



## ***Citigroup: Restoring Ethics and Image Before Growth***

### **TEACHING NOTE**

#### **Purpose of the Case Study**

- To enable students to understand the importance of implementing an effective corporate communication program when a company is going through a major strategic shift.
- To encourage students to think critically about the role of investor relations in communicating the company's progress in recovering from a regulatory crisis.
- To provide students with an understanding of different approaches for responding to various crisis situations.
- To help students assess methods to repair a severely damaged reputation and to discuss why reputation matters to Citicorp.
- To encourage students to think critically about the role of social responsibility and business ethics in the past and present decisions made by Citigroup management.
- To enable students to understand the increased role of government relations in the modern era of corporate consolidation and globalization, and the need to integrate this function into strategic decisions.

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This case was prepared by Research Assistants Julie Ratliff and David Lee under the direction of James S. O'Rourke, Concurrent Professor of Management, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Information was gathered from corporate as well as public sources.

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## Setting the Stage

In 1998, an 83 billion dollar merger took place among The Traveler's Group, Salomon Smith Barney and the Citicorp banking empire. Citigroup, the surviving entity, became the first financial services in the United States to bring together banking, insurance, and investments under one umbrella. The company, with Sandy Weill at the helm, had successfully broken through the Glass-Steagall Act, which was put in place by Congress in the post-depression era to limit commercial banking institutions to only 10% of profit from the securities market.

Citigroup enjoyed much success and profit as Sandy Weill continued to take on big mergers and acquisitions from the time Citigroup was created until the past few years, when illegal and unethical practices began to catch up with them. By 2002, Citigroup was responding to serious allegations from Attorney General Eliot Spitzer, the Federal Trade Commission, the Securities and Exchange Commission, and Japan's Financial Services Agency regarding many different offenses. Sandy Weill was in the middle of all of these activities, but he had his loyal companion and counsel Charles Prince to be his fireman and clean up improprieties after him. By the time Prince had settled into his new position as CEO, the company had to pay out some of the biggest settlements in the history of consumer and investment banking history.

Charles Prince decided to slow down the pace of Citigroup's mergers and acquisitions to establish serious internal controls within the company. He did this at the request of the Federal Reserve, holding off on all new M&A until they could implement an ethics program in a corporation of 300,000 employees and 100 represented countries. He also employed this strategy because the reputation and legacy of Citigroup was in peril with all the negative publicity regarding the company's participation in big scandals like Enron and WorldCom.

By the end of 2004, Prince had settled into a game plan on how Citigroup could reemerge as the "Most Respected Global Financial Services Company." Part of this plan was hiring people like Sally Krawcheck and Lewis Kaden, who were known for integrity. But the most popularly discussed aspect of his plan was the implementation in March, 2005 of the Five Point Ethics Plan. This plan is to be implemented within 12-18 months, and will communicate the responsibilities of employees to customers, to each other, and to the Citigroup franchise. This plan discusses expanded training, enhanced focus on talent, balanced performance appraisals, improved communications, and strengthened compliance controls.

The ethics plan appears solid, but many sources are skeptical. Ethics experts warn that a company cannot enforce ethics, and that the acid test will be whether Prince can enforce ethical behavior along with legal behavior. Other business experts wonder if the company is just too big to impart this kind of an idealistic plan. Finally, several key executives that brought in much needed revenue in the past have left the company due to a conflict of interest with Prince and his plan. Many wonder whether the company can recover after the scandals, the departure of long-time executives, and the slowdown in acquisitions in order to create internal controls.

Citigroup's reputation rests on the shoulders of a man whose leadership style may be exactly what Citigroup needs to recover from past improprieties to emerge as the most respected global institution. This recovery depends on whether the Five Point Plan can be effectively communicated internally to employees and externally to other stakeholders.

### **Identifying the Critical Issue**

The challenge for Citigroup is two-fold. The first is for Prince to create true buy-in with employees for his ethics plan. He has said, "The real question is, can we execute it in a way that becomes more embedded? If we don't pay people the right way, the initiatives risk becoming no more than cynical happy-talk."<sup>1</sup>

The second critical issue is whether Citigroup can effectively communicate the importance of this plan to major stakeholders, especially all investors who are asked to have faith while the company undergoes major cultural renovation before any substantial growth can happen.

### **Examining Outcomes**

Charles Prince should establish a sense of urgency to successfully lead change in the organization. Employee bonuses, for example, can be withheld from any employee who violates the ethics plan. The associated trainings should be mandatory for all relevant personnel at all position levels.

Due to the huge size of the organization, Prince should solicit the active acceptance of the plan from some key employees who are highly respected and experienced. These key advocates should come from various operational segments of the company and should be used in the implementation process. Employees will be more likely to support the plan if influential members of management are touting it.

