

## **Collections and crime: The case of Citibank in Indonesia**

Michael Martin  
University of Northern Colorado

Joseph J. French  
University of Northern Colorado

### **ABSTRACT**

The principal subject matter of this study involves the operation of multinational businesses, international law, and business ethics. This case study describes several hypothetical dilemmas, both overt and subtle, our fictitious corporate officer at Citibank International must appropriately address. This case describes several modern scandals faced by Citibank's operations in Jakarta, Indonesia. These scandals range from the embezzlement of millions of dollars by a Citigold manager to the tragic collections related death of a Citibank credit card holder. This case provides a detailed background on the Indonesian business climate, discussion of applicable domestic and international laws, as well as analysis of appropriate ethical frameworks and decision making.

Keywords: Business Ethics, Banking, International law, Case Study

## INTRODUCTION

Matt Lelander lets out a big sigh as he approaches the bar in the business lounge of San Francisco International airport. Matt is returning from a banking conference in Vancouver, Canada and was hoping to make it home before a late night FedEx package and e-mail changed his plans. As he pours himself a full glass of local California wine Matt carefully contemplates recent events. Matt is an operations and ethics officer for Citibank's international division and was recently assigned to monitor Citibank's operations in Indonesia. Mr. Lelander is considered a rising star in the banking world and many believe he will soon be sitting on Citigroup's board of directors. Matt's wife recently had their fourth child and Mr. Lelander was hoping to spend some time at home in New York with his family rather than an office in Jakarta (the capital of Indonesia), but with Citibank continually on the front page of the Jakarta Post, New York Times, and the Financial Times of London, Matt's employers have requested he continue his trip and make the twenty plus hour plane trip to the archipelago nation. As he looks at his watch Matt calculates he should arrive in Jakarta at approximately 10 A.M. local time.

This is Matt's first trip to Indonesia and he has some homework to do on the plane trip. As the boarding announcement blares over the sounds of passengers nibbling on finger foods, Matt makes a plan of how to use his twenty hour flight productively. First Matt will review the political and economic situation in Indonesia. Next, Mr. Lelander will review Citibank's dealings in Asia and Indonesia in particular. After Matt develops a working knowledge of Citibank's role in the region, he will refresh himself on the two ethical and legal scandals currently plaguing his employer in the country. In addition, he will review the legal and ethical frameworks in the region based on the information Citibank's attorney mailed him last night. Finally, Matt hopes to develop an action plan to deal with the current scandals and prevent future problems in the region. With the difficulties Citigroup has faced in the United States, CEO Vikram Pandit has made it clear that overseas operations are a priority. In fact according to a WSJ article, "more than 60% of the revenue and 70% of profits at Citicorp's core banking operations come from abroad," (Hariyanto and Bellman, 2011).

As Matt takes his seat on the plane, the hostess asks if he would prefer beef redang (an Indonesian specialty) or chicken with pasta, Matt grins and replies, "Just a glass of California wine for now." Matt settles into his business class seat and prepares to dive into the literature he was provided on the current state of Citibank's Indonesian operations.

## BACKGROUND ON INDONESIA

Just before the plane door closes, Matt's Blackberry beeps, it's his youngest daughter, and she asks. "Where are you going Daddy?" Matt quickly sends a map of Indonesia to his daughter and tells her he will be back soon; see Figure 1 (Appendix). He then quickly turns off his electronic device before the hostess notices.

Matt begins his research by familiarizing himself with the map he just texted his daughter as well as reviewing the information provided by his employer. His research shows that Indonesia is made up of 17,508 islands with a total area slightly less than Texas. The major islands in Indonesia include Java (the most populous island), Sumatra, Kalimantan, Sulawesi, and Irian Jaya. Matt is heading to the capital city, Jakarta with a population of over nine million and an urban sprawl that includes over twenty million inhabitants ([www.cia.gov](http://www.cia.gov)).

Matt reads on and finds that Indonesia has historically been a country plagued with chronic corruption, civil strife, and residual nonperforming loans leftover from the Asian financial crisis. This was the Indonesia of the past. The future for this archipelago nation is bright indeed. A nation rich in natural resources and strategically located near the growth engines of the global economy (i.e. China and India) this nation of over 240 million inhabitants is on the rise. Indonesia is now the world's third most populous democracy, the world's largest archipelagic state, and home to the world's largest Muslim population. Indonesian's have relatively good education with a literacy rate above 90% and within cities close to 100% ([www.worldbank.org](http://www.worldbank.org)).

Indonesia relies heavily on domestic consumption as the engine of economic growth. Increasing investment by both foreign and local investors is also supporting solid growth. Figures from the International Monetary Fund and the Central Bank of Indonesia show strong GDP growth rates, despite a slow global economy, balance of payment surpluses, and low volatility of exchange rates. These solid fundamentals are attracting significant attention from the global investment community. For example, the economy's growth slowed to 4.6% in 2009 from the 6%-plus growth rate recorded in 2007 and 2008 ([www.cia.gov](http://www.cia.gov)). However, in 2010 GDP growth returned to a 6% rate and has remained there to their present.

