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Ethics, Expenses, and Culture

Corporate, Securities, and Governance

There is a lot of talk in leadership materials and in corporate America on the criticality of having the right culture for your business. This is true because to be successful, your culture simply has to be consistent with and support the overall enterprise strategy. What I have found interesting, with that in mind, is that many organizations spend a significant amount of time working with task forces, flipcharts, and sticky notes to develop the attributes of the culture to which they aspire. There definitely is value in communicating a uniform message on a desired culture. But charts, posters, and memos do not create an enterprise's culture. It is simpler than that — ***an entity's culture over time reflects the collective values of the leadership***. And any communications on culture need to be totally aligned with those values or you lose credibility, which will have a negative impact on the organization.

I once worked at a company where I had to sit in endless meetings to listen to our leader repeatedly complain about the "passive aggressive" nature of the company's culture. At that point, the leader had been at the company, and in that role, for over five years. They had chosen essentially all of their team. Instead of complaining, they should have looked in the mirror and asked what was accepted and displayed — yep — it was passive aggressiveness.

Similarly, I have worked at companies that wanted to create a cost-conscious culture. But if the executives are flying first class, staying at the Four Seasons or the Ritz, and enjoying US$100 bottles of wine, it's not going to happen. It will never happen. I had one outside counsel tell me how he and his lawyers reacted when a general counsel traveled across the country to meet with him and his firm to work on reduced rates and legal costs. The arrival on the corporate jet — with the golf clubs — sort of killed that!

And I had to chuckle when, after the economic downturn of 2008, I was traveling on a blisteringly hot day. As I schlepped my bags to the back of the hot crowded plane, I was shocked to see several financial services executives from another company sipping their cold cocktails in first class. This was shortly after that company had taken some of the Troubled Asset Relief Program money from the US government. At that moment, it did not shock me that their company needed to take the money and my company did not.

Simplistically, on the issue of expenses and a cost-conscious culture, you must treat the shareholder's assets more dearly, much more dearly, than your own. With this as a guidepost, keep in mind the potentially different views of your various owners. If you are alone on a company trip and have a dinner with two US$16 glasses of wine — that may have cost your shareholders over US$35. I may enjoy my wine, but I bet many of the shareholders I have worked for did not have that luxury — thus I do not expense it. And if you don't have US$200 dinners every night, you sure don't do it with the shareholders' money. Even if you do have US$200 dinners on your own every night, not everyone in your company does, so you cannot do it!

Also be careful if you are in an environment where your boss allows certain spending activities. If your boss approves or condones a certain action or spend, remember your boss can change in about two seconds. And when seen or discovered by others or a new individual, will it be appropriate? If it's even a close call, don't do it. Always do what is right.

What is interesting is if you communicate the right things and act consistently in the right way, great results just seem to happen. I couldn't have been more pleased when one of the executives who works for me recently told me that her team was going to come in US$10 million under budget. Truly — ***such results don't "just happen."***

These examples focus on driving efficiency, which as a support organization is often our focus. But other entities, such as Amazon, Google, or Apple, focus on growth and innovation. With such corporate strategies, the culture has to be aligned and the leaders must reflect and live these values.

Another key cultural attribute we all aspire to is to have an enterprise that operates with the highest degree of ethics and integrity. This language is in almost all of our codes of conduct. An ethical culture is truly your first line of defense. Any employee, regardless of what level, needs to operate this way. Any deviations must result in termination.

During the days of the dot-com explosion, many of those companies with silly.com type names would come to our executives and offer them “friends and family” stock options. Then, of course, they would ask our company to buy their services. With a proven quality revenue stream, as they went public, the stock would jump and the executives would be rich. To me, this was a clear conflict of interest. Yet, I heard from some people: “Everyone else is doing it.” My answer was simple — ***“but we aren’t.”*** A similar excuse was given with respect to many of the companies engaged in stock option backdating. Be careful of the “everyone else is doing it” argument. Often when you dig into this, it really is not correct and can have major consequences.

One of the most dangerous company cultures is one where it isn’t wrong unless you get caught. In such an environment, it’s not the illegal acts or the cover-ups that are bad, but rather that the evidence wasn’t destroyed. In one transaction I was involved in, as we were negotiating the deal, I was affirmatively mislead about the discussion the opposing party had with a third party. This was both a breach of the Code of Ethics and was in violation of a written agreement between the parties. In retrospect, when I found out, it clearly had an impact on our bargaining position. With that type of culture, I guess I was not surprised when that party’s CEO later ended up spending a few years in jail. As my good friend Dennis Block would say, “bad people do bad things.”

The good news is an entity’s culture can change faster than you think. It is not about slogans or posters, but rather a clear articulation by the leadership of what they expect and then “walking the talk” and acting consistently with what they say. This is most critical in their most important decisions — hiring, promotions, rewards, and terminations. And despite the concern of your HR lawyers, there is value in being clear on certain terminations. Allan Gilmour, (former vice-chair of Ford) who was on our board at US WEST, would say, “Sometimes you need visible hangings.”

So, if the leadership team doesn’t like the culture it is seeing — look in the mirror — because, as Pogo said, “We have met the enemy, and he is us!”

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