**Corporate governance:**

**Tyco Scandal**

**1.Description:**

(1) Main players: former CEO Dennis Kozlowski and former CFO Mark Swartz.

(2) Background: Tyco began as an investment and holding company focused on solid-state science and energy conversion. It was founded by Arthur J. Rosenberg in 1960 and later diversified into a global company providing products and services in four business segments: fire and security, electronics, engineering goods and services, and healthcare.

(3) What happened: Between 1973 and 1982, the company grew from $34 million to $500 billion in consolidated sales. In 1975, armed with a degree in accounting, Dennis Kozlowski joined Tyco under Joseph Gaziano. Gaziano had an excessive lifestyle, courtesy of Tyco funds, such as company jets, extravagant vacations and fancy club memberships. Kozlowski, dazzled by this glamour, began to mimic this lifestyle. In 1992, Fort resigned as CEO and Kozlowski took over as CEO, resuming his former lifestyle, including own multiple extremely expensive houses. This was the beginning of a long chain of unethical and illegal conduct.

Between 1997 and 2001, Tyco's revenues climbed 48.7% annually. The pace of M&A escalated, assisted by Mark Swartz, Tyco's CFO. Meanwhile, Kozlowski's salary increased from $8 million in 1997 to $170 million in 1999, making him the second-highest-paid CEO in the United States at the time.

In early 2002, the board members noted that Kozlowski had made a significant payment without informing them. After investigation, the prove uncovered numerous expense abuses.

Also, in 2002, the New York State Bank Department observed large sums of money moving in and out of Tyco's accounts. What made this unusual was that the funds were being transferred into Kozlowski's personal accounts. SEC and Manhattan D.A. investigations uncovered questionable accounting practices, including large loans made to Kozlowski that were then forgiven.

In September 2002, Authorities accused Kozlowski and Swartz of stealing $170 million from Tyco and fraudulently selling an additional $430 million in stock options.

(4) After effects: Kozlowski and Swartz were sentenced to 8-25 years in prison. A class-action lawsuit forced Tyco to pay $2.92 billion to investors. Tyco's stock plunged from $60 per share in January 2002 to $18 per share in December 2002. Investors lost millions of dollars. Many of the firm's 260,000 employees were also shareholders and watched their savings dwindle. Tyco's retirees found that their savings and retirement plans, which were tied up in company shares, plummeted with the company's stock price.

(5) Fun fact: At the height of the scandal Kozlowski threw a $2 million birthday party for his wife on the Italian island, complete with a Jimmy Buffet performance.

**2. Causes of failure:**

(1) Unethical business practice of Kozlowski: Kozlowski was the main recipient of the money stolen from Tyco. In addition, he was the main influential person who persuaded other top-ranking Tyco officers to get involved and to keep silent to cover up for his illegal activities.

(2) Unethical Auditing Practice: The auditing firm PricewaterhouseCoopers responsible for checking the financial reports of Tyco failed to identify Kozlowski's illegal financial transactions.

(3) Inadequate policies and procedures to prevent the misconduct of senior professionals.

**3. Summary:**

Tyco incurred significant damage during the scandal of 2002 due to the lack of a strong ethical environment. Bad corporate governance can cast doubt on a company's reliability, integrity, and transparency, which can impact its financial health. A company must protect its corporate governance system from unethical conduct.