The government is making economic advances under the first administration of President Yudhoyono, introducing significant reforms in the financial sector, including tax and customs reforms, the use of Treasury bills, and capital market development and supervision. Further, in December 2011, Fitch Ratings Agency upgraded the country's credit rating to investment grade for the first time since 1997 ([www.cia.gov](http://www.cia.gov)). The bad news is that Indonesia still struggles with poverty and unemployment, inadequate infrastructure, corruption, a complex regulatory environment, and unequal resource distribution among regions. The current purchase power parity GDP per capita in Indonesia is \$4,700 ([www.imf.org](http://www.imf.org)), but per capita GDP is much higher in the cities and in several regions of the nation people live in moderate to extreme poverty, the World Bank reports that one in eight Indonesians live below the poverty line. Often a victim of its own success Indonesia is currently experiencing massive capital inflows, rising inflation, and the potential of a real estate bubble. For example in 2011 inflation was estimate to be over 5.7% according to the International Monetary Fund.

Matt slowly sips his wine as the steward asks, "Do you need a refill sir?" Matt replies in the affirmative and digs into his brief case to fetch the file containing the information on Citibank's dealings in the region.

## **CITIBANK IN ASIA AND INDONESIA<sup>1</sup>**

"Progress informed by the past and inspired by the future" reads Matt on the front page of the printed materials delivered late last night to him. Matt's employer is one of the leading global banks with over 200 million customer accounts in over 160 nations. Citi espouses itself to four key principles in its corporate Code of Conduct: 1) Common Purpose-Citi's goal is to serve their clients and stakeholders, 2) Ingenuity-Citi aims at improving clients' lives though innovation, 3) Leadership-Citi strives to employ talented people, 4) Responsible Finance-Citi's conduct is transparent, prudent, and dependable. These four principles Matt learned as a management trainee over five years ago and he has modeled his career with Citi around these core themes.

---

<sup>1</sup> Information retrieved from [www.citigroup.com](http://www.citigroup.com)

As he ponders these core values Matt pulls out his copy of Citigroup's code of conduct and reviews his own pledge, see Exhibit 1 (Appendix). As he ponders this pledge Matt considers the state of the global banking industry. There seems to be a new crisis every day. In Vancouver everyone was discussing Barclays's recent interest rate rigging scandal. A recent Reuters article articulates what Matt has been thinking, "This is about the culture and practices of the entire banking system, which is why we need an independent, open, judge-led, public inquiry," (Scuffham and Holton, 2012). Matt thinks the whole industry seems corrupt at times.

When Matt was hired by Citibank the sky was seemingly the limit for this banking titan. However, the American subprime loan fiasco has taken its toll on Citibank. The Wall street Journal has recently reported that Citigroup has "agreed to pay \$590 million over claims that it deceived investors by hiding the extent of its dealings in toxic subprime debt," (Kapner, 2012). This settlement represents one of the largest settlements connected to the subprime fiasco, see Figure 2 (Appendix), and only reinforces the importance of maintaining stability in Citibank's international operations. Citigroup's market value has dropped significantly since 2007 losing close to 173 billion (Kapner, 2012).<sup>2</sup>

Matt realizes if Citibank's international operations are to avoid a similar financial fiasco, they are going to need strong ethical leadership. Citibank needs to recommit itself to their core principles as articulated by their code of conduct. In 2010 Citibank was the first major U.S.-based bank to sign U.N. Global Compact. Matt remembers CEO's Vikram Pandit's address stating "I am pleased to confirm that Citi supports the ten principles of the Global Compact with respect to human rights, labor, environment and anti-corruption. We are committed to making the Global Compact and its principles part of the strategy and culture of our company, and to engage in projects which advance the broader development goals of the United Nations," (McCarthy, 2010). Matt had pushed hard to get Citi to adopt the U.N. Global Compact principles, see exhibit 2 (Appendix).

Matt knows corporate culture is established from the top down, and as an ethics officer he is responsible. Matt also is acutely aware that managers should consider whether they are, "following a just law versus am I just following the law?" (Kusyk, 2010). Matt worries that the privy of recent scandals indicates that Citibank's culture or commitment to its own code of conduct may be wavering. Matt pulls up an article he has saved on his laptop. It's a Harvard Business Review piece which discusses findings indicating corporate values and actions don't always align. An extensive survey discovers "that managers working outside their home environments often find that their companies' norms are inconsistent with followed by other businesses in the area." Matt has noticed a "when in Rome," mentality which is often displayed by multinational companies. The survey additionally reports that "employees tend to agree on what companies should do, but may believe their employers don't live up to those standards, as there is a conduct gap," (Paine, 2011). Matt ponders if this is indeed the case with Citibank. Matt begins to wonder what type of ethical example he is setting.

