

# Ethical analysis of citigroup

Business



**ASSIGN  
BUSTER**

Company Assessment: An Analysis of CitiGroup 1 Company Assessment: An Analysis of CitiGroup Introduction With origins dating back to 1812, Citigroup (Citi) is a global diversified financial services holding company providing both individuals and institutions with a broad range of financial products and services. These services include; consumer banking and credit; corporate and investment banking; securities brokerage; transaction services; and wealth management.

Headquartered in Manhattan, NY, Citi currently has over 260, 000 employees servicing 200 million customer accounts in more than 160 countries around the globe. Citi is organized into two divisions; Citicorp and Citi Holdings. Citicorp manages the consumer and institutional core client business, while Citi Holdings manages the brokerage and asset management divisions.

Based on financial data obtained from the Citi website, the core st business (i. e. Citicorp), represents 92. 9% of the \$19. 4 billion (\$US) of the 1 quarter 2012 revenue.

The total revenues of Citicorp are geographically diversified across the globe with North America representing 40% of the total, Asia at 22%, Latin America at 20% and Europe, Middle East and Africa (EMEA) accounting for the remaining 18% (Citi Financials, 2012) Over its 200 year history, Citi has been a leading innovator in financial services starting in the 1920's by becoming the first major U. S. bank to offer compound interest on savings accounts. Also, through the acquisition of Second National Bank, Citi has the distinction of being the first bank in New York to provide separate banking services for women.

Further innovations include; offering unsecured personal loans and customer checking accounts in 1928 and 1936 respectively (Citi Timeline, 2012).

Citi's original mission of offering traditional banking services evolved as they grew, however, since the financial crisis of 2008, Citi has been selling off many of the non-core operations to refocus on the traditional banking model. The refocused mission as stated on the corporate website is: " We strive to create the best outcomes for our clients and customers with financial solutions that are simple, creative and responsible. (Citi, 2012) The purpose of this paper is to conduct a review and overall ethical assessment of Citi which will include an overview of the mission, vision and values, ethics and compliance codes, leadership, corporate social responsibility as well as the corporate governance structure. Mission, Vision and Values Clicking on the " Our Company" link of the Citi website, you are immediately drawn to the bolded text stating the corporate vision: " 160 Countries. 1 Vision.

Citi works tirelessly to provide consumers, corporations, governments and institutions with a broad range of financial products and services.

We strive to create the best outcomes for our clients and customers with financial solutions that are simple, creative and responsible. " (Citi, 2012) It is clear that Citi has a vision that places them as the global bank focused on client service, innovation and financial responsibility. Expanding upon the vision statement is the mission statement of Citi and the principles that guide them. The Mission statement is: " Meeting the World's Challenges.

Seizing its Greatest Opportunities" (Citi Mission, 2012).

The four key principles that guide the company as they endeavor to deliver on their vision and mission are; Common Purpose; Ingenuity; Leadership; and Responsible Finance. Based on the stated vision, mission and principles, in my opinion, Citi can be described as a focused team, rewarded based on talent and merit, operating in an innovative culture with one clear goal to deliver transparent and prudent financial products globally. I consider the written vision, mission and guiding principles of Citi to be quite inspiring.

Ethics and Compliance Codes In early 2005, Charles Prince, then CEO of Citi announced a bold strategy to transform the financial giant that was Citi. His plan, known as the “ Five Point Ethics Plan”, was designed to; improve ethical training; focus on talent and development; integrate ethics into performance appraisals and compensation; improve communications; and strengthen ethical controls.

(Restoring Ethics, 2012) As the successor of Sandy Weill, who, Johnson (2012) suggests typifies the ethically neutral leader (p. 19), Prince faced considerable skepticism on whether his plan could work in such a large and complex organization that had a history of significant regulatory scrutiny, and was linked to some of the biggest scandals in corporate history (e. g. Worldcom). While Prince had some critics, he also had some support. In the January 28, 2005 edition of BusinessWeek Online, Prince was described as a smart, logical thinker and another quote made by an analyst was...” I believe that non-charismatic Prince is going to be a more positive force at Citigroup than the other three charismatic CEOs going back to the 1960s.

(Restoring Ethics, 2012) I believe he vision that Prince delivered after taking over from Weill, continues to be embraced by the current Citi CEO, Vikram  
<https://assignbuster.com/ethical-analysis-of-citigroup/>

Pandit as well as the Board of Directors. One of the key responsibilities of the Citi Board of Directors is to review and approve the Citi Code of Conduct (the “ Code”). The Code outlines Citi’s principles, values and standards of practice for all employees of 2 Citi and as such can be viewed as Citi’s ethics code. Employees are expected to read and sign the Code, not necessarily as a condition of employment, but as a formalized agreement to abide by the standards of behavior outlined therein.