Prince can ingrain the plan into the corporate culture by communicating it early and often. Powerful forums such as the annual shareholders' meeting, the quarterly earnings conference call, and the annual report should have a dedicated section describing the plan. A prominent section of the company's intranet should describe the plan and provide specific guidance to each segment. Prince should also work with the Corporate Communications department to develop a five-minute summary speech for the plan. He could incorporate this in a variety of public appearances and internal meetings at Citigroup.

Changing the culture of the entire organization is not going to happen overnight. Prince should set realistic timeframes on implementation goals. Along the way, Prince needs visible

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<sup>1</sup> "After Scandals, Citigroup Moves to Beef Up Ethics." *The Wall Street Journal*. February 17, 2005.

points of success to evaluate progress. He should empower the appropriate Citibank managers to take ownership of the success points and provide incentives.

The experts in the various communications functions should be engaged to help in disseminating the information. The Investor Relations department can include a section of an investor road show to communicate the vision to the sell side analysts. The Government Relations department can reach out to the various regulatory agencies to show the sincere effort the company is exerting for change. The Media Relations department can also recruit reputable journalists to cover the story.

### **Teaching the Case**

#### One Week Prior

Distribute the case study to students at least one week prior to the discussion date. Instruct them to consider the following issues when reading the case:

1. The role of internal communication as a vehicle to facilitate and inspire changes to corporate culture.
2. The importance of a crisis management plan and the role of communication in responding to a crisis.
3. How corporate communications, media relations and public relations fit into a successful investor relations program.
4. The role that mergers, acquisitions, and the overall size of Citigroup's operations played in onslaught of regulatory investigations and legal settlements.
5. How one would successfully implement an ethics program in a corporate culture.

#### First 25 Minutes of Class

Give an overview of Citigroup by describing the various operations of the company. Highlight the major events in recent history that contributed to the formation of Prince's unveiled plan. Open the discussion to the students concerning the following topics:

- Identify and rank the various issues facing the embattled firm. Determine the essence of Citigroup's business problem.
- Identify the key stakeholders and discuss the various conflicts between the parties involved.

- Discuss the ethical dilemmas facing Citigroup and whether the company was responsible for changing their operating practices.

### Last 20 Minutes of Class

Summarize the 2005 Prince plan for Citigroup. Ask the students to meet in small groups to discuss the implementation strategy for the plan. Assign each group a different communications function, and have them discuss the strategy from the perspective of their assigned function. Example areas to include:

- Investor Relations
- Corporate Communications
- Media Relations
- Government Relations

### **Applying the Page Principles**

Arthur W. Page viewed public relations as the art of developing understanding and communicating character – both corporate and individual. Mr. Page identified six principles of public relations management for corporations to use as guidance during crises. We have applied these principles to the case of Citigroup, especially the leadership style and decisions of CEO Charles Prince.

**Tell the Truth.** Charles Prince has come into the job of CEO with transparency. He has not excused the actions of any of his employees, and has made public apologies to the Japanese citizens and to the public. He has stated that the actions of his employees were not admired or desired. Prince has fully acknowledged the past wrongdoings of Citigroup in his initiative to proactively change the direction of the company. In addition, his ethics plan has zero tolerance for those employees that are not willing to change the tarnished culture of the company.

**Prove It with Action.** From the time the five point ethics plan was implemented in March, the plan was a priority to implement throughout the organization. Charles Prince placed his immediate support and enthusiasm into his plan when he entrusted executives known for integrity and ethics in leadership positions and tied compensation to the compliance and buy-in of this plan. With the announcement of no big mergers and acquisitions until internal controls are improved, Citigroup has sacrificed growth and profit in an effort to solve its' major regulatory issues.

**Listen to the Customer.** Through misleading sell side research reports and deceptive consumer lending practices, Citigroup caused significant damage to the relationships with customers. Past organizational changes to combat these issues were often made as a reaction to regulatory settlements. By reforming the ethics and code of conduct of the company internally, Prince is

altering the way that his employees serve the customer base by providing incentives that transcend short-term profit. Through internal change, Prince's plan is partially aimed at changing Citigroup's reputation for defrauding customers.

**Manage for Tomorrow.** It is evident that CEO Charles Prince is positioning his company for value maximization in the future. He has voluntarily withheld major mergers and acquisitions for longer than the Federal Reserve requirements. Stability and sustainable long-term growth are at the core of the five point ethics plan. Citigroup is starting a new legacy of integrity that Prince hopes will reinvent the future image of the company.