Not enjoying this last thought, Matt readjusts his pillow and now dives more deeply into the materials on Citi's businesses in Indonesia. Opening up the most recent annual report for Citi Indonesia, Matt finds that Citi represents the largest foreign bank in Indonesia in terms of assets. Citi was first established in Indonesia in 1918 and opened its first two branches in Batavia and Surabaya. These branches were closed in the late 1920s. Citi returned to Jakarta in 1968 to establish a full range of banking activities. Citi began its operations in Hotel Indonesia with an

---

<sup>2</sup> Citigroup is the parent organization for Citibank.

initial staff of 15 employees. Citi Indonesia's headquarters is currently located at Citibank Tower, Jakarta. The bank has set up branches in major cities across Indonesia. In recent years, Citi opened several cash offices in the capital city of Jakarta. Citi's franchise in Indonesia provides comprehensive banking services including Corporate Banking, Consumer Banking and Private Banking. Citi is the leading foreign bank in the country with assets of approximately IDR 56 trillion and 5,993 employees. Figure 3 (Appendix) shows the current structure of Citibank in the republic of Indonesia.

As Matt continues to read the annual report, he also finds that business is good in the archipelago with his employer reporting a return on equity of 23.8% with net income increasing 4.8%. He finds his employer in Indonesia has been conservative in their reported investments with a reported capital adequacy ratio of 22.6%, which is almost triple the requirement of the central bank of Indonesia. One negative trend Mr. Leland notices is the slight increase in percentage of non-performing loans to total loans. This number was up to 2% from 1.5% the previous year; however, this is still well within the limits set by the central bank of Indonesia of 8%.

Matt notices one of his employer's objectives is to support Indonesia's economic growth and provide services and training to empower local talent. He also finds that Citibank is committed to providing financial education to the poor and to mature women along with providing seed capital to young entrepreneurs. Matt is reassured by his employer's public commitment to the nations in which it operates. This commitment is well aligned with Citi's pledge to adhere to the U.N. Global Compact. With a solid understanding of Citi's position in Indonesia, Matt now focuses his attention on the current scandals plaguing his employer in Jakarta. As the stewardesses makes her rounds, Matt gets his wine topped off and reaches into his brief case to get the documents concerning these scandals.

## **CURRENT SCANDALS PLAGUING CITI IN INDONESIA**

As Matt takes a drink he notices one last thing from Citibank's annual report: "Citi aims to be a good corporate citizen in Indonesia and to comply with Bank Indonesia's regulations. Our business looks to the highest standards in ethical conduct to report results accurately and transparently and comply with the prevalent laws, rules, and regulations," with this in mind Matt turns his attention to the first scandal he is on his way to clean up. Matt readjusts his seating position and sighs, 'just 6 hours remaining, till Jakarta'.

Matt cracks open the file provided to him by his lawyer as he fiddles with the Balinese peanuts provided to him by the stewardess. According to the New York Times, The first scandal involves a Jakarta socialite by the name of Malinda Dee, who was a relationship manager for Citigold, Citibank's wealth management division. She is accused of stealing between 2 million and 4.4 million from clients. Malinda Dee, who worked at Citi for over two decades, was arrested on charges of embezzlement and money laundering (Belford, 2011). According to a Jakarta Post article, it is claimed that Malinda Dee developed such close relationships with her clients that many of them signed blank transfer slips (Citibank's Malinda Dee, 2012). Matt reads on that only three have come forward with allegations of unauthorized transactions. Malinda had well over 50 and Matt wonders if what is known about Malinda Dee is just the 'tip of the iceberg'. Matt realizes his time in Jakarta will be busy trying to understand the extent of the embezzlement and exactly who within the bank was involved.

The late night package Matt received from Citigroup's law department has the Malinda Dee case on the top of the folder, presumably because embezzlement tends to have higher material impact to earnings, but the recent death on Citi's premises is in Matt's opinion more damaging to the bank's reputation. According to the family of Irzen Okta (the victim), his credit card bill was Rp. 48 million (around \$5,500). Mr. Okta went to contest the bill at Citi's premises. After a seemingly grisly interrogation, which left blood-stained curtains, Mr. Okta was found dead (Fraud and Death, 2011).

In response to the death of Mr. Okta, Budi Rochadi, a deputy governor at Bank Indonesia, said that current laws prevent the central bank from regulating debt collectors, but that it had always urged banks to be ethical (Fraud and Death, 2011). Matt is aware that recently 'the family of Irzen Octa has filed a (\$346 million) lawsuit against Citibank,' (James, 2011). The report Matt is reading clearly indicates that the debt collectors involved were independent contractors and not Citibank employees. Matt wonders why the employment status of the debt collectors matters, as a person has died.

As a result of the above scandals, the Bank of Indonesia, has banned Citigroup from taking on new credit card customers for two years and has barred it from opening new branches or recruiting new priority banking customers for one year (Kusuma, 2011 ).

"Based on our investigation [of Citi] we found violations of internal banking regulations," said Budi Rochadi, deputy governor of the central bank. "Further sanctions are possible if other violations are discovered during the police investigation." (Deutsch and Hidayat, 2011).

