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Required Reading for Growing Companies

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vice, virtue and rationalization

Worldcom, Enron, Vivendi, RiteAid, and Chapman Enterprises - allegations conjuring up images of corporate villains running amok or modern Genghis Khans pillaging the business and investor landscape. Are the allegations, if true, merely random eruptions from the subterranean magma of greed, overreaching, and corruption, or is there more here?

I submit there is a cultural assumption of entitlement to ultimate invulnerability, or at least to a "security" tantamount to invulnerability. The creed of invulnerability pervades a corporate and entrepreneurial landscape where the inhabitants tott up whatever amount will allow them to thumb their noses at the rest of humanity and "retire" to more pleasant climes and to more pleasant pursuits. This creed then justifies all manner of rationalization, where ethics end up being shelved and legalities pigeon-holed.

Sarbanes-Oxley is our latest legislative fix for these matters. Yet even with these remedies, laws in the U.S. and elsewhere will permit Bernard Ebbers his 500,000 acre ranch in British Columbia and his CFO his \$15 million Boca Raton residence, should they be required to file personal bankruptcy to avoid any liabilities resulting from allegations against them. Homestead laws in these cases would support the "I've got mine and you can't reach me" philosophy running deep in our culture. It results in a pretty bleak picture - investors ultimately frustrated in their efforts to make corporate executives "pay" enough to feel vindicated, and the human carnage of those executives caught in the web of intrigue trying to squirrel away judgment-proof assets.

And yet that's what the invulnerability myth seems to yield - endless frustration, emptiness, and misery on all sides. Is there not another way?

Buried on the last page of the Business Section of *The Baltimore Sun* about three weeks ago (opposite the continuation of a front page column calling for resignation of CareFirst leadership) was a remarkable story of a CEO standing the myth of invulnerability on its head. Corning CEO Jaimie Houghton, fifth generation leader of a publicly-held family business laid off half his hometown corporate office employee complement over the last two years, responding to a collapse in the fiber optics market.

Far from adopting a "bunker mentality" he has chosen to become more visible in the community, even though it has meant emotional

confrontations with laid off employees in the supermarket and singing in his church choir next to those whose employment his actions terminated. His accessibility, with the concomitant emotional and even physical vulnerability it entails, has enhanced the reputation of his family and reportedly eased the trauma for the whole community.

Even at Freddie Mac, where currently the CEO has retired, and the President and CFO have been fired, and federal investigations are

proceeding, the long time philosophy of vulnerability is standing the company itself in good stead. The CEO's stated philosophy has been that we will not take any action, legal or even arguably ethical that we would not want our families to read about on the front page of *The Washington Post*. While Freddie is under fire, its Standard & Poor's AAA rating is unchanged, and its restatement of earnings reportedly will result in increased rather than reduced earnings. Not taking the easy route earlier is paying off now. It's not a guarantee against adversity, but corporate financial credibility today remains undiminished.

So, there are executives out there whose motivation is not "me first and foremost"

or "ultimately I will feather my own nest" but instead "I'm here to serve this organization, even at the cost of emotional or physical violence to my person," or "We will not take the easy, questionable way out."

Paragons of vice, paragons of virtue - rarely are humans as easily explained as two-dimensional media portrayals would have us believe. "Inside stories" often illustrate how true this is.

About twenty-five years ago I was newly arrived as a non-financial staff head of a milling company engaged in the production of high protein blended fortified food for the Food For Peace program. Nine days after I reported for work a subpoena arrived from a federal grand jury sitting in Wichita, Kansas. There followed criminal indictments and pleas by the company, and its CEO, my boss. Eleven of forty-four corporate office employees were called before the grand jury and three of them took the Fifth Amendment. The company was fined a million dollars and my boss received a twenty-four month prison sentence, of which he served six months.

How did this happen? My boss was a warden in the Episcopal Church, a part-owner of a major league baseball team, an honors graduate of Yale, and the third generation of his family to head the



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business.

The commercial setting was certainly a large part of the answer. In order to combat famine overseas, non-governmental organizations, the US Agency for International Development, and the US Department of Agriculture had worked with several grain millers to develop high protein blended products which were easily transported. Once the products were developed, bids for their production were let on a monthly basis, with the possibility that one of the two companies bidding in each product line could totally shut out the other, wreaking havoc with continuity of plant employment and the technical calibration of the "load on the mill." Thus the stage was set for a market share fix which the General Accounting Office discovered years later, leading to the convening of the grand jury.

What could these "co-conspirators" have done? They could have refused to bid, which would also have been an anti-trust violation, but at least would not have carried the million dollar fine. And what would have happened then? The thousands who were served and saved in Biafra and Bangladesh and other Third World countries might not have been served and saved. This was a complex situation in which the surface media coverage and legal proceedings concealed much. The explanation here does not excuse what occurred but it certainly does illuminate the process of rationalization by which it happened.

About twelve years ago, this rationalization process came much closer to home. I had been employed by three founders of a commercial finance company to eventually succeed them as CEO. About six months later it became clear to me that the company's Big 8 audited financials were grossly inaccurate, that the company was being defrauded by two large customers and that the founders were failing to report the frauds to their Board and investors. After the founders declined to follow my request that they inform the Board of the frauds, I was faced with a decision. I determined to stay, rather than leave. My organizational rationalization was that I could sell the ongoing business of the company and return some money to investors. My personal rationalization was that I had been out of work three years of the previous nine years and I needed the job.

In fact, six months later I sold the company's ongoing business for

over \$2 million, which was entirely consumed by the liquidator, attorneys and accountants, and the investors received nothing. Further, with these funds, the liquidator sued me and ten other officers of the company. Negotiations with a target defendant consumed eighteen months in reaching a formula settlement applied to all defendants, and the resulting legal fees and settlement cost me half a year's salary.

So, what are the lessons here?

1. The creed of invulnerability, and the resulting "bunker mentality" are ultimately empty in a fast-changing, dynamic, and sometimes chaotic world. The inevitable result is endless pain, a virtual hell where alleged perpetrators are endlessly pursued, and the pursuers are endlessly frustrated.
2. Adopting an openly vulnerable servant-leader role often carries its own protection, or at least significantly cushions whatever fate may befall the leader and the organization.
3. Rationalization offers a slippery slope where vices are blessed in the name of virtue. In other words, service to a situation where invulnerability or the bunker mentality is the core value will ultimately disappoint, no matter how high and mighty the rationalization.
4. The core values of the organization, as exemplified and practiced by the leader, need to steadfastly uphold openness and transparency, and the resulting vulnerability they entail. If the leader fails in this endeavor, no matter how virtuous his or her rationalizations may be, the expressions of good intention will merely be paving stones on the road to hell. Lest you believe that this does not apply to you, remember:

Many Brave Hearts
Are Asleep
In the Deep
So Beware!
Beware!

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