

Pepsico ethics and compliance assignment

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PepsiCo Ethics and Compliance FIN/370 ??? Finance for Business PepsiCo Ethics and Compliance PepsiCo Inc. is a world leader in the beverage and snack food industry. Founded in 1965, the company has grown to become a household name. PepsiCo employs more than 285, 000 employees worldwide, and has revenues of more than \$60 billion (Our History, 2011). PepsiCo prides itself on social and environmental responsibility, and maintains a commitment to ethical business practices.

Role of Ethics and Compliance in PepsiCo's Financial Environment The management at PepsiCo realizes that reputation hinges on adherence to ethical policies as seen in the public eye. Because of this, PepsiCo has interwoven ethics throughout the company's policies and procedures, its training practices, and its timely and accurate financial reporting. As evidence of such, in 2010 Ethisphere Magazine ranked PepsiCo one of the world's most ethical companies. The magazine also placed PepsiCo in the top 25% for compliance performance among beverage industry competitors in the Dow Jones Sustainability World Index (Ethisphere, 2010, Sec. 0).

PepsiCo's letter to the Shareholders (2010) states, " our actions??? the actions of all our associates??? are governed by our Worldwide Code of Conduct...the Code and our core values enable us to operate with integrity??? both within the letter and the spirit of the law" (p. 102). The letter further states that PepsiCo is " committed to providing timely, accurate, and understandable information to their investors" (p. 102).

PepsiCo displays its ethical commitment by maintaining strong controls over financial reporting, exerting rigorous business oversight, and requiring strong and effective corporate governance from its board of directors.

The company is committed to providing investors with financial results that are “ complete, transparent, and understandable” (Annual Report, 2010, p. 102). To ensure adherence to these ethical principles, PepsiCo employs an independent registered public accounting firm to audit its financial statements and those of its subsidiaries. The firm also audits PepsiCo’s internal control over financial reporting according to the guidelines set forth in Internal Control ??? Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Audits are conducted in accordance with the Public Company Accounting Oversight Board (Annual Report, 2010). PepsiCo has some of the highest standards for maintaining corporate governance. PepsiCo shareholders elect members of its board of directors annually. Outside advisory firms help watch over the company and give advice to the board of directors. Some of the advisory firms include Institutional Shareholder Services and Governance Metrics International. PepsiCo maintains strict company standards and accountability, and holds all employees responsible for their actions.

Ethics Training and Code of Conduct PepsiCo conducts regular code of conduct training to keep the company in harmony with legal and ethical compliance. The PepsiCo brand is recognized worldwide, and company leaders are very conscious about maintaining a strong ethical company. PepsiCo’s has translated its code of conduct training into 38 languages, and this tool helps the company maintain the highest ethical behavior worldwide. PepsiCo prides itself on reporting earnings to the shareholders through ethically sound financial statements.

PepsiCo demonstrates to the business world a commitment to honesty and compliance with industry standards, along with the stiff regulations of the SEC, Security Exchange Commission. PepsiCo reports all financial dealings and strives to report correct statements to its shareholders (Silverblatt, 2010). Business Ethics Leadership alliance PepsiCo is a member of the Business Ethics Leadership alliance (BELA), an organization committed to raising public awareness of the importance of ethics in business. BELA promotes development of higher standards of corporate compliance and sharing best practices.

Other members include Walmart, United Airlines, GE, and McDonald's. Through BELA, PepsiCo and approximately 50 other companies demonstrate the importance of integrity over a bigger bottom line. To be a member of BELA, a company must be able to prove its dedication to stringent policies to weed out corruption, waste, and demonstrate procedures to lead its employees effectively. BELA's goals are to affirm a public commitment to certain ethical principles and compliance practices, and to provide public resources for BELA members to uphold their commitment and other companies to follow their lead (Ethisphere, 2011). PepsiCo is "strongly committed to delivering sustained growth through empowered people acting responsibly and building trust" (Worldwide Code of Conduct, 2011, para. 2). Pepsi seeks not only to be a dominant company in the food and beverage industry but also a leader in conducting ethical business behavior. PepsiCo Financial Analysis Financial statements provide management and investors information on the financial health of the organization, and how its assets

are financed. They must be clear, unbiased, and conform to generally accepted accounting principles.