Matt takes a break from his research and pulls another envelope out of his brief case. He reads a fax from his personal attorney, Robert Ross, assuring him that the impaired driving citation he received while in Canada should remain confidential, and he should be able to maintain his U. S. license as there is little reciprocity between the U.S. and Canadian legal authorities. In other words, Robert is fairly certain the New York DMV will not be notified. As Matt takes a sip of wine he contemplates what in the world he was thinking. Matt still can't believe he volunteered to drive himself and a colleague, Ms. Jenny Kingsly of Southern Capital Banking (SCB), back to the hotel after several drinks at the conference's welcome reception. While, there were no other cars involved other than his rental, Matt's blood alcohol limit was surprisingly high at .18%. Matt realizes that driving while intoxicated is a serious crime, but is convinced he wasn't putting anyone in danger.

Jenny, like Matt, is based in New York and spent some time with Matt in Citi's management training program before taking a position with SCB in New York. While Matt and Jenny have always had a good rapport, Matt is concerned that Jenny may relay his driving citation to other colleagues despite her assurance otherwise. Matt realizes that Citibank is under a public relations nightmare and knows that if information regarding his driving citation becomes public his job could be in jeopardy. Citibank Indonesia's chief country officer (CCO) Shariq Mukhtar has already been removed as part of the "twin" scandal fallout. Matt has no intention of making it a triplet scandal.

What makes the timing even worse is that the city of Jakarta and its politicians are still buzzing about a horrific drunk driving accident. A recent Economist article details the accident where "shortly before noon, a group of four young Indonesians who had been out all night partying rammed their car into a crowd of pedestrians at a roundabout in Central Jakarta. Nine people were killed, among them a three-year-old girl and a pregnant woman." The last thing Citibank needs is another public relations snafu (Drink-Driving, 2011).

As the plane begins its final descent, Matt refocuses on the task at hand and continues to read the file provided to him by Citi's lawyer. Matt finds that the man appointed to head Citibank's Indonesia operations after the scandals is Tigor Siahaan. Tigor said the bank was working hard to restore customer confidence. As evidence, he pointed to the fact that Citibank had taken the initiative of reporting the allegations against Ms. Malinda to the police and that it was bringing its debt collection activities inside the company by hiring 1,400 new employees (Belford, 2011).

"Obviously it does have an impact" on overall business, Mr. Siahaan, said of the scandals and the punishment imposed by the central bank. "But as a long-term business strategy, I think this is still a priority investment country." (Belford, 2011)

Matt fears that both scandals could threaten the wider confidence in Indonesia's banking sector, which in recent years was characterized by improvements in professionalism. Citi in Indonesia, is a premium product. It charged a hefty fee for its services and, with HSBC, was a market leader among the affluent. For this crowd, Singapore bank accounts have never been difficult to open, and more are likely to appear in the coming weeks ([www.jakartaglobe.com](http://www.jakartaglobe.com)).

The impact of these crises has hit Citi group's 'bottom-line' just as foreign banks are making a significant push into Indonesia. Citibank Indonesia booked a 27% drop in profit in the first nine month of 2011 due to higher operating cost and lower net interest income following the scandals and sanctions. While other foreign banks operating in Indonesia, however, booked strong earnings during the nine-month period, thanks to robust domestic demand in Indonesia (Azhari and Baskoro, 2011). In fact, Matt learned, while at the recent banking conference, Citi's primary Indonesian competitor, HSBC, saw their profits jump 70% in the first half of 2012 (Levitt, 2012). The stark contrast in profit trends between competitors makes it imperative that Citibank take corrective actions.

After passing through customs Matt stops at the airport bar to collect his thoughts before heading to the office. As he slips into a booth he notices several of the patrons cheering as they watch a tense badminton match on the bar's flat screen television. Before ordering Matt remembers to turn his BlackBerry back on and finds four voicemails waiting. After listening to a message from one of his daughters hoping he returns soon and another daughter wanting permission to borrow his car, Matt notices a voicemail message from Jenny Kingsly.

Jenny hopes that Matt's trip has gone well, and implores Matt to call her when he has a chance. In her message Jenny tells Matt that she has a proposal due to SCB's board of directors. Jenny asks Matt if he could share some of Citibank's "generic polices" on setting international transaction and credit related fees. With the economic downturn in the U.S., customers are increasingly complaining about costs and SCB wants to remain competitive. Ms. Kingsly is under tremendous pressure to boost revenues. Jenny reiterates the need for Matt to return her message promptly. Jenny concludes with an apology for any contribution she may have had in Matt's driving citation, and concludes that she sure hopes nobody at Citibank accidentally discovers this incident. This last sentence has Matt worried as he is not sure what if anything Jenny is implying.

Before he can reply Jenny's message, Matt's phone rings. Carl Anderson, Matt's immediate superior in the international banking department, is calling to verify that Matt has arrived safely. Carl wants to confirm that Matt is available to have dinner with two members of Indonesia's Regional Representatives Council (Dewan Perwakilan Daerah) and a board member of Bank Indonesia. Carl reiterates to Matt that Citibank still faces additional potential sanctions as the fallout from these scandals continues. Matt's reputation for sweet talking is legendary and

they need Matt to be at his best. If Citibank is to crawl out of the dark cloud they are under, they will need to avoid any further sanctions. Carl relays information regarding the dinner reservations and instructs Matt to use his corporate card. Carl concludes that Matt may want to bring a couple bottles of Johnny Walker black label “just to be polite.”