**Conduct Public Relations as if the Entire Company Depends on It.** To date, Charles Prince has focused on communicating the organization changes to the Citigroup employees. The same resources have not been devoted to educating the public about the ongoing changes at the company. To rebuild and strengthen relationships with the company's other constituencies, the company needs to expand the reach through public relations. During an era in which Citigroup's name has been associated with massive business scandals, it is imperative that the company use public relations to build trust.

**Remain Calm, Patient and Good-Humored.** After succeeding Sandy Weill as the CEO of Citigroup, Charles Prince inherited an organization that was deeply embattled. Prince did not make an attempt to correct the situation with blame and haste. Alternatively, he rolled out a program that was designed with sound reasoning and strategic planning. The plan did not call for an instantaneous end to the ethical and regulatory problems facing the company. It was designed to make integral changes to the operations of the giant organization that will benefit in the long-run. The proposed changes were consistent with the overall goals of the organization.

### **Timeline of Media Coverage**

**19 September 2002** "Citigroup Settles FTC Charges Against the Associates Record-Setting \$215 Million for Sub prime Lending Victims" appears on the federal trade commission website, describing the consumer protection settlement for deceptive loan practices.

**20 September 2002** "The Falls of Enron: Citigroup Settles Suit Over Credit Insurance" appears in the *Houston Chronicle* as the company settles an SEC investigation into the allegations of helping Enron commit fraud.

**23 September 2002** "Citigroup to pay \$5 million fine to NASD to settle charges it issued misleading research to protect an investment banking client with a focus on Jack Grubman," appears in *CNBC Business Center* concerning the WinStar bankruptcy.

**23 December 2002** “Spitzer settlement to cost Citigroup \$1.3bn” appears in the *Financial Times* after the company settled the investigation into conflicts of interest between sell side research and investment banking.

**24 May 2003** “Citigroup ceases coverage of 117 firms: Seven analysts fired: Research cutbacks mirror rivals in wake of Spitzer deal” appears in the *Financial Post* as Citigroup witnesses the side effects of the ongoing regulatory investigations.

**10 May 2004** “Citigroup to Pay \$2.6 Billion to Settle WorldCom-Related Suit” appears in the *TR Daily* describing the required settlement associated with Citigroup’s sell side research recommendations.

**22 September 2004** “Citigroup’s Misstep In Japan May Bruise Bank’s Global Image” appears in *The Wall Street Journal* when the FSA ordered the entire Japanese private banking service to be closed.

**28 September 2004** “Citigroup swaps top jobs” appears in *The Guardian* as Charles Prince hires Sally Krawcheck to replace the current CFO and head of strategy at Citigroup.

**16 February 2005** “Citigroup Works on Its Reputation” appears in the *The Wall Street Journal* and discussed Charles Prince’s unveiling of The Five Point Ethics Plan.

**26 March 2005** “Films and Forums teach value of ethics” appears in *The New York Times* and discussed ethics expert Charles Elson’s assessment of Prince’s ethics plan.

**14 July 2005** “Citigroup Announces Departure of Robert B. Willumstad” appears in *Business Wire* as the President, COO, and member of the Board of Directors at Citigroup announced his plans to leave Citigroup to pursue an executive place with another unknown company.

**21 July 2005** “Frustrations of a Deal-Maker” appears in *The New York Times*, focusing on Sandy Weill’s intentions to leave Citigroup early to launch a private equity fund, hopefully with the help of Citigroup’s expense account and biggest investor.

**22 August 2005** “Citigroup’s Marjorie Magner to Leave” appears in the *AP* and described the plans of Citigroup’s current chairman and chief executive officer of the Global Consumer Group to leave, mainly because of her disgust with Prince and his plan.

**7 September 2005** “Citigroup’s chief needs time, says Saudi Prince” appears in *Calgary Herald*, announcing the positive response from Citigroup’s biggest investor to Prince’s ethics plan.

**31 August 2005** “Exclusive Interview with Citigroup” appears online at <http://welcome.corpedia.com/index.php?id=236s=news&c=news> , explaining Prince’s and Schlein’s candid response to questions posed about Citigroup’s new plan.

### **Questions for Discussion**

1. Has Citigroup grown too large to enforce corporate governance or internal controls? What effect has the organization’s size and complexity had on the continued problems?
2. What effect will the new plans have on Citigroup’s investors? What can Citigroup do to mitigate negative responses?
3. How can Citigroup continually communicate the reformed organizational culture to the public?
4. How would you react if you were the corporate communications officer of a Citigroup competitor?
5. Do you believe it is possible to enforce an ethics program with this or any other organization?
6. As a corporation communications officer, what would be your method to communicate the plan to Citigroup employees and inspire change?
7. Is Prince’s plan sufficient given the magnitude of the problems facing Citigroup?
8. Who are the principal stakeholders? How should Prince handle the stakeholders’ responses and concerns?