

VITAL SPEECHES

— OF THE DAY —

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THE BEST THOUGHTS OF THE BEST MINDS ON CURRENT NATIONAL QUESTIONS

IMPARTIAL · CONSTRUCTIVE · AUTHENTIC

Avoiding Integrity

THE GREATEST VULNERABILITY FOR AMERICAN BUSINESS LEADERSHIP

Address by JAMES E. LUKASZEWSKI, Chairman and President, The Lukaszewski Group Inc.
 Delivered to the weekly meeting of The Senior Men's Club, St. Mark's Episcopal Church Morrill Hall on
 Oenoke Ridge, New Canaan, Connecticut, March 2, 2007

My arrival on Wall Street in the summer of 1987, as a 43-year-old kid from a Minneapolis suburb, immediately became an eye-opening experience. I had just begun a practice in crisis management at a Wall Street proxy solicitation firm, and I was invited to attend many of the meetings held to discuss new strategies. Several of the early meetings I attended involved the takeover of the Dayton-Hudson Corporation by Dart Industries, Dart Industries being the client of my new employer.

As I listened and observed the aggressive, almost war-like enthusiasm of my new colleagues, I asked two simple questions: "What's going to happen to all of the good things Dayton-Hudson has done in the Midwest for nearly a century when it's acquired by this huge industrial giant?" and "Is some provision being made to continue providing the kinds of community-based help and collaboration this local retailing giant has fostered as a family trademark?"

The chairman and I were sitting next to each other at this meeting, and after my questions, he reached over, touched my arm, and said, "Jim, you're new here. On Wall Street the only thing that matters is the price of the stock." For a moment, I was flustered, but the light bulb did come on.

Luckily for Dayton-Hudson, it survived for a significant number of years afterward because in October 1987, the famous Friday the 13th crash occurred and the stocks of both Dart Industries and Dayton-Hudson sank precipitously. So the prospect of a good deal for someone simply evaporated. This was my introduction to ethics and integrity in the business world. It was an abrupt and powerful lesson.

One of my largest clients during the early to mid-'90s was a Fortune 500 medical products firm, indicted by the federal government for product tampering. That is, a group of engineers modified a heart catheter, substantially redesigned it, and allowed the company to sell the medical product without the required FDA testing and approvals. I came on board as a consultant shortly after the FBI's first raid of its Massachusetts manufacturing facility. The case lasted six years. The chairman's indictment was one of the most memorable and sobering moments during my work with the company.

I was with the chairman on his last day at work. We cleaned out his desk together and brought his stuff downstairs to his car. He was moving to another office, a half-mile away in a shopping center, and being put on what amounts to a paid leave of absence. The following day, the chairman took his last ride on the corporate jet up to Boston, he surrendered to federal authorities, and was immediately strip-searched, photographed, fingerprinted, and put in an orange jumpsuit. He was then put in a holding cell with 39 other people in orange jumpsuits. This was accomplished by 9:30 in the morning. At 3:45 he was manacled to many of his cellmates and led down the long corridor to the courtroom where his arraignment took place. Out of the 40, he was the last to be arraigned. All of this was done in the tradition of a U.S. Justice Department that wants to send signals to other potential criminal CEOs: "This is the way you'll be treated if we get our hands on you."

Following his arraignment, which took less than 10 minutes, he was released on his own recognizance, got dressed, and returned to New York on a commercial aircraft. Six and a half years later, midway through the company's trial, he was acquitted by the judge. He formally retired from the company that same day. Six fellow employees from the division involved were later convicted.

With the attorneys, I drafted the new CEO's allocution for presentation in court when the company and the prosecution presented the plea agreement to the trial judge. However, before the CEO was allowed to read his 10-minute allocution, the company, quite rightly, was subjected to approximately four hours of statements from the victims' families. The case was related to two patient deaths caused by products that had been altered. An allocution, you'll recall, is an admission of the facts of the various bad acts carried out by the perpetrator, in exchange for a negotiated sentence.

In a meeting with the company's management following the plea, the company's attorneys and I presented the plea agreement and the plan for living up to it. The very first question asked by one manager was, "Now that the case is over, tell us the real story, what is the truth of all this?" "We didn't really do all those things we pled guilty to, did we?" The attorney was quick to point out that the plea agreement is the real story, and that anyone who says something different is likely to land the company and themselves in a whole lot of new trouble. Even after six years of enormous visibility, investigations, and a lengthy trial, employees still refused to believe that the company they worked for, which did such important lifesaving work, was actually responsible for the deaths of two people and the bad acts to which the company plead guilty.

