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**Board Governance**

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**Restoring Corporate Trust: Considering Dangers That Led to Scandal**

By Archie W. Dunham and Les T. Csorba

Among the embarrassing and plethora of cartoon strips lampooning corporate CEOs over the last several years was cartoonist Rick McGee's sketch of two burglars breaking into a house. Holding his loot from the window, one anxious burglar turns to the other and asks, "What if we get caught?" The other reassures: "Easy, plead the fifth and blame it on Arthur Andersen." It wouldn't be so funny if it wasn't true.

While it is patently unfair to paint all CEOs with the broad brush of malfeasance (most of the over 17,000 public companies are led by ethical CEOs), the sad reality is that CEOs are only trusted by 23% of the public placing them just above used car salesmen and HMO's. In response, Andy Grove, Chairman of Intel, said, "I find myself embarrassed and ashamed to be a businessman."

Without question, the fraud trials of several high-profile CEOs of 2005 are reinforcing the image of the caricature. But they will serve as a vigorous reminder that business has always fundamentally been a moral activity. *2005 must be the year that Corporate America restores public confidence and trust.* As the wheels of justice grind out, we should be alert to the lessons and the signposts of dangers that were posted along the way.

**The Danger of Pragmatism.**

In the booming nineties (a period of "irrational exuberance"), perhaps the most destructive trend in leadership that emerged was a soft Machiavellianism where corporate goals justified the means of improper business practices. This contingent philosophy of "it all depends" led to abuses of accounting rules, the manipulations of earnings to meet expectations, and the creation of special purpose entities to hide debt. While there is a common-sense pragmatism (focused diversification, globalization, or turning a business around), such contingencies should be accomplished around core values and within moral boundaries, particularly in handling shareholders' assets, treating people with respect, and always offering honest communications.

This rise of pragmatism had the tendency of suspending the long-held belief that free-market capitalism has always been a moral activity. If we heed Peter Drucker's acclaimed explanation that the purpose of business is to "create a customer," then it also imposes a responsibility upon CEOs to respect the natural rights of those customers (internal and external) which becomes the obligation of business – a social and moral contract. Earnings and revenue growth are essential tasks of any competitive enterprise. But how one achieves those results are even more consequential. Just ask the former employees and customers of Enron, Arthur Andersen and WorldCom!

**The Danger of Impotent Boards.**

In practically every case of corporate malfeasance recently, CEOs were governed by complacent boards. CEOs need vigorous boards, the kinds that are willing to tell the CEO to rethink proposals and to ensure that the corporation does not "take a hit below the water line" due to an incorrect strategic decision. All boards are not created equal, and appallingly, many created over the last decade were at best, collegial and productive, and at worst, unengaged. As Warren Buffet observed, there was a tendency to put cocker spaniels on corporate boards, not Doberman pinchers. For some directors, the consequence has been out of pocket payment of millions to settle SEC and civil suits against them for a failure to govern their enterprises and wayward CEOs and CFOs. The compounding result is a corporate chilling effect precluding many capable potential board members (such as sitting or retired CEOs) from signing up.

Corporate boards and CEOs must be reminded that the most effective leaders and lasting enterprises have always submitted themselves to the criticism and governance of others. The godfather is not the only one who needs a "consigliere" who can speak "truth to power." CEOs must rely on the collective experience and judgment of their management team and board.

**The Danger of Impressionistic Leadership.**

One of the appealing social activities of CEOs over the last decade was to swap ideas in off-site conferences around the globe. Invariably, at cocktail hour or on the golf course, many CEOs became captivated with others who ventured into ancillary businesses that had as much to do with their core businesses as a marathoner trying to run a sprint. It is what we might call the corporate "lemming effect," where lemmings – the small furry-footed rodents known for recurrent mass migrations in the Norwegian Sea – would follow each other to their death by submersion.

With Enron leading the way, and management consultants preaching the Enron model as the only successful path to the future, other energy giants like Dynegy, Williams, and Reliant began changing their models by expanding into other non-core businesses like merchant trading and broadband, almost drowning their customers and employees in the sea. CEOs must resist the insatiable desire for unsustainable growth and restrain this brand of pragmatism by staying true to their core business and doing what they do well.

**The Danger of "Talent."**

Perhaps one of the clearer lessons of the corporate scandals was the obsession in hiring only the top talent. Just consider the parade of CEOs entering courthouses over the next few weeks and months. They are some of the most innovative minds in business, which raises the very real question, as Malcolm Gladwell put it, of whether "smart people are overrated?" There will always be a need to hire the top talent, but also a more urgent need to create cultures of integrity. Corporate leaders now

have visible evidence that they can only be the "best" and "brightest" by also being the most moral and modest as well. Creating cultures that only recruits the top MBAs without the commensurate moral compass, and people-savvy, can not only be devastating financially, but can create practices and behaviors that draw the attention of the SEC, the FBI, and the Justice Dept's Corporate Fraud Task Force.

**The Danger of Unbridled Ambition.**

Successful CEOs and enterprises must be ambitious, but the question is for whom? Over the years, we saw the rise of unrestrained ambition, instead of drive channeled towards the enterprise and its people. Such self-absorbed CEOs misplaced their ambition by pursuing their own headlines and magazine profiles instead of investing in their people.

Erma Bombeck once said that she would never go to a doctor whose office plants had died. Likewise, anyone should be wary of following a leader or serving in an organization that doesn't nourish and develop all its' people, not just management. Corporate leaders must become more ambitious for those with whom he or she has been given a trust, leaving a legacy of leadership development long behind after he or she leaves or retires.

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As indicted CEOs finally have their day in court, the caricatures will certainly be resurrected, an aide memoire to corporate stewards of lessons learned and more importantly of the hazards that still lurk. But if amnesia sets in, lampooning and distrust will persist. This will only serve to dishonor the thousands of CEOs who are true to their values and who remain dedicated to creating and serving their customers, employees and shareholders.

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