

ANDERSON ROLLERS AND BEARINGS, INC.

INTRODUCTION

Inside (or non-public) information is information not yet available to the general public that may affect the value of a stock. There are laws that state what a person with access to the information may or may not do with it. This case will look at a situation where knowledge of non-public information creates a conflict between an obligation not to disclose the information and a desire to protect someone who will be adversely affected by the business actions covered by the information.

BACKGROUND

Anderson Rollers and Bearings, Inc. is a designer and manufacturer of high-performance bearings, transmissions, and gearboxes. Its main plant is located in Michigan, outside of Detroit. Anderson had revenues of \$2.8 billion in the most-recently-completed year and employs 12,000 people, 6,000 of whom are in its Michigan facility with the others scattered across facilities in seven other states.

THE CASE

Mary Ellen

I know Bob trusts me. I've been his executive assistant for 12 years. He has access to very sensitive information on our business plans as part of his job as Anderson's Vice President of Strategic Planning. One of the first things he emphasized was the importance of not talking about what goes on in his office and the information that flows in and out of it. As the vice president of a publicly-held company, Bob has access to non-public information that could affect the value of our stock. I see it all since Bob relies on me so much. He trusts me and I'd never do anything to lose that trust. I signed a non-disclosure agreement specifically addressing my obligations regarding non-public information.

So, I understand non-public or inside information and insider trading. Bob didn't need to say it twice – I've seen too many stories in the paper about people who leveraged their inside information to make a killing in the market. They always get caught. The Securities and Exchange Commission – the SEC – watches that sort of thing like a hawk – you're going to get caught. It's not worth risking my whole future and that of my family for a pipe dream of getting rich quick. Besides, it's against the law, it's just wrong.

But what I saw yesterday really shook me. Bob had just left for a meeting out of the office. I took some updates on our research programs into his office to leave on his desk. The research reports are all available on the company's secure computer systems, but Bob says he really likes to look at the research reports in hard copy. "Those technical tables and charts make more sense to me if I can jot notes on them with a pencil," Bob told me once. So, I print them out for him each month and have them ready for his review.

He had been working on his email and left hurriedly to get to the meeting; his email was still open on his screen and the screen security lock hadn't kicked in yet. I don't know why I glanced at the screen. I didn't think twice about it since Bob keeps me in the loop on almost everything – he doesn't hide information from me, given how much access I have to him and his work. Right before the screen security kicked in and the screen saver popped on, I saw part of what he had been typing: "...the move of the NG220 production line to

the Indiana plant after the product redesign will enable us to use the special tooling they have in place there. The production efficiencies will increase output and make a favorable improvement to PBIT..." It went on, but the screen saver had popped on before I could read more. My first thought was my continuing amusement at the acronyms that were used in business. Why not just say "profit" instead of "PBIT" – "Profit Before Interest and Taxes"?

But suddenly the impact of what I had read hit me. The NG220 line employed about 900 people in the Michigan plant. It was the second largest product line in the plant. If they moved it to Indiana, those people might be out of work! That included my son and daughter-in-law. Neither one had enough seniority to bump someone on another line and take their job. I sat down at my desk and tried to keep the dazed look off my face.

Larry

I don't normally see Mom in the plant cafeteria. Our schedules don't line up, especially given how her schedule keeps being disrupted by the constantly shifting priorities in the executive offices. Today, she shows up in the cafeteria just as I start my lunch break and insists on talking to me. I took my food to a table off to the side and she joined me. She didn't bother buying lunch – that should have been my first clue there was a problem. Now that I've had a chance to absorb what she told me, I'm not sure what to do. Joanne and I have been looking to buy a small house and get out of the apartment. We want to start a family and we want our kids to have the same kind of environment we had growing up. We have enough for a down payment and I've worked the finances. We can do this. But not if we get laid off. In fact, we've found the right house and we're supposed to sign the contract on Friday. If we're going to be out of work, we can't afford to lose the earnest money that goes with the contract. Mom knows all that. I'm sure that's why she told me. I need to talk with Joanne.

Bob

I *will* find out how this rumor got started. If the General Counsel or Security or Human Resources don't get there first. It's all over the plant. We have a notice going out to all employees to try and clear the air. And how did it get to the TV stations? I see the "Breaking News" scroll on the screen and then an anchor saying that Anderson Rollers and Bearings is closing the Detroit area plant and moving production to its other sites outside the state. None of that is true! The effect on the stock has been huge. It's been on a roller coaster ride for 24 hours now, up and down as analysts try to figure out what impact the "news" has on the stock. Anna, our General Counsel, is waiting for the call from the Securities and Exchange Commission – she's sure they're going to be interested.

Of course, the problem is that there is a grain – a very small grain – of truth in all this. We're going to move the NG220 line to Indianapolis to take advantage of the special tooling they have. We really can't move the tooling since we purchased it with tax breaks from the state of Indiana to generate employment there. However, we're moving one of the Indiana lines to Detroit. The M350 product is also undergoing a redesign so it's not very disruptive now to move it from Indiana. Basically, it's a neutral effect on employment, but we weren't ready to announce the move yet. There are a lot of variables that need to be worked out to make sure it's practical. This leak may crash the whole plan.