The next message is from Matt’s administrative assistant Joan Ryan. She relays Matt’s lodging arrangements while in Jakarta and verifies the transportation arrangements, including a personal driver, Matt had her arrange while he was in Jakarta. Joan found this a little odd as she knows Matt generally enjoys driving himself in a rental.

Matt quickly calls Joan back as she knows his schedule better than he does. Joan informs Matt that his driver will be waiting outside of terminal 2. She notes, almost yelling into the phone as she tries to overcome the background noise of cheering badminton fans, that Jenny Kingsly has left several messages along with Matt’s personal attorney Robert Joss. She asks Matt if “everything is alright?” Matt tersely replies “yes, of course,” and asks Joan to text him his remaining messages.

After finishing his phone calls Matt decides the driver is probably not in any rush as he is being paid by the hour and it has to be 5 o’clock somewhere. Matt orders a scotch and Bintang (Indonesia’s local beer) and takes a deep breath and considers the following questions:

1. What has led to this recent outbreak of scandals in the banking industry?
2. Are Citibank employees still adhering to Citi’s Code of Conduct? Matt himself?
3. Is Citi responsible for the actions of outside contractors? What is Citi’s potential liability?
4. What are the appropriate courses of action for Mr. Leland with regards to these scandals and how can future ethical lapses be avoided?
5. How should Matt respond to Jenny?
6. How should he handle the dinner tonight with the Indonesian officials?
7. Does Joan have any obligations under Citi’s code of conduct to report Matt’s unusual behavior?



APPENDIX

FIGURE 1: POLITICAL MAP OF INDONESIA

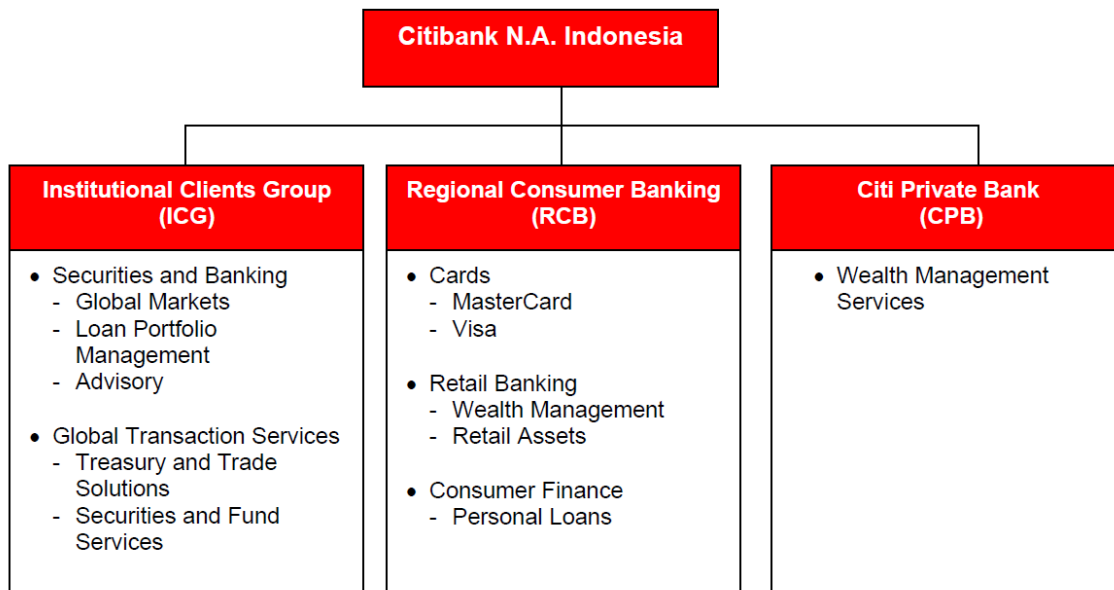


Source: www.cia.gov

FIGURE 2: RECENT US BANKING SETTLEMENTS



**FIGURE 3: CITIBANK N.A. INDONESIA**



Source: Citibank 2010 Annual report

**EXHIBIT 1**

For New Hires Only:

I acknowledge that I have read the Citi Code of Conduct and understand my obligations as an employee to comply with the principles, policies and laws outlined in the Code of Conduct, including any amendments made by Citi. I understand that a current copy of the Code of Conduct is posted on Citi’s website.

[www.citigroup.com/citi/corporategovernance/codeconduct.htm](http://www.citigroup.com/citi/corporategovernance/codeconduct.htm)

I understand that my agreement to comply with the Code of Conduct neither constitutes nor should be construed to constitute either a contract of employment for a definite term or a guarantee of continued employment.

Please sign here: Matthew Jacobus Lelander

Date: May 5<sup>th</sup>, 2006.