Although not a formal contract of employment, the formal approach to signing the Code can be viewed as being integrated into HR practices.

A point of interest is that Citi also strengthens the employee requirement to abide by the code by stating that even if an employee doesn’t return a signed copy, they are still bound by its terms and conditions. In fact, in the introduction to the Code, Citi is clear that failure to adhere to the Code can result in immediate termination of employment. The latest revision to the Code was made in 2011.

The code is available in 26 different languages. While in the past, employees had periodic training on the Code, it appears that the training was ad hoc, but according to the Corporate Citizenship Report, in early 2012, Citi rolled out a formalized ethics training program for all employees.

In addition to the Code that exists for all employees, there is an additional Code of Ethics that applies solely to the senior financial executives (CEO, CFO, etc...) and financial administrative staff.

While it may appear that this is a sign of a higher ethical standard at Citi, as with the NYSE requirement for a firm-wide code of ethics, Sarbanes Oxley <https://assignbuster.com/ethical-analysis-of-citigroup/>

mandates a requirement for a separate Code of Ethics for senior executives. In reading both the firm-wide Code as well as the Code of Ethics for the senior executives, it's interesting to note that the Code of Ethics reads like a very compliance based document, while the firm-wide Code reads more like a call to action for all employees to act with the utmost integrity. In fact, the word integrity appears 9 times in a relatively short document.

In all fairness to Citi, they do specify that the Code of Ethics should be considered a supplement to the firm-wide Code and they provide a link to the Code as part of the document.

Citi also has a set of ethical principles that applies to suppliers. In short, Citi expects that suppliers adhere to the same high standards of practice that governs Citi. The key areas that the principles apply to are; ethical business practices (Integrity, transparency and community engagement); human rights in the workplace; environmental sustainability; and management systems and implementation.

Further information on these principles is available at <http://www.citigroup.com/citi/citizen/people/diversity/supplierprinciples.htm>. One final point regarding the ethical policies of Citi would be that they operate a 24/7 ethics hotline where employees can report ethical concerns and remain anonymous to the extent that the law will allow. While it is unclear if the hotline is operated independently of Citi, (it appears as if it is not) there is a strong focus on confidentiality and although I was unable to identify the name of the individual, the Code identifies that Citi has an ethics officer.

Leadership It is the responsibility of a leader to establish and foster the organizational climate. The leader's ability to cast shadow or shed light will permeate throughout an organization and ultimately shape the culture.

In short, regardless of who is named the formal ethics officer, the leader of the organization is charged with that duty. Citi is managed by an executive team of 24 senior leaders from key regions and divisions across Citigroup's global network. While the ethnic origins of the executive are not specifically mentioned, there appears to be a wide range of ethnic backgrounds on the executive committee.

Unlike the Board of Directors however, the executive committee has only 1 woman, Cece Stewart who is the president of US, Consumer and Commercial Banking. Citi maintains a compensation philosophy that attempts to align compensation with their overall Mission statement. The key objectives of this philosophy are to; enhance shareholder value; attract talent; recognize contributions; manage risk; provide independent oversight; and transparency to all stakeholders.

You can visit [http://www.citigroup.com/citi/investor/data/comp\\_phil\\_policy](http://www.citigroup.com/citi/investor/data/comp_phil_policy).

df? ieNocache= 340 for further information on Citi's compensation policy.

Some evidence to support the integrity of Citi's compensation practices would be that, according to the 2011 Proxy Statement, as part of the process for making incentive awards for 2011, the Personal and Compensation committee considered the April 2011 "say on pay" vote which received as 92.

9% favorable. Perhaps the vote was biased upwards as a result of Pandit's decision to only accept a "total" compensation package of \$1 for 2010, and most of 2009?

While I was unable to find any concise data that represents the pay gap between the top executives and the front line employees, I am pretty confident that for all of 2010, and the better part of 2009, the CEO was the lowest paid employee of Citi. The table on the following page provides some compensation data for the past 3 years for the key senior executives of Citi.

