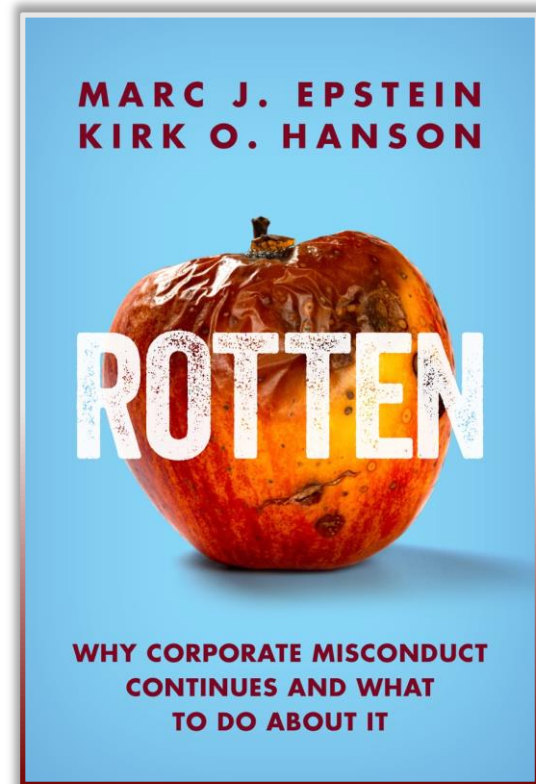


# **ROTTEN: Why Corporate Misconduct Continues and What to Do About It**

Marc J. Epstein and Kirk O. Hanson

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# Why does misconduct occur

## ○ The Bad Apple

- *A percentage of employees & executives are unethical*
- Companies don't identify and act quickly to deal with bad apples

## ○ The Bad Barrel

- *Some corporate cultures tolerate or incent misconduct*
- CEO leadership and company ethics programs are ineffective

## ○ The Bad Orchard

- *Some competitive environments are corrupt*
- Companies don't recognize and manage risk of corrupt environments



# Red Flag Warnings of Corporate Ethics Risk

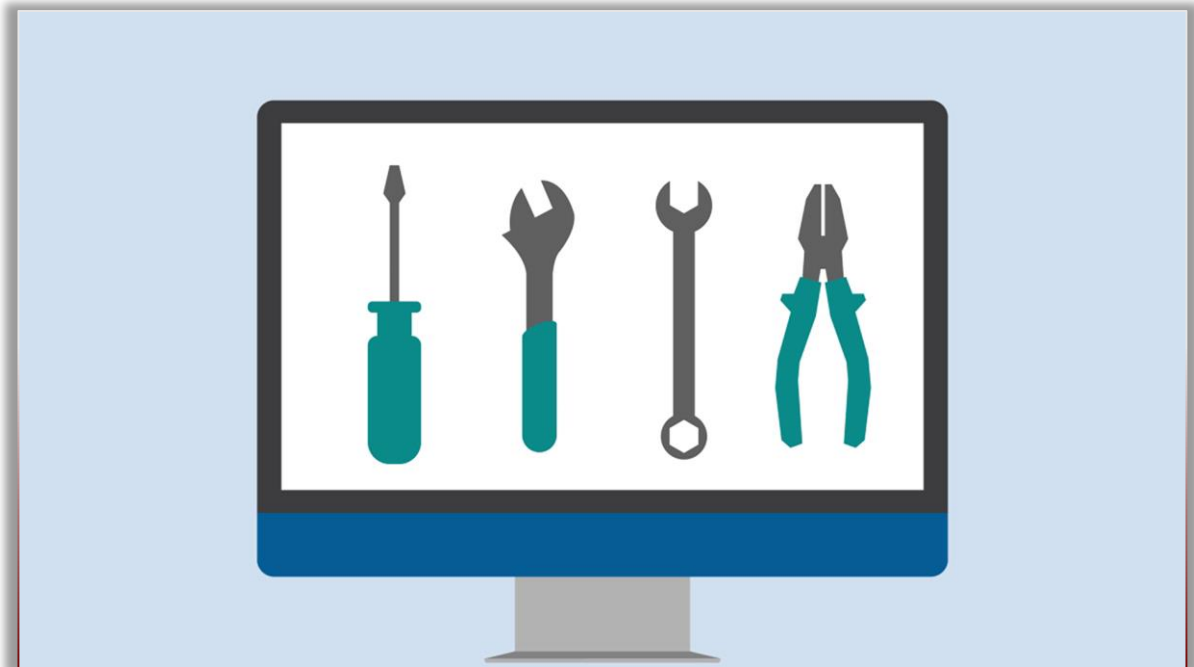
1. **Company record of repeated offenses**
2. **Industry record of repeated misconduct**
3. **Imperial CEO**
4. **Culture of secrecy**
5. **Workaround culture**
6. **Strategy bets the farm**
7. **Star system for promotions**
8. **Financially distressed**
9. **Lack of oversight**
10. **Company operates in bad orchards**