Ratio analysis of financial data gives insight into the liquidity, asset utilization, profitability, and leverage of an organization. This analysis can be used to compare an organization with its competitors and industry leaders (Mayo, 2007). Current ratio= $\frac{\text{Current assets}}{\text{Current liabilities}}$ Period Ending|
 Dec 25, 2010| Dec 26, 2009| | | Total Current Assets | 17, 569, 000| 12, 571, 000| Total Current Liabilities | 15, 892, 000| 8, 756, 000| Current Ratio | 1. 11| 1. 44| The current ratio in the year ending December 2010 was 23% lower than the previous year.

This indicates a reduction of liquidity from the prior year. PepsiCo's current ratio is lower than the industry average of 1. 2 and the S; P 500 average of 1. 4 (Pepsico Inc (PEP. N), 2011). Debt Ratio= $\frac{\text{Total debt}}{\text{Total assets}}$ Period Ending|
 Dec 25, 2010| Dec 26, 2009| Total Liabilities | 46, 989, 000| 23, 044, 000| Total Assets | 68, 153, 000| 39, 848, 000| Debt Ratio | 69%| 58%| The firm's debt ratio increased 11% in the year ending December 2010 over the previous year. This means that PepsiCo financed more of its assets with debt in 2010.

From a shareholders perspective, this can be a positive indicator. Because the firm has not added equity through stock sales, stockholders may expect a larger share of the profits returned as dividends. PepsiCo's debt ratio is higher than the industry average and the S; P 500 average (Pepsico Inc (PEP. N), 2011). Return on Equity ROE= $\frac{\text{Net income}}{\text{Owners equity}}$ Period Ending|
 Dec 25, 2010| Dec 26, 2009| Net Income | 6, 320, 000| 5, 946, 000| Total

Stockholder Equity | 21, 273, 000| 16, 908, 000| Return on Equity | 29. 9%| 35. 4%| PepsiCo experienced a 17. % decline in their ROE from 2009 to 2010. This indicates a reduction in total returns paid to stockholders.

Because the net income increased by \$374 million and retained earnings increased by nearly \$3. 3 billion during the same period, the decreased ROE is likely a result of the increased use of debt rather than equity to finance operations. PepsiCo's ROE is lower than the industry average of 34. 7, but higher than the S&P 500 average of 28. 2 (Pepsico Inc (PEP. N), 2011). AR Turns= Total Revenue/Net Receivables Period Ending| Dec 25, 2010| Dec 26, 2009|

Total Revenue | 57, 838, 000| 43, 232, 000| Net Receivables | 6, 323, 000| 4, 624, 000| AR Turnover| 9. 15| 9. 35| Days Receivable= 365/AR Turnover Days| 365| 365| AR Turnover| 9. 15| 9. 35| Days Receivable| 39. 9| 39. 0| | | Days receivable increased slightly in 2010 to 39. 9. This means that it takes PepsiCo almost a full day longer to collect revenue other companies owe. If this trend were to continue, it could negatively affect PepsiCo's cash flow. \$6. 3 billion in net receivables represents 9% of the company's total revenue. Compared with the industry average of 35. days, and the S&P 500 average of 37. 5 days, PepsiCo could improve in this area (Pepsico Inc (PEP. N), 2011). Conclusion PepsiCo is recognized as an industry leader, and prides itself on making smart business decisions in an ethically sound way. The company has taken a top down approach to ethics, and is making every effort to instill this philosophy in its employees. Although PepsiCo's current ratio is below the industry average, its debt ratio and receivable turns are

higher. The decline in ROE also reflects somewhat negatively on PepsiCo's current financial situation.

None of these indicators alone is enough to raise concern; however, management must evaluate these trends and internal processes to ensure they make decisions that maintain profitability and continue to return profits to company shareholders. References 2010 Annual Report. (2010). Retrieved from PepsiCo, Inc. : http://www.pepsico.com/Download/PepsiCo_Annual_Report_2010_Full_Annual_Report.pdf Ethisphere. (2011). Business ethics leadership alliance. Retrieved from <http://www.ethisphere.com/bela/> Mayo, H. B. (2007). Basic finance: An introduction to financial institutions, investment, and management, 9th ed.

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