Source: [www.citigroup.com](http://www.citigroup.com)

## **EXHIBIT 2**

### **The Ten Principles**

The UN Global Compact's ten principles in the areas of human rights, labour, the environment and anti-corruption enjoy universal consensus and are derived from:

- The Universal Declaration of Human Rights
- The International Labour Organization's Declaration on Fundamental Principles and Rights at Work
- The Rio Declaration on Environment and Development
- The United Nations Convention Against Corruption

The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption:

### **Human Rights**

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

### **Labour**

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

### **Environment**

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

### **Anti-Corruption**

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

## **TEACHING NOTE**

### **Case Synopsis**

This case details two ongoing Citibank scandals as well as several hypothetical legal and ethical dilemmas. Throughout the case a hypothetical Citibank officer, Matt Lelander must confront, identify, and resolve these continually developing dilemmas. Initially, Mr. Lelander is presented with two ongoing scandals involving embezzlement and death, and asked to respond to these situations. The first scandal involves an Indonesia socialite and Citibank wealth manager, Malinda Dee, who has been accused of embezzling millions from Citigold clients. The next presented scandal involves a Citibank credit card customer, Irzen Okta, who was allegedly beaten to death by collection agents over a \$5,500 debt. These agents were independent collection agents hired by Citibank Indonesia. Matt has been asked to travel to Jakarta, Indonesia and take care of these issues. Additionally, Matt has been presented with several ethical and legal issues, some personal, of which he must confront. This case provides a detailed background on the Indonesian business climate, discussion of applicable domestic and international laws, as well as analysis of appropriate ethical frameworks and decision making.

### **Learning and Teaching Objectives**

1. Recognize and assess potential ethical and legal lapses in Matt's actions.
2. Explain and explore the various potential courses of action available to a corporate officer presented with these dilemmas.
3. Consider how to evaluate whether or not an organization is adhering to their stated code of conduct.
4. Outline what steps or programs a large multinational banking organization should implement to avoid future scandals.
5. Evaluate and envision what an effective ethics program is.
6. Contemplate how to govern corporate culture internationally.
7. To lay a foundation for ethics discussions by introducing ethical theories and their applications.
8. Create an appreciation for the intricacy of ethical decision making in a multinational corporation.

### **Class Use**

This case is intended to be introduced, analyzed, and discussed over multiple class periods. The first class period can be an introduction to the topic followed the assignment of the discussion questions. A written report completed by the students is often helpful in facilitating a robust discussion. It is often helpful to break up and assign specific discussion questions to groups as opposed to individuals as the concepts covered can be challenging for students. It is imperative that the class read the entire case and not just their questions if there is to be any meaningful discussion. As discussed below there is a multitude of potential ethical decision making frameworks. This case is not tailored to any one specific framework or text, and should be compatible with most business ethics texts.

## Discussion Questions

1. What has led to this recent outbreak of scandals in the banking industry?

There is no simple answer to this question as the likely culprit stems from a multitude of forces and factors. Regulatory oversights as well as loose corporate governance certainly have contributed. Additionally, as the referenced Harvard Business Review article (Paine, 2011) discusses, there seems to be a growing “conduct gap” between a corporation’s beliefs and its actions.

2. Are Citibank employees still adhering to Citi’s Code of Conduct? Is Mr. Leland?

Citi Bank has certainly created a strong and aspirational set of values and principles with their code of conduct. This code of conduct can be found at [http://www.citigroup.com/citi/investor/data/codeconduct\\_en.pdf](http://www.citigroup.com/citi/investor/data/codeconduct_en.pdf). Additionally, as a signatory to the U.N. Global Compact, Citi has made a strong commitment to fostering better global business practices.

Unfortunately, as the two reported scandals indicate, this commitment has not been adopted by all employees. There clearly has been a failure by corporate leaders to create or govern the appropriate ethical culture.

Citi’s management, while taking positive steps, has not done enough to ensure their stated core principles are adopted throughout the company. It seems clear that some employees are not adhering to this code. Specifically, Citi’s first two stated values of common purpose and responsible finance seem violated by these scandals including and the accusations from shareholders related to the U.S. mortgage fiasco.

As the case subtly indicates Matt himself may have a drinking problem. Based on his signed code of conduct and his position as a Citibank ethics officer he should disclose to the Citi authorities his impaired driving citation. Further, class discussion can be dedicated to debating what obligations Citibank itself has to their employees and what type of help (if any) they are required provide employees with potential dependency issues.

3. Is Citi responsible for the actions of outside contractors? What is Citi’s potential liability?

This question can produce a lively debate. Certainly, Citibank has an ethical obligation to ensure all employees and independent contractors adhere to a minimum standard of care. Certainly their own code promotes serving all stakeholders under the core principle of a common purpose. Legally, principals are generally not liable for the torts of their independent contractors, except in a few unique exceptions such as inherently dangerous activities. In this case, these debt collection practices violate Federal Trade Commission regulations. The key issue is whether Citibank is liable for the third part debt collector’s actions conducted on their behalf.