My presentation covered the integrity requirements and program that would be installed as a result of the plea deal. When my presentation was finished, the new president, who never really liked me, stood up and said, "Lukaszevski, whenever you're around here it's an awful lot like Sunday school." To which I responded, "Well, Tom, if my company had just pled guilty to nearly 300 felonies, I think a little Sunday school might be in order. Don't you?" Everyone laughed but Tom. As it turned out, his tenure was short, and I've been a consultant for the company, on and off, ever since.

Let me tell you one more story. One of my clients has the largest copyright infringement jury verdict in the history of U.S. copyright infringement law. It's a brokerage firm that for nearly 20 years copied and redistributed a newsletter published by a small firm from the Southeast. The newsletter in question offered expertise in certain kinds of investing. After 18 or 19 years, the owners of this newsletter sued this giant brokerage house for copyright infringement. As is often the case, I found out about this by accident. I was attending another meeting where the CEO was chatting about this issue with general counsel.

The CEO turned to me and said, "Well, as long as Lukaszevski is here, let's ask him about it." And they did. I asked what the defense in this case could possibly be. What the general counsel said was comical, "Our primary defense is that since the newsletter didn't bother to complain until now, they've waited too long." My response was, "This is the defense? Are they laughing you out of court yet? Why aren't we getting this settled and putting it behind us?"

The long and the short of this story is that the plaintiffs understood full well that they had this company by the short hairs and that there was going to be a very painful jury trial. And it was painful. The newsletter wouldn't settle. The jury found for the plaintiff on every count. Every count was worth \$25,000. The company was assessed a penalty of more than \$20 million.

The attorneys put out a statement just after the jury's verdict, disavowing it and announcing an appeal. When I was asked about this strategy by a company official, I looked him straight in the eye and said, "You've got to be kidding." They never appealed the case.

The list of situations like these is endless, and it seems as though, among other things in corporate America today, we have very little institutional memory, very little institutional intelligence, and very little institutional integrity. And I haven't yet mentioned executive compensation.

These three stories have something very powerful in common. Each scenario begins with, and is made worse by, breakdowns in integrity. This is really the deeper story of these situations and of virtually every other similar story you read about in the paper, hear on the news, or may have experienced in your career. Before somebody breaks the rules, before somebody breaks the law, before some executive gets into deep difficulty and becomes highly visible, there is a systemic fracture, sometimes even collapse, of integrity. I define integrity as the inherent tendency in individuals and organizations to do the right thing at every opportunity when confronted with choices, options, or dilemmas.

There are other definitions, even some fairly esoteric, religiously driven definitions. But as I work on the ground everyday watching these situations unfold, this seems to me to be a definition that every one of us can directly relate to. You can also say, more succinctly, that integrity is what your mother taught you. And, sad to say, most of us tend to leave what mom taught us about integrity in the car, in the parking lot, when we come to work each day.

What is fascinating about all these problematic situations is that they actually have identifiable predicate behaviors, almost none of which can be successfully addressed by the tools management uses these days compliance programs and codes of personal and professional conduct.

Let me share with you the list of what I call insidious and unethical behaviors. Then we'll talk for a few minutes about why they occur and why it's likely they will continue to occur.

The corporate and individual behavior patterns that predict trouble are easily recognized but often ignored. Sometimes these less obvious behaviors are the precursors or tipping points to illegal behavior. And remember, someone always knows about them, from the start.

Here's a checklist of predicate behaviors found all too often in today's competitive business environment. Some of them always show up in indictments. Use this list to carefully examine your organization's regulated operations to assure yourself that predicate behaviors, which can lead to serious embarrassment and even prosecution, are absent, discouraged, deterred, or easily detected and promptly corrected.

