on slave labour. Now for the first time in nearly 100 years, Cadbury had to take up the question of slavery again.

g) **Two more years**

By the 2005 deadline, the chocolate industry was not ready to implement the protocols and asked for two years more to prepare. Privately, many industry officials believed that the kind of certification sought by the protocols was unrealistic.

h) **Small farms comply with child labour laws**

Because cocoa was produced on over a million small farms in western Africa, insuring that all of these farms, most located deep in the bush, complied with child labour laws seemed impossible. Furthermore because beans from numerous small farms were intermingled before shipment, it was difficult to track those produced by farms in compliance with labour standards and those that were not.

i) **Left company in difficult position**

In 2008, a confrontation between U.S. government officials and the industry seemed imminent. Observers argued that this left Cadbury, a company that had done much to improve its supply chain, in a difficult position.