Ask the students if their answers will change if it comes to light that several of the collection agents had criminal records. If Mr. Leland comes across a memo indicating that individuals in Citibank’s HR department knew the contracted debt collectors had criminal records, how do his ethical and professional responsibilities change?

If this case is being conducted in a Business Law course a brief discussion of jurisdiction can be instigated at this point. Do foreign citizens working for U.S. subsidiaries have jurisdiction

in U.S. courts? Should this case be tried in an Indonesian or U.S. court? The concepts of personal and subject matter jurisdiction as well as forum non conveniens should be discussed. Moreover, discussion of the Alien Tort Statute and its applicability (usually used in cases of genocide, torture, and slavery) is suggested. The Supreme Court is currently in deliberations regarding the case Kiobel v. Royal Dutch Petroleum, which debates the applicability of this statute for lawsuits by foreign citizens against corporate organizations. A decision is due in by 2013.

4. What are the appropriate courses of action for Mr. Lelander with regards to these scandals and how can future ethical lapses be avoided?

There is no magic bullet here. Mr. Lelander has a daunting task ahead of himself and accountability is key. Citibank needs to act decisively, transparently and honestly with all their stakeholders. Ethical decision making does not take place in a vacuum as there are several factors which influence ethical decision making. As some of the leading scholars have theorized, “individual actors, organizational relationships, and opportunity all interact to determine ethical decision making in business,” (Thorne, Ferrell, and Ferrell, 2011). Matt needs to be aware of all these factors as he attempts to mitigate the effects of these scandals. After, the fallout of these incidents has been mitigated, Matt needs to assess and reinforce Citi’s ethical climate and culture. By adjusting this culture to accurately reflect their fundamental principles, future ethical crisis can be averted.

When discussing the best course of action for Mr. Leander and Citibank, using an ethical decision making framework can be helpful. As there are a plethora of ethical decision making frameworks for students to choose from this question can lead to useful discussion. The following framework was published by Trevino and Nelson (2007) and serves as a good focal point for discussion:

- Gather the facts
- Define the ethical issues
- Identify the affected parties
- Identify the consequences
- Identify the obligations
- Consider your character and integrity
- Think creatively about potential actions
- Check your gut

5. How should Matt respond to Jenny?

It is not entirely clear whether Jenny is threatening to disclose Matt’s driving impaired citation or not. In either scenario Matt should not disclose or share any of Citibank’s pricing strategies with Jenny. While this may seem harmless or even professional, discussion of pricing policies with competitors is a per se violation of U.S. Antitrust laws. These laws have been applied broadly and are applicable to trade discussions which have any effect on U.S. commerce. As Matt should be well aware after the Barclays’s rate-rigging scandal, antitrust laws should not be taken lightly. The fact that Matt may feel compelled to talk with Jenny in order to avoid disclosure indicates a responsibility to be truthful with Citibank regarding his driving citation.

6. How should he handle the dinner tonight with the Indonesian officials?

The Foreign Corrupt Practices Act (FCPA) prohibits payments or gifts to foreign official in exchange for a favorable ruling, regulation, or business advantage. The FCPA has a broad application and will be applied to U.S. citizens operating abroad.

While a business dinner and a bottle of liquor seem harmless, the statute precludes the providing of anything of value. However, de minimis gifts are allowed. This provides an excellent discussion questions as students can debate if these are de minimis gifts or an attempt to get improper concessions from a government official. Depending on where this dinner takes place, the cost of the Johnny Walker black label bottles and the parties' intent will determine application of the FCPA. In any scenario, students should be aware of its potential application.

7. Does Joan have any obligations under Citi's code of conduct to report Matt's unusual behavior?

Students should review Citibank's code of conduct for guidance. While the case does not affirmatively state that Joan is aware of Matt's potential personal issues, it could be argued as a friend and administrative assistant she "has to know." If Joan does know or should know, Citi's code of conduct does not place any affirmative responsibility on her to turn Matt in, although an anonymous hotline is provided for Citibank employees. If Matt continues down this path Joan should confront Mr. Leander or call the hotline.