Executive	2011	2010	2009
Change in Value of Deferred Compensation (\$)	0	0	0
All Other Compensation (\$)	73,047	51,995	49,117
Executive Member Year Salary (\$)	1,671,370	1,250,000	1,250,000
Bonus (\$)	5,331,452	2,200,000	2,200,000
Stock Awards (\$)	0	0	0
Option Awards (\$)	7,839,581	0	0
Total (\$)	14,857,103	1,287,517	1,660,916

Executive	2011	2010	2009
Vikram Pandit CEO	2,333,333	2,039,836	4,166,667
John Gerspach CFO	4,728,462	5,063,817	12,984,481
John Havens COO	9,509,800	11,276,454	11,354,536
Brian Leach Chief Risk Officer	11,446,900	10,116,895	10,400,007
Manuel Medina-Mora CEO Latin America	2,333,333	2,039,836	4,166,667
2011	2,039,836	5,000,000	3,400,000
2010	546,966	546,966	546,966
2009	4,181,214	0	0
2011	3,998,939	2,719,781	7,450,911
2010	9,328,010	361,984	2,119,018
2009	163,047	0	0

Source: taken from the 2011 Citi Proxy Report While on the surface, multimillion dollar compensation packages may appear egregious, however, for each of



the executives above, approximately 50% of the total compensation package is deferred and/or exists under a multiyear vesting provision that is not only tied to tenure at Citi, it is directly tied to the performance of the organization. For 2011, there does appear to be a “ traditional” pay gap between the CEO and the other “ C’s” and I suspect that the gap widens significantly as you move down to the front line workers.

By looking at just the total cash (salary and bonus) component of the compensation packages that range from a low of \$2.

5 million to a high of \$7 million, many people will undoubtedly feel several of the other condemning emotions. But to add a little perspective, for 2011, Citi’s charitable giving was more than 2 times the value of the total (cash and deferred) executive compensation of the individuals above. Also, at a total of \$6. 4 billion, the 2011 commitment to climate change initiatives represented over 8% of Citi’s 2011 revenues, and almost 60% of net income.

I must admit, besides a little wallet envy, I feel mostly admiration for the work, both social and economic that the leadership of Citi has done that started in 2005, was derailed during the financial crisis, and has continued over the past few years.

Based on this evidence, I would challenge an assertion that the current management is hoarding rewards at the expense of all other stakeholders. When Prince took over leadership of Citi in 2005, his calm, intellectual demeanor was quite the opposite of the “ larger than life” charismatic CEO that preceded him.

Since taking over from Prince in 2007, Pandit appears to have followed by example and has demonstrated some remarkable unselfish actions as he navigated Citi through the biggest financial crisis since the Great Depression. Despite the critics of the financial industry, Citi, through sound leadership, ranks well on the triple bottom line accounting metrics that forms the foundation of Corporate Social Responsibility. Corporate Social Responsibility (CSR) One of the biggest criticisms of CSR reporting is that it is simply a public relations tool designed as window dressing to improve image.

After the financial crisis of 2008, no other industry would have as many critics as the financial industry. To provide a little evidence of the integrity of an organization's CSR claims may help st soothe the critics. Since the early part of the 21 century, Citi has been consistently been a constituent company of the Dow Jones World and North America Sustainability Indexes as well as the FTSE 4Good Index, and in 2011, Citi also became a component of the STOXX Global ESG Leaders indices. It is clear that the CSR activities of Citi are being recognized outside the organization and may have a little more credibility than window dressing.

Citi defines its Corporate Social Responsibility framework as Global Citizenship.

The three key focus areas of their citizenship efforts are; delivering financial solutions at affordable costs, sustaining the environment 4 and valuing Citi employees. Progress towards these three focus areas are provided as a summary page within the Global Citizenship report, but also as separate publication (attached as Appendix A). There are four key metrics for Financial Inclusion performance indicator. First, they provide charitable

contributions (Strategic Giving), which at \$121.9 million for 2011 (1. % of net income), and represents an average annual growth rate of 13% since the end of the financial crisis in 2008.

Second, is Small Business Lending, which at almost \$8 billion for 2011, has grown by 75% since 2009, and actually surpassed the 2011 goal of \$7 billion. The third metric is the provision of affordable housing lending, which at \$2.0 billion, places Citi, for the 2 consecutive year, the top affordable housing lender in the US. The final metric under Financial Inclusion is Global Microfinance. In 2011, Citi has provided microloans to almost one million lenders of which 92% of loans were to women.

Under sustaining the environment performance indicator, Citi includes metrics for e-communications, clean energy, greenhouse gas emissions and using ESRM screening criteria for financial transactions.