Anna

As far as we can reconstruct the chain of events, someone overheard a conversation in the cafeteria about the NG220 line and then it became an elaborate game of “telephone” with each person who heard the story passing it on to another with just a small variation. We still don’t know who started the chain. Now I have the SEC wanting to review our procedures on inside information and they’re planning an investigation. Some speculators made a bundle off the stock price fluctuations.

Mary Ellen

I didn’t mean for this happen. I just wanted to help my son and his wife. I didn’t use the information to try to make money. This just doesn’t make sense! Now the company is in trouble with the SEC and with the employees. I’ve been at Anderson for thirty years and I’m loyal to the company. What do I do?

THE ASSIGNMENT

- Consider the facts. Is Mary Ellen justified in talking to her son? Does it make a difference that she did not use the information for personal gain?
- Consider the people. Are Mary Ellen’s motivations understandable? What values should have guided Mary Ellen? Should Larry act on the information his mother gave him? What should the person who overheard Larry and Mary Ellen have done?
- Consider the situation. How do you balance legal obligations against personal obligations? Should you? What values come into play? What should Mary Ellen do now? Why? What are the possible repercussions?

This case was written for the Daniels Fund by Charles Chadwick, Senior Advisor, Ethics Research Center (ERC), the research arm of the Ethics & Compliance Initiative (ECI).

ANDERSON ROLLERS AND BEARINGS, INC.
INSTRUCTOR/FACILITATOR CASE NOTES

CASE SUMMARY

The classic insider information case involves an individual who personally benefits (including indirectly, via family or associates) by virtue of knowing non-public information about a stock. This allows them to buy or sell the stock at favorable prices relative to the future price that will be affected by the inside information once it becomes public. This case, however, will consider a situation where knowledge of non-public information creates a conflict between an obligation not to disclose the information and a desire to protect another person who will be adversely affected.

LEARNING OBJECTIVES

The learning objectives of this case study are as follows:

- Understand the implications of the law – what the law is intended to accomplish
- Recognize both subjective (personal or principle-based) and objective (societal or rule-based) criteria in making ethical decisions
- Develop methods to resolve conflicts between personal values and legal obligations

ISSUES

Insider Trading

This case presents an apparent dilemma between obeying the law and personal values (such as loyalty to family or friends). Knowledge of the intricacies of insider trading are not needed to discuss the conflict presented. However, some basic knowledge is useful. The case outlines all that is needed. Essentially, insider trading is the trading of stock in a publicly held company by individuals who have access to non-public information about the company. Trading based on inside information is illegal in the U.S. and in many other countries. It is seen as both unfair to other investors who do not have access to the information as well as inviting manipulation of the stock price and destabilizing the market. It should be noted that executives in many public companies hold stock in that same company. The executives' ability to buy or sell the stock is controlled by very specific rules because of their access to non-public information about business plans. Mary Ellen's disclosure of the inside information to which she had access is a violation of the law. This is regardless of whether she traded in the stock or whether the information was accurate.

Daniels Fund Ethics Initiative Principles involved: Rule of Law, Accountability, and Viability

Personal Values

The crux of this case is the real (or apparent) conflict between personal values and the law. There are a multitude of examples of this conflict. A well-known example is that of Henry David Thoreau and his refusal to pay a poll tax because he believed that the revenues derived from the tax supported slavery, even if indirectly. Thoreau's friend, the American writer and philosopher, Ralph Waldo Emerson, visited Thoreau in jail and asked him, "Henry, what are you doing in there?" Thoreau replied, "Waldo, the question is, what are

you doing out there?” Thoreau’s essay *On the Duty of Civil Disobedience* later influenced both Gandhi and Martin Luther King, Jr. Here, we have a less political and less dramatic application, but one of a type more likely to be experienced by average employees. Does Mary Ellen have a right to ignore both the law and internal policies? Both exist for sound reasons and serve to protect society as a whole. If she is allowed to choose if this specific law will be obeyed and when, then it raises the question whether others should be similarly empowered. Is it sufficient that she intended no harm and sought no personal gain? From a rule-based approach, this discussion is an “open and a shut” case. Is it also that clear from a principle-based approach? What obligations does she have to Bob?

Daniels Fund Ethics Initiative Principles involved: Rule of Law, Trust, and Respect

Unintended Consequences

Mary Ellen’s actions have had unintended consequences – outcomes she could not have anticipated would result from her actions. A principle-based approach to her situation at the end of the case clearly indicates that she should tell Bob what she did and accept responsibility. The discussion should also reflect on what other actions she could have taken other than telling her son. One possible approach would have been to simply approach Bob, tell him what she had seen and express her honest concerns. Here, we know she would have had her concerns alleviated. However, consider if what she thought had been the case were in fact so. The simple act of seeking advice might have caused her to take a different course of action. Mary Ellen needed to recognize that she was faced with an ethical decision and make that decision by applying ethical guidelines. Regardless of where individuals stand on her initial actions, the discussion may also want to reflect on the organizational justice aspect of this case: what consequences are appropriate for Mary Ellen once it is known what she did?

Daniels Fund Ethics Initiative Principles involved: Accountability, Integrity, Transparency, Rule of Law, and Fairness

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