

Tyco international company culture and ethics

[Business](#), [Company](#)



On September 12, 2002, Tyco International's former chief executive officer L. Dennis Kozlowski and former chief financial officer Mark H. Swartz have been arrested and charged with stealing more than \$170 million from the company as well as more than \$430 million through false sales of Tyco stock and covering the information from shareholders. Kozlowski and Swartz were charged with more than thirty counts of wrong doing. Hence, Tyco scandal was one of the most notorious of the early 2000s.

Consequently, companies need to be alert of any changes in their culture, predominantly with regard to ethical behavior. For example, according to George P. Jones (2003), if sales personnel who aggressively book revenue are consistently rewarded while those who take a more conservative approach are left behind, one may expect to find problems in the company's revenue classifications and related financial figures. Furthermore, corporate culture is how a corporation thinks the business should be ran.

Senior management always has a belief that a firm owed it to its shareholders to get as much profit as possible forgetting that the company's corporate culture is as important as the profit making. In Tyco's case, the CEO, Kozlowki was the second-highest-paid CEO, but his lack of conservativeness, his aggressive business style and his extravagant way of living, did raise some red flags and indicated that Kozlowski was acting unethically by manipulating the company's financials and using the company's money unethically. According to Whelan G. 2012), as MULTINATIONAL CORPORATIONS (MNCs) have become more numerous, more powerful, and more variously engaged (Dunning & Lundan, 2008; Roach, 2005; UNCTAD, 2010), and as their global operating context has <https://assignbuster.com/tyco-international-company-culture-and-ethics/>

changed (Kobrin, 2005; Ruggie, 1982, 2008a), so too have the normative demands commonly made of them. Within the business ethics and business and society literatures for example, the belief that 'globalization' has increased the power of MNCs, and concomitantly decreased the power of states, has informed a body of work that normatively prescribes, and positively describes and explains, the political duties and activities of MNCs.

Tyco's stock price initially fell when Tyco was going to make a bid for Honeywell (subject of General Electric's failed takeover last year). The rumor caused Tyco's share price to plummet around 8.5 percent in the last half hour of trading, and although a company spokesperson denied there was any truth in it immediately after the close, Tyco was in the spotlight - it came under very close scrutiny in the days and weeks that followed (insideinvestorrelations.com). Additionally, the fraud began to unfold when the Securities and Exchange Commission was examining the company's stock price.

Business practices by senior management have raised some red flags and the SEC started an investigation into Tyco's practices. Suspicious accounting practices surfaced because Tyco had forgiven a \$19 million loan to Kozlowski in 1998 and had paid the CEO's income taxes on the loan. It was then discovered that the company's stock price had been overvalued, and that the CEO and CFO had sold 100 million dollars' worth of shares, and then stated to the public that he was holding them, which was a misrepresentation and misled the investors.

Kozlowski and Swartz stole approximately \$600 million by taking unauthorized pay and bonuses, abusing loan programs and selling their company stock at overstated prices after lying about Tyco's finances. And according to nbcnews. com, often, when these two men were accused of stealing millions of dollars, prosecutors said, the defendants hid their alleged thefts by failing to disclose the bonuses and loan forgivenesses in company prospectuses and federal filings, and bought the silence of underlings with outsized compensation.

Both used Tyco's money to buy extravagant lifestyles that featured art, jewelry and real estate, prosecutors said. An example of that spending was the gaudy \$2 million toga party Kozlowski threw for wife Karen's 40th birthday on the Mediterranean island of Sardinia, they said. Tyco paid about half of the party's cost. Lines Mr. Kozlowski crossed in his tenure as CEO •He had Tyco pay for his \$30 million New York City apartment which included \$6, 000 shower curtains and \$15, 000 " dog umbrella stands". He also purchased several acres in the private gated community, " The Sanctuary", in Boca Raton, Florida •He was engaged in financial frauds through Loanforgivenessand inappropriate bonus payments. •He also lied to the shareholders by overrating the stocks of the company. Kozlowski made Tyco pay \$1 million (half of the \$2 million bill) for the 40thbirthday partyof his second wife. The party was held on the Italian island of Sardinia, it included an ice sculpture of Michelangelo's David urinating Stolichnaya vodka and a private concert by Jimmy Buffett.

The party was announced as a shareholder meeting in order to get corporate funding.

Conclusion

Perhaps one of the most disturbing things of the Tyco scandal was that nobody caught the thieves on time, the fraud surfaced when special groups were put in place to particularly prevent fraud and protect investors. The SEC was not able to prevent or catch the problem on time, they only caught this once it had already spread widely.

Decentralizing corporate structure can make it difficult, even for the board of directors, to effectively monitor a firm's dealings and finances. Kozlowski's fall and the repercussions of his dirty dealings (financial penalties and jail time) are also detailed. Finally, an explanation of how Tyco survived the scandal is provided, along with safeguards the company has put into place to ensure that similar misconduct does not occur in the future.

Reference

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