As one of the world's leading credit card companies, Citi's movement towards paperless statements has, at 29% penetration (2011), doubled since 2008. Under the clean energy metric, in 2007, Citi announced a 10 year, \$50 billion commitment to activities directed at mitigating climate change. As of the end of 2011, 5 years in to the program, 73% of the total has been committed.

Under the greenhouse gas emissions metric, in 2005, Citi announced a 10 year plan for a 25% reducing in greenhouse gas emissions. As of 2011, there has been a 13.

6% percent reduction since the 2005 baseline. In 2011, the integration of environmental and social factors into the traditional risk management

<https://assignbuster.com/ethical-analysis-of-citigroup/>

screens for project financing covered over 400 projects globally. Citi appears to have a significant focus on environmental concerns through written policies and statements as well as real action. Further information on Citi's position on the environment and their ESRM polices can be found at [http://www. itigroup.](http://www.itigroup.com/citi/environment/)

[com/citi/environment/](http://www.itigroup.com/citi/environment/) The final area covered under the report card is the metrics that cover the way Citi values their employees. The key metrics are; training; satisfaction; diversity; and employee volunteering. Citi has a very diverse workforce, and though 61 network groups consisting of 15, 000 employee members in 18 locations around the world, Citi encourages employee diversity and support. Employee satisfaction has been increasing since the end of the financial crisis and at 73% satisfaction for 2011; it represents an overall 10% increase since 2009.

It is unclear whether the increase is a result of simply happy to have a job in a tough economy, or true job satisfaction, in any event, Citi appears to have a more satisfied workforce. Employee training has seen a remarkable increase since the 2008 financial crises.

Training activities cover areas such as, leadership, management, product and compliance and since 2008; training hours have increased by over 80% at 38. 4 hours per year per employee. Employees of Citi provided almost 800, 000 hours of volunteering activities during 2011, almost 30% growth over 2010.

It seems that giving back to the community not only is evidenced by financial metrics but also by the employee's action. Although Citi's key <https://assignbuster.com/ethical-analysis-of-citigroup/>

performance indicators focus on; Financial Inclusion; Environmental Sustainability; and Valuing our Employees, the Global Citizenship report is quite extensive and can be viewed as a supplement to the Citi Annual Report.

In addition to the three key focus areas covered above, the report also covers corporate governance, which is covered in the section that follows, as well as, how Citi serves the customer and maintains sustainable and diverse supply chain relationships.

The report outlines both Citi's achievements as well as the challenges they face and breaks down Citizenship on a regional basis. In guiding their citizenship activities, Citi uses a stakeholder engagement approach to and list their stakeholders as; Customers; Investors; Employees; Regulators; Suppliers; Community Leaders; Non-Governmental Organizations (NGO's); Socially Responsible Investors; Media; and Competitors. The communication channel used for each stakeholder and examples are included as Appendix B.

Corporate Governance Corporate Governance has been defined as “ The framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in a company's relationship with its stakeholders (financiers, customers, management, employees, government, and the community).

” (Governance, 2012). As an appendix to the annual proxy statement, Citi provides the Citigroup Inc. Corporate Governance Guidelines. Consistent with the overall corporate mission, the corporate governance mission is...”

Citigroup Inc. the “ Company”) aspires to the highest standards of corporate governance and ethical conduct: doing what we say; reporting results with accuracy and transparency; and maintaining full compliance with the laws, rules and regulations that govern the Company’s businesses. ” (Citi Governance, 2012).

This comprehensive document outlines the guidelines and policies with respect to the responsibilities, term, expected qualifications, and compensation of the Board and the committees thereof.

Of notable mention in the governance policy would be the restriction against interlocking directorates, the requirement for personal stock ownership, and the annual review and assessment of board performance conducted by the Nomination, Governance and Public Affairs Committee. 5 One shortfall of the policy would be the lack of any set term for a board member. While there are two schools of thought with respect to fixed term appointments, in my opinion, the advantage of bringing in fresh ideas with new board members would outweigh any potential loss of knowledge that would exit with an entrenched board member.

I believe staggered board appointments with fixed term would be an enhancement to the Citi corporate governance policy.

As mentioned in the Ethics and Compliance Codes section above, as a requirement to list on the NYSE, a company is required to have a formal code of ethics. In addition to this requirement, the NYSE also requires a minimum standard for the independence of directors. To meet the regulation, Citi would need a minimum of 9 independent directors. At the end of 2011, 11 of

the 13 member board were independent. The two connected members were Pandit, and the Citi Chairman, Michael O'Neill.

