

Tyco international: leadership crisis flashcard



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Tyco International: Leadership Crisis Case Study #14 Ethical Decision Making

LDR Case Study Prepared by: Tyco International: Leadership Crisis Tyco

International, one of the most notorious scandals of this decade. Tyco

International is a diversified manufacturer that had a big ambition in the late 1990s: to become the next General Electric. The company provides security

products and services, fire protection and detection products and services,

valves and controls, and other industrial products. On September 12, 2002,

Two of Tyco International top executives, CEO L.

Dennis Kozlowski and CFO Mark H Swartz were arrested and charged with

misappropriating more than \$170 million from the company. Another

executive and general counsel was charged with concealing \$14 million in

personal loans. Tyco survived the scandal under the new leadership of the

CEO Edward Breen. Breen implemented a corporate code of ethics and

installed a corporate ethics program that is a role model for how one can

clean up corporate misconduct. The man behind the scandal Dennis

Kozlowski, CEO. Dennis Kozlowski was born November 16, 1946 in Newark,

New Jersey.

He grew up in a Polish neighborhood and was the first one from his family to

attend College. Kozlowski started his career in Tyco in 1975 as an internal

auditor, becoming the CEO in 1992. The company massively expanded

during Kozlowski's years as the CEO. Wall street had a nickname for

Kozlowski - " Deal-a-month Dennis". (case study) His strategy worked. By

the year 2000, Tyco's revenue was \$28 billion year. Kozlowski saw himself as

Jack Welch, the former CEO of General Electric, bold leader who focused on

winning. Kozlowksi saw himself as guru, he wanted to show the way to buy

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old boring companies that were not worth that much and by “ hard work, rolling up your sleeves and being tough on expenses turning them into something profitable and valuable”. The company has a modest headquarters in New Hampshire, with a efficiently controlled staff . “ Lean, mean, efficient machine”. Kozlowski was one the highest paid CEO’s in America. In 1996 he made eight point nine million dollars, three years later, in 1999 he made one hundred and seventy million dollars. Kozlowski explained his earnings by “ stock performance”. By 2001, Kozlowski spent over \$13 million on expensive art pieces purchased in New York.

Taking advantage of the company’s headquarters in NH, the state he had empty art boxes shipped to New Hampshire; in actuality the masterpieces were sent to his new apartment in Manhattan. Kozlowski evaded more than one million dollars in sales tax. Kozlowski continued to spend money. He was into sailing and spent fifteen million dollars on the Endeavour, a so-called J-Class vessel, that was built for British aviation pioneer and yachtsman Thomas Sop with to compete in the 1934 America’s Cup. Kozlowski gave away millions of dollars to schools, charities in Nantucket, New York and Maine.

He spared no cost in acquiring his homes. In 1997, Kozlowski spent five million dollars on his Nantucket home, he purchased a Mediterranean style mansion in Boca Florida for nineteen million dollars, he also bought a ski lodge in Colorado and a sixteen million dollar corporate apartment in Manhattan, paid for with Tyco money. Kozlowski spent \$11 million on apartment interior, which included a six thousand dollar shower curtain and \$15 thousand dog shaped umbrella stand and an additional \$2 million for his

wife's fortieth birthday party in Sardinia. What role did Tyco's corporate culture play in the scandal?

Kozlowski's charismatic leadership style combined with the firm's decentralized structure meant that few people, including the board of directors, accurately understood the firm's activities and finances. Those who did were shot down and his ousting of employees who were critical of his decisions are indicators of Kozlowski's unethical behavior. (case study) Top management provides a blueprint for what a firm's corporate culture should be. If the leaders fail to express desired behaviors and goals, a corporate culture will evolve on its own, but it will still reflect the values and norms of the company. Tyco did not really have this blueprint until after the scandal. Now they have an ethics code that everyone must read and be reminded each year. Funny how everyone in the company needs to do this because of a few others that had no ethics. The people that have ethics and morals already know how to act. The chief executive officer, (CEO) is the corporate executive responsible for the operations of the firm and reports to a board of directors. The chief Financial Officer (CFO) is the corporate executive having financial authority to make appropriations and authorize expenditures for a firm.