1. Lax controls: An organization's lack of tough, appropriate, centralized compliance and regulatory administrative oversight; a manager's careless enforcement, education about, and monitoring of ethical standards.
2. Under-reporting or failure to report crucial infractions: "They really were quite minor ... isolated incidents ..."
3. Leadership that encourages or ignores supervisors who overlook bad behavior: Encouraging or avoiding confrontation with managers who chronically misbehave or overlook misbehavior.
4. Individuals are encouraged or permitted to experiment with tactics and practices outside established guidelines or to "test unapproved new methods."
5. A "do whatever it takes" mentality or the tendency to operate "on the edge," always pushing for more than is appropriate to achieve business and financial goals.
6. Minimize, denigrate, or belittle oversight and compliance processes: No one in the organization is charged with the responsibility of teaching, enforcing, and disciplining in cases where ethical breaches occur; belittling or humiliating those who suggest or seek ethical standards; dismissing or destroying the careers of employees who report bad or outright wrong behavior; or demeaning the internal or external credibility of those who blow the whistle, those who report or bring management's attention to lapses in ethics.
7. The pretense that the organization is ethically driven, and principled.
8. Incentives structured to force safety, public health, or product integrity compromises: Structuring incentives in such a way that they can compromise the ethical behavior of people, the quality of the products and services delivered, and which force shortcuts to be taken for a variety of obviously questionable reasons.
9. Overlook shortcuts and unapproved procedural changes.
10. Protection of "blue chip producers" who ignore the rules but get the sales: Management tolerates the inappropriate behavior of individuals who are "critical to the organization's mission." These are the folks who are the super salespeople, the high achievers who are allowed to break the rules to maintain the

altitude of their performance.

11. Participation in activities that are legal in one jurisdiction or culture but are prohibited or illegal in another jurisdiction or culture.

The lawyers in the audience will recognize this list from the Federal Sentencing Guidelines of 1991.

Trust me on this; you want to avoid the criminal justice system at all costs. Don't let any employee or executive get away with these bad behaviors. Once you've been arrested, strip-searched, fingerprinted, arraigned, and bailed out, your life, reputation, family, finances, and mental health will never be the same again.

We could spend a few minutes trying to point fingers at those we think are responsible, or I think are responsible, but it's the underlying reasons that are far more serious than any single event, perpetrator, or set of circumstances from the past. Business today lives in and strives for a kind of amorality, a rational, scientifically based set of approaches that, ultimately and daily, create the opportunity for the recent generations of unethical behavior, and the foundation for even more bad behavior.

For nearly 30 years, business schools in America and elsewhere have been focused on a rational scientific and data-based approach to business decision making and operations. In more common business terms, if it's measurable it matters. If it's metrizable, it matters. If you can count it, it matters. Everything else is irrelevant, unnecessary, a distraction, or even anti-business.

What's wrong with this picture? What's wrong is that such an abjectly objective approach factors out human nature, the impact of culture on individuals and organizations, and in many respects, goes against what mom did teach all of us before we left home. The scientific approach directly clashes with what we know to be right, even sensible.

Put another way, American and essentially global business education today has been very successful at de-emotionalizing business leadership. Being emotional is considered weak. When you ask about business decision-making strategies, there is a one-word definition, conflict, the clash of ideas, numbers, and personalities. Conflict factors out integrity. My suspicion is that this theory, if studied systematically, will demonstrate that there is no justification or evidence to prove that decisions made through the clash of ideas are any better, any more profitable, or any more successful than ideas arrived at through other means.

Very few executives, male or female, want to be in the position of having their peers tell them that they were too emotional, too willing to give in, or too much of a sissy to make or win the point. If you can't beat them up, you disavow them or demean them.

Perhaps the best example of a business decision driven by testosterone is mergers and acquisitions. This is top management's greatest game and most intriguing activity. The damage done to individuals, to communities, and to whole regions of the country is enormous and long lasting. The human consequences are permanent and damaging.

Anyone of you who has been fired or been merged out of a job knows exactly what I'm talking about. If involuntary job loss has never happened to you, it's going to be hard to relate to what I'm talking about. Mergers, takeovers, and acquisition are coldly amoral decisions, like the one I told you about on Wall Street. When you hear the phrases, "people are our most important asset," or "it is the perfect combination of two companies," shivers should go up and down your spine, and you better start checking the location of the exits.

A call I frequently get each year is the one to talk about best practices for cutbacks, shutdowns, and layoffs. In 30 years, I've virtually never seen this done well ... there simply is no great way or best practice to taking away someone's livelihood.

The cult of rationality has ironically led to a pervasive sense of over-optimism in management. In the relentless pursuit of putting a good face on just about everything, there is a fascinating and somewhat irritating new trend in business today called corporate social responsibility, CSR. In the United States, this amounts to simply writing bigger checks, because we have lots of money; and calling it something different, something trendier than public or community relations.

