

Do Personal Ethics Influence Corporate Ethics?

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- ▶ How did the authors know—faster than anyone else—to check the data? <https://ashley.cynic.ai/>
- ▶ How can A-M still even exist? Is anything there credible?

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 - ▶ Life is short, have an affair.
 - ▶ Life is short, now that your spouse knows you want A-M.
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Paper Findings

- ▶ Ashley-Madison CEO/CFO paid subscribers also faced more than their share of corporate misconduct.
- ▶ Association: Firms with more allegations had more CEO/CFO engagement. No difference in other execs' engagements.
- ▶ Hypothesis: Cheating on spouse is not substitute but complement for not-yet-settled class-action target and/or insider trading.
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Personal Ethics

- ▶ How unethical are affairs outside marriage? What if both partners have affairs (consensual?). What if it saves marriages?
- ▶ Are affairs ethically better or worse than being married many times?
- ▶ Correlated with frayed marriages due to stress? [more often married]
- ▶ Correlated with wife not doing personal financial accounting? (=Me) With age?

I am less judgmental. IMHO, consenting adults can do in their bedrooms whatever they want to do. **Completely!**

Rhetorical Questions About Meaning

- ▶ Correlated with lack of ingenuity and stupidity, leading to being found out? Note that A-M is **still** operating. How stupid can one be??
- ▶ What if high testosterone contributes to both? Should we select low-testosterone CEOs/CFOs?
- ▶ What if sex drive contributes to both? Should we select Catholic priests?
- ▶ Women signed up less. Should we hire women execs because they are more ethical? (and reduce sexual harrassment risk.)
- ▶ What if good-looking people have dffrnt A-M usage and more real-world affairs? (Correlated with alternatives for cheating?)
- ▶ What would we find if we repeated this paper with Alcoholics Anonymous? What should we conclude?
- ▶ Are these the barkers, not biters? Is it opposite?

More Ethics Questions

- Is it ethical to download and/or profit from stolen data?
- Is it even legal?

*Joseph Fitzpatrick, spokesman for the **U.S. Attorney's office in Chicago**, told the Chicago Tribune that simply downloading illegally obtained files is potentially illegal. He even believes that sharing the knowledge of how to obtain the hacked data could be a crime.*

"It certainly could be a crime to receive or possess stolen property," he told the newspaper. "Once you download or distribute hacked information without specific permission or a fair use license, you've exposed yourself to potential criminal liability under the Computer Fraud and Abuse Act. An individual who retweets or forwards a link to a website containing hacked information could potentially be viewed as an accessory to the hack after the fact."

*Downloading it is legally the same as downloading a pirated movie. It's stolen property, said Scott Vernick, partner and head of the data security. **PS: I would argue it's worse.***

Other Interesting Variables

- ▶ Divorces?
- ▶ Executive Compensation? ← CFR.
- ▶ Trump vs Clinton
- ▶ Reps vs Dems
- ▶ Congressmen vs Senators
- ▶ Bible Belt?
- ▶ Church Engagement? (Own, not county)
- ▶ Political Donors
- ▶ Reps vs Dems.
- ▶ Politicians

Specific Paper

- ▶ Matching is **very** difficult and central (to establish baseline).
- ▶ 36 CEOs and 38 CFOs.
 - ▶ Expected about 12.
 - ▶ Significant about 24.
 - ▶ Found about 36.
- ▶ Other Execs— less power to offend SEC rules.
- ▶ Personal misconduct vs. corporate misconduct
 - ▶ own insider trading = yes.
 - ▶ non-complete class action allegations = less so. (wealthier?)

Should You Believe This Paper?

- ▶ Most empirical papers need to make countless specification choices. AND every author is subject to a conflict of interest.
- ▶ This paper is no exception. It is to be believed only after a full independent replication and critique (with opposite incentives) is published.
- ▶ Trust but verify.
- ▶ **CFR.**

Most Objectionable: Grand Claims

- ▶ Paper measures **only** AM usage, not even a proxy for all personal ethics. Did Hannibal Lechter need to advertise?
- ▶ “personal actions are informative about professional conduct.”
... in a small sample of 38 execs.
- ▶ “personal and professional ethics of CEOs and CFOs are closely related” **...related in a small sample of 38 execs.**
- ▶ “large impact on corporate conduct” **... really? corporations do so much more.**
- ▶ “U.S. military suggests holistic approach...have important implications” **... really? Like what?**
- ▶ **BUT ALWAYS (and listen referees):**
 - ▶ Either economic hypotheses are (1) obvious and universal, or (2) specialized with limited external validity. They cannot be both.
 - ▶ External validity? Sampling one distribution? Really?

Lots of detailed minor comments:

- ▶ Placebo — can we run a regression predicting AM with corp leverage?
- ▶ More info on misconduct. Is it matched to same CEO, or just same firm?
- ▶ dismissed class action lawsuits — how many are real?? is it just “more recent lawsuits” (not yet settled?)
- ▶ is restatement sign of honesty or sign of dishonesty?
- ▶ class action lawsuits are not about corporate dishonesty. they happen all the time.
- ▶ why not use multiple matched samples for distribution?
- ▶ are there really more and less ethical counties?? (or, more likely, more and less ethical choices other than AM)
- ▶ Why would past ret vol be negatively related to infractions?
- ▶ generic county ethics levels?? are you kidding?? how much do they say about me?
- ▶ Very specific sample — execs. Not all the same.
- ▶ P5 — is governance endogenous or exogenous?
- ▶ how does the affair guarantee work?
- ▶ 45 million members—really?? Do we believe AM execs?
- ▶ P9: is missing = NA or 0?
- ▶ P10: just tell us how many are still employed.
- ▶ P10: maybe it is publicity that is harmful, not extra-marital affair per se.
- ▶ P11: I had real trouble with timing. Does turning up to be an A-M user make you unethical, or were you unethical all along???
- ▶ how are we handling CEO/CFO changes?
- ▶ how are we handling multiple infractions.
- ▶ SEC is not about crime, but about civil actions.
- ▶ P20—if there is culture issues, then we should observed other execs in same firm (not just location) to have similar signup rates (not similar allegations).

- ▶ It is not an indication of better ethics by mid-level execs when we find that mid-level execs tend to be less often charged in CA suits and SEC actiond. They just are in charge of less.
- ▶ P26 — while we cannot rule out == of course, but this is phrasing it like “he denied child abuse” you do imply it.
- ▶ P34 —predicted or actual bars? why so many fewer in 2014?? (year of misconduct vs filing)
- ▶ P35 – simple table please, too — how many CEOs, not just how many suits. SEC info may be more convincing of misconduct.
- ▶ P38 — leverage is significant?? (what about a few lagged returns??)