# THREE TOOLS

- **“The Sin-dex” - Seriousness of misconduct** – (harm & intent)
  - *Focuses attention on priority behaviors and risks*
- **Ethical Performance Audit** (backward looking)
  - *Enables failure analysis*
- **Ethical Risk Audit** (forward looking)
  - *Enables risk mitigation*

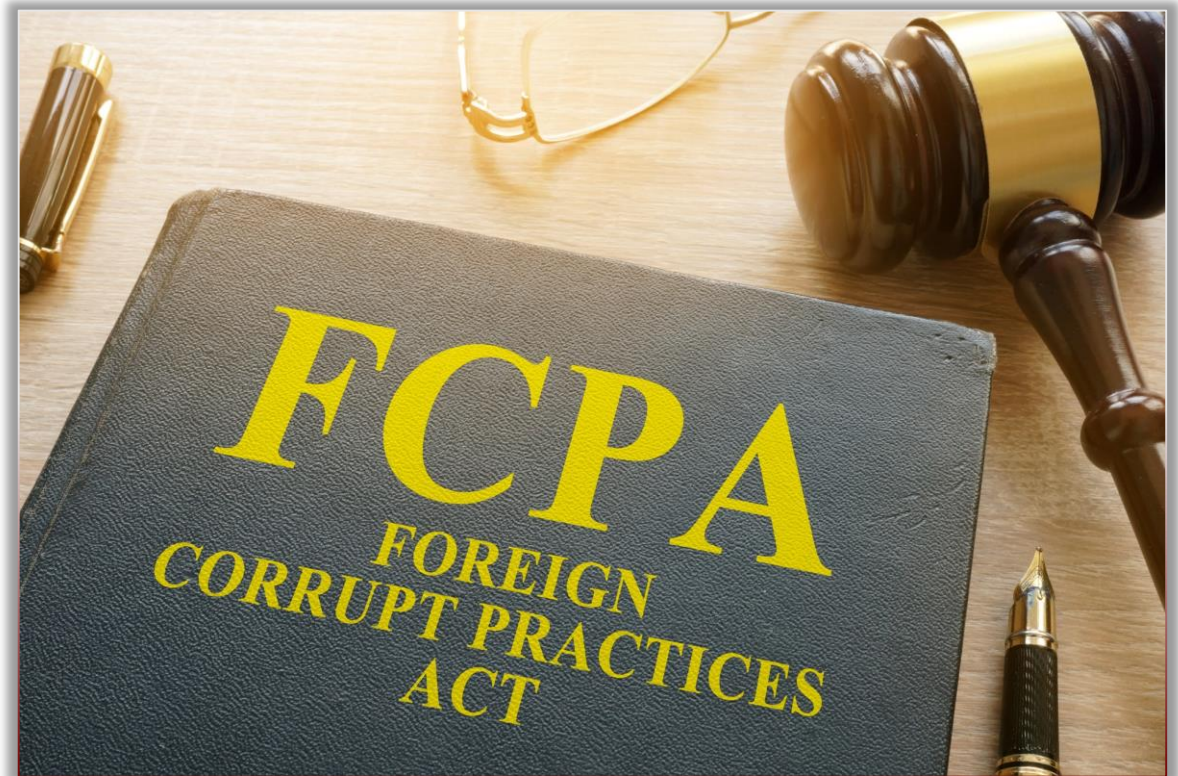
## Measuring Ethical Performance & Risk





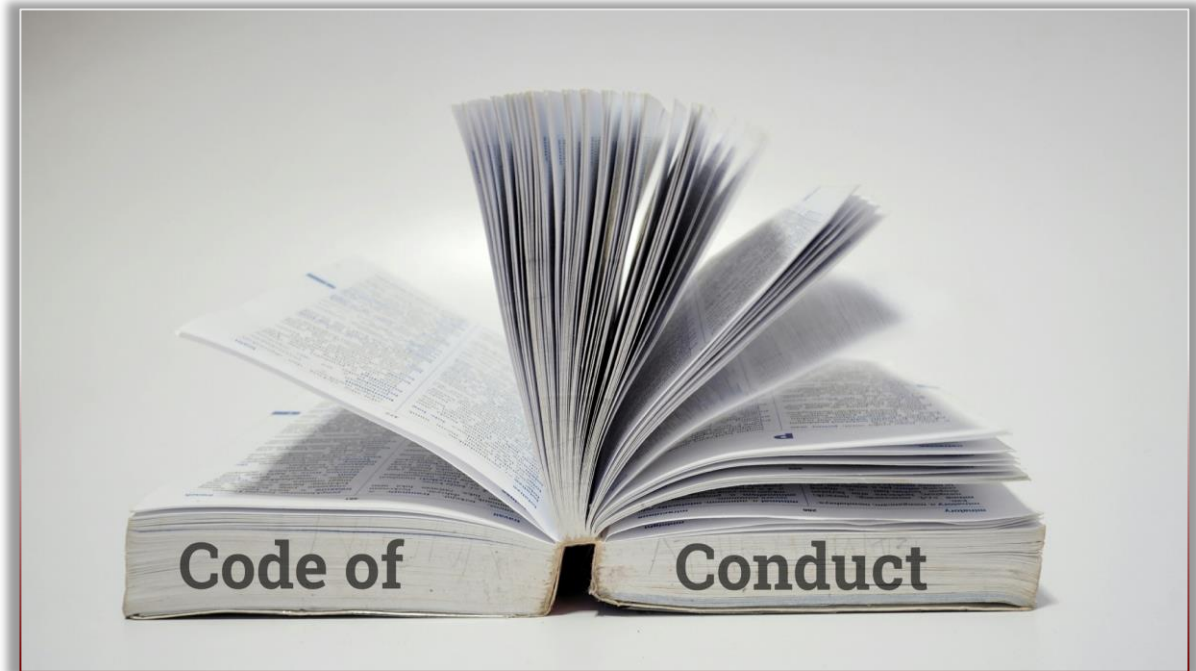
- Ethics and values of individuals
- Family, schools, and churches
- Laws and regulations
- CEO leadership
- Corporate ethics programs
- Business School courses and external ethics training
- Corporate self regulation
- Social activism
- Building the “business case” that ethics is profitable

# How have we tried to control misconduct



# Reforming corporate ethics efforts - I

1. Redefine corporate purpose – both economic and social
2. Create purpose-driven business strategies
3. Set a new tone at top – genuine moral leadership
4. Enhance line accountability for purpose and ethics
5. Expand the portfolio of chief ethics officer to include “macro-ethics” issues



# Reforming corporate ethics efforts - II

6. Establish transparent and safe environment on ethics
7. Evaluate all incentives and systems based on values
8. Implement new ways to anticipate ethical impacts and risks
9. Raise board accountability for purpose and ethics
10. Reform existing ethics and compliance programs



# Troubling record of corporate misconduct

- 1995 – Barings Bank
- 2001 – Enron
- 2002 – WorldCom
- 2004 – Siemens
- 2008 – Wall Street
- 2008 – Satyam Computer
- 2009 – Bernard Madoff
- 2010 – BP
- 2010 – Massey Energy
- 2012 – Facebook (privacy)
- 2013 – Rana Plaza
- 2014 – VW
- 2015 – Takata
- 2016 – Wells Fargo Bank
- 2017 – Equifax
- 2018 – Theranos
- 2019 – Boeing
- 2020 - Airbus