What would be far more important for business to accomplish and would produce a powerful exercise in corporate integrity is to establish a process for community assessment of corporate social accountability, CSA. Rather than reports written by the company about its wonderful do-gooding activities, the community prepares a report card on the company. In return, the company pledges to take action in response to the community's views and concerns. Admittedly, this idea is a long shot.

Will things get better? If so, how and by whom? And why?

My sense is that improvement in this area will only come when business leaders of substance step forward and begin allowing their peers, through their example, to talk more about integrity; and to behave in ways that demonstrate that these soft approaches, the "sissy stuff," is crucial to an organization's survival and well-being, and that of its employees, families, and communities.

Integrity is the oxygen that drives the ethics process. So long as people have to behave differently at work than they do at home, those 11 predicate behaviors I shared, I call them "Insidious Unethical Behaviors," can be present and operating within organizations.

Moving forward, there is good news and bad news. The good news is exemplified by the May 2005 *Harvard Business Review* article authored by Warren G. Bennis and James O'Toole, "How Business Schools Lost Their Way." In summary, this article says U.S. business schools are "too focused on 'scientific' research," and are "hiring professors with limited real-world experience and graduating students who are ill equipped to wrangle with complex, unquantifiable issues, in other words, the stuff of manage-

ment."

Also, at the end of 2004, in a report card on how well business schools are doing in reconfiguring their ethics curricula, based on a survey of core curricula of the top 50 U.S. business schools, *Harvard Business Review* reported that "only 40 percent require an ethics or social responsibility course, while only 50 percent require IT." Peter Navarro and Darlene Carver found that "less than a third require soft-skill like human resource management, leadership, negotiations, and entrepreneurship while only a little over half require organizational behavior or management communications." That's the bad news.

And so long as business management is taught by individuals who have, by and large, never been in business and who look at the human environment of organizations as theoretical laboratory experiments, which must have beginnings, middles, and end points to be valid, integrity will continue to be ignored or avoided, and ethical and emotional tragedies will continue. The victims are employees, shareholders, and society as a whole. Virtually all the senior managers in these amorality plays wind up being compensated handsomely—even if they are convicted, fired, displaced, demoted, or leave voluntarily. Where is the integrity of these decisions? Eight powerful suggestions need to be considered and implemented to bring integrity back into the business and institutional processes with the same robustness as compliance and codes of conduct programs:

- **Step One:** Recognize that a truly successful ethics program, one that actually prevents, detects, and deters unethical behavior, must have three equally robust components: compliance, codes of conduct, and integrity. Management schools must set aside their palliative and often laughable "ethics" programs and begin, perhaps, introducing "a little Sunday school" in a very serious way into their curriculums. There must be a recognition as evidenced by specific coursework and activity that the most challenging component of an ethical leader is the integrity component. This requires intense discussion, analysis, and debate, just as any other business related idea, concept, or theory would receive. The current climate in business is anti-integrity ... business people don't like sissies.
- **Step Two:** All organizations wishing to have integrity as well as effective compliance and codes of conduct need to adopt, promulgate, teach, and monitor for the kinds of unethical behaviors that can crop up in an organization and are predicate indicators that worse behavior may be occurring. These are the insidious unethical behaviors I spoke of earlier. And they have to help employees and executives unlearn unethical behaviors, through demonstration of the right choices.
- **Step Three:** The CEO of the organization takes on one additional hat, that of Chief Integrity Officer

(CIO). Ethics is a top-down process in organizations. The effectiveness of every ethics program stops at the level where a manager fails to recognize its importance, or denigrates or demotes those who attempt to act with or insist on integrity. One of the great lessons of the Sarbanes-Oxley laws is recognition that creating an “environment of integrity” is the responsibility of the senior most leaders in an organization. It is they who must model, teach, argue, debate, discuss, and expect integrity, and be willing to act on those beliefs and behaviors in ways the entire organization can see and learn from. It’s called setting the tone of the organization. Tone comes from integrity. Tone comes from the top.

- **Step Four:** The little green book. Every organization needs to create a little green book that clearly identifies the wrong things to do, but also contains clear illustrations of the right way of doing things. When unethical actions and decisions are investigated, after we discover the affirmative