Could the blame of the scandal be put on Executive Compensation?

Executives are compensated with high salaries to lead and ensure that the vision and goals of the company are followed, common vision is to be ethical while building the future of the firm and be profitable. The executive board and senior officers are the responsible people that decide how the company will make the profits. Hopefully, ethically and legally. I think most of the

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people that go wrong such as the Enron, Tyco and BP lose focus on how to stay profitable. If someone offered you millions to produce, you would do what you could to make it happen.

Then after having a taste of the “ other” side and what wealth can bring you, it is hard to stop. I know this may be a stretch but could Kozlowski’s family be involved with the decision-making? The risks that Kozlowski took, not so much from hurting the company, but by his own stupidity was to keep that lifestyle going. If we scaled back the compensation to executives and even sports stars, maybe we would have some of our problems today. White-collar crimes do more damage in monetary and emotional loss in one year than the crimes of the street over several years combined.

In the case of Tyco, employees did not lose any of their savings. The company took a huge hit as the reputation of Tyco was changed. Now years later they are still a billion dollar company. In the case against Kozlowski he created the trust and respect of others on the board. The board of directors (which were also charged) were aware of what was going on. Was there power abuse by Kozlowski? Were the other board members hesitant to talk about what was going on? Everyone that knew him respected him and trusted what he did for the company. Why is Kozlowski, now a prisoner for a long time, unrepentant about his conduct as CEO of Tyco?

He was sentenced for Grand larceny, securities fraud, other crimes, and for stealing \$137 million in unauthorized bonuses as well as selling \$410 million in inflated stock. Did Dennis Kozlowski have a moral philosophy? We know that it means the general system of values which we live. It is the rules of

what people use to decide what is right and wrong. I truly believe that he had his own moral philosophy. In his head he did think he was doing the right thing. He admitted that he was paid a lot of money and this was because he made a lot of money for the company and all stakeholders.

Was he to take his paycheck and make a deposit each week? His lifestyle changed just like you and I would. After a few extra overtime hours I treat myself to the better beer never mind if I got millions. Dennis did not (in his own head) feel he was doing wrong. Kozlowski maintains his innocent that he did nothing wrong because of the corporate culture at Tyco. A company's history of unwritten rules and value on success by any means encouraged by extravagant salaries created a reward power culture. This culture was further confirmed by the unethical behavior of several directors.

Was this behavior accepted and encouraged because Kozlowski was making money for all stakeholders, including themselves? Kozlowski's moral philosophy is that he was taking what was approved by the board of directors, money that was due him, what he earned. In his mind he is or was entitled. Due to the unethical behavior of Tyco's executives the new CEO, Edward Breen, needed implement a code of ethics in effort to improve the ethical standards of the company. He did this by introduced the Tyco Guide to Ethical Conduct in 2003, followed by training of employees in 2004.

Annually every employee must sign the Tyco ethical statement. In December of 2007 and amended Board Governance Principles was published. (1, 2) In this document Tyco's vision and values are illustrated as is the culture of responsibility and guide to ethical conduct and most importantly the Tyco

Board of directors mission, how the board oversees the company and goes into detail on what is expected and the guidelines of the members of the board. (3) Work Cited 1. Tyco's cost tyrant. 2001. Strategic Direction 17, no. 5 (May 1): 9-11. <http://www.proquest.com/dbgw.lis.urtin.edu.au/> (accessed October 17, 2007). 2. Louis Lavelle in New York (2002, November). REBUILDING TRUST IN TYCO Wharton's Mike Useem aims to overhaul the corporate culture. But was he too close to the problem? Business Week, (3809), 94-96. Retrieved October 17, 2007, from ABI/INFORM Global database. (Document ID: 242526061). 3. 2007 Tyco International, Ltd. – Board Governance Principles 4. Ferrell, Fraedrich, Ferrell " Business Ethics", 7th & 8th Edition, Ethical Decision Making. 5. Bloomberg Business week: " Solving Tyco's Identity Crisis", Feb. 7, 2008.