The remaining board members consist of a diverse group of active and retired business professionals, a philanthropic foundation president, a former state federal reserve bank official, a leader from the investment management community as well as Ivey league academics. Although only 3 of the board members are women, almost 40% of the members are visible minorities which also includes the Chairman and the CEO of Citi. Simply put, the Board of Directors of Citi is comprised of a very comprehensive representation of their stakeholder groups as identified in Appendix B.

As of 2011, there are 5 standing committees of the Board: Audit; Risk Management and Finance; Executive; Personnel and Compensation; and Nomination, Governance and Public Affairs. A separate Charter exists for each committee that outlines the mission, duties and requirements regarding independence of the committee members.

The Audit and Risk management committee is comprised of all independent directors. O'Neill is the current Chair of the Executive as well as the Personnel and Compensation Committees (non-voting) and he sits as a voting member of the

Nomination, Governance and Public Affairs Committee. Among other roles, the Nomination, Governance and Public Affairs Committee is responsible for the environmental sustainability and stakeholder engagement activities of Citi. Since 2005, non-employee directors receive \$75, 000 per year plus a deferred stock award valued at \$150, 000 on the date of issuance with a 2

year vesting period. With the requirement to own stock of Citi, as well as the deferred vesting of the majority of the compensation they will receive, directors of Citi are incented to act in the best interest of the organization.

SEC Investigations As a publicly traded, multinational, diversified financial services organization, incorporated in the U. S. , it should not come as any surprise that in the course of their business dealings, both the organization and the individual staff of Citi will be subject to SEC litigations and investigations on a frequent basis. In fact, a search on the SEC website ([http://www. sec. gov/litigation.](http://www.sec.gov/litigation)

shtml), and filtering the search parameters to include only “ Litigation” and “ Regulatory Actions” you will actually find too many to list.

In fact, since January 1, 2005, there have been a total of 284 Regulatory Actions and 140 Litigations that has Citi named. It would be quite misleading to state that all litigations listed Citi as the defendant, however from my brief review of some of the search results there appears to be complaints related to the accounting treatment of credit derivatives, fair value misstatements of sub-prime mortgage exposure, many of which listed most of the financial services industry. There was however one interesting investigation made in 2008 that questioned the independence of the Board of Directors.

While I can't comment too much on the ethical leadership of the firm leading up to the financial crisis, evidence such as the highly publicized investigations, along with the involvement in Worldcom and other major financial collapses, certainly cast a shadow on the past activities.



However, during the tenure of the current CEO, as well as his predecessor, the Board of Directors appear to have addressed many of the high level governance ethical shortcomings that were past investigations by the SEC.

Conclusion Perhaps the most difficult aspect of conducting a review of an organization is coming to a definitive stance, based on concrete evidence, on the degree of ethical culture that exists inside the organization. Without living inside an organization, how can you state that ethical conduct permeates across all aspects of the firm activities? Operating in an industry that has undoubtedly has the highest level of public cynicism regarding ethical conduct, how could anyone take the stance that any financial services company scores well from any ethical standpoint?

Despite this challenge, my impression from this review is that Citi does indeed rank well. Since taking over the firm in 2007, carrying on from Prince's " Five Point Ethics Plan", Pandit, has lead the firm back on firmer financial ground by shedding much of the troubled assets and refocusing the operation more towards a traditional banking model. Despite participating in the TARP and subsequently paying back all funds borrowed, under Pandit's leadership, Citi has become one of the best capitalized banks in the U.

S.

He won high praise from public opinion by accepting a total compensation package of \$1 for most of 2009 and all of 2010, becoming undoubtedly, the lowest paid employee of Citi. Those types of unselfish acts, despite his personal net worth, should be viewed as a sign of an admirable leadership style. The critics statement that he doesn't need/deserve the money is, in

my opinion, ludicrous and shouldn't overshadow what is a truly admirable action.

An ethical culture starts with an ethical leader posed ready to lead by example and in my opinion, by his example, Mr. Pandit ranks very well.

In addition to the profit motive, Citi approaches its business with a demonstrated commitment to environmental and social key performance metrics, engaging with all stakeholders, going above and beyond the simple legal requirements and acting as an agent of moral influence with suppliers.

Adding to this ethical framework a very committed CEO, a strong board representing stakeholders, and ethics training, it's hard to argue that the firm lacks a robust ethical framework. It appears as if the vision of Prince continues to be embraced by Pandit and Citi's current leadership. While it may be a long road ahead in the court of public opinion, Citi appears to be on the right track to shed the degree of cynicism the financial industry has, but like most future outcomes, only time will tell. 7 References