## REFERENCES

- Alien Tort Claims Act of 1789, 28 U.S.C. § 1350 (1988).
- Azhari, M. and Baskoro, M. (2011), *Citibank Indonesia Sees Profit Slip as Other Foreign Banks Enjoy Growth*. Retrieved from <http://www.thejakartaglobe.com/business/citibank-indonesia-sees-profit-slip-as-other-foreign-banks-enjoy-growth/481202>.
- Belford, A. (2011). *Warning Signs in Citibank Scandals in Indonesia*. Retrieved March 12<sup>th</sup>, 2012, from <http://www.nytimes.com/2011/07/18/business/global/warning-signs-in-citibank-scandals-in-indonesia.html?pagewanted=all>.
- Central Intelligence Agency webpage, retrieved March 15<sup>th</sup>, 2012 from <https://www.cia.gov/>.
- Citigroup, Inc., Code of Conduct (2012). Retrieved March 15<sup>th</sup>, 2012 from [http://www.citigroup.com/citi/investor/data/codeconduct\\_en.pdf](http://www.citigroup.com/citi/investor/data/codeconduct_en.pdf).
- Citibank's Malinda Dee Sentenced to 8 Years for Graft*, 2012, retrieved on March 15<sup>th</sup>, 2012, from <http://www.thejakartaglobe.com/home/citibanks-malinda-dee-sentenced-to-8-years-for-graft/503103>.
- Deutsch, A. and Hidayat, T. (2011). *Citigroup faces hefty sanctions in Indonesia*. Retrieved from [http://www.ft.com/intl/cms/s/6cbe8850-77ca-11e0-ab46-00144feabdc0,Authorised=false.html?\\_i\\_location=http%3A%2F%2Fwww.ft.com%2Fcms%2Fs%2F0%2F6cbe8850-77ca-11e0-ab46-00144feabdc0.html&\\_i\\_referer=#axzz25CgrDBi1](http://www.ft.com/intl/cms/s/6cbe8850-77ca-11e0-ab46-00144feabdc0,Authorised=false.html?_i_location=http%3A%2F%2Fwww.ft.com%2Fcms%2Fs%2F0%2F6cbe8850-77ca-11e0-ab46-00144feabdc0.html&_i_referer=#axzz25CgrDBi1).
- Foreign Corrupt Practices Act of 1977, 15 U.S.C. § 78dd-1, et seq. (1998).
- Fraud and Death in Indonesia, (2011). Retrieved from [http://www.economist.com/blogs/freexchange/2011/04/financial\\_markets](http://www.economist.com/blogs/freexchange/2011/04/financial_markets).

- Hariyanto, J. and Bellman, E. (2011), *Citi Is Slapped With More Sanctions: Indonesia Bars Bank From Opening New Branches for a Year Threatens License*. Retrieved June 5th, 2011, from <http://online.wsj.com/article/SB10001424052748703992704576306622373899138.html?KEYWORDS=jakarta+citi>.
- International Monetary Fund webpage, Retrieved on March 15<sup>th</sup>, 2012, from <http://www.worldbank.org/>.
- James, S. (2011), *Citi Sued Over Man's Death In Relation To \$12,000 Credit Card Bill*. Retrieved June 20<sup>th</sup>, 2011, from [http://www.huffingtonpost.com/2011/06/30/citi-sued-for-mans-death\\_n\\_887754.html](http://www.huffingtonpost.com/2011/06/30/citi-sued-for-mans-death_n_887754.html).
- Kapner, S. (2012). *Citi to Settle Suite for \$590 Million, Bank Denies Misleading Investory, but Fine is Among the Largest Connected to Financial Crisis*. Retrieved from [http://online.wsj.com/article/SB10000872396390444914904577619410325528148.html?mod=WSJEurope\\_hpp\\_LEFTTopStories](http://online.wsj.com/article/SB10000872396390444914904577619410325528148.html?mod=WSJEurope_hpp_LEFTTopStories).
- Kiobel V. Royal Dutch Petroleum, 132 S. Ct. 1738, (2012).
- Kusma, R. (2011). *Scandal-Hit Citibank Indonesia Claims It's Still Going Strong*. Retrieved from <http://www.thejakartaglobe.com/business/scandal-hit-citibank-indonesia-claims-its-still-going-strong/453962>.
- Kusyk, S. (2010). *Learning to Navigate the Rough Seas of Ethics*, *Business Knowledge Review*, Second Quarter, 2010.
- Levitt, D. (2012). *HSBC Indonesia's Profit Jumps 70%*. Retrieved from <http://www.theindonesiatoday.com/news/finance-news/finance-photo/item/325-hsbc-indonesia-s-profit-jumps-70.html>.
- McCarthy, A. (2010). *Citi Joins United Nations Global Compact*. Retrieved from [http://www.citigroup.com/citi/citizen/assets/pdf/citi\\_an\\_gc\\_42010.pdf](http://www.citigroup.com/citi/citizen/assets/pdf/citi_an_gc_42010.pdf).
- Paine, L., Deshpande, R., and Margolis, J. (2011). *A Global Leader's Guide to Managing Business Conduct*. September issue of the Harvard Business Review.
- Scuffham, M. and Holton, K. (2012). *Barclays' Diamond quits over rate rigging*, retrieved July 3, 2012, from <http://www.reuters.com/article/2012/07/03/us-barclays-idUSBRE86208S20120703>.
- Drink-Driving in Indonesia: Street Legal, (2012). Retrieved on March 5<sup>th</sup>, 2012, from <http://www.economist.com/blogs/banyan/2012/02/drink-driving-indonesia>.
- The World Bank webpage, Retrieved on July 1, 2012, from <http://www.worldbank.org/>.
- Thorne, D, Ferrell, O.C., and Ferrell, L, 2011, *Business & Society; A Strategic Approach to Social Responsibility and Ethics*, Mason, OH, Cengage.
- Trevino, L., and Nelson, K. (2007). *Managing Business Ethics: Straight Talk About How to Do It Right*; Wiley; 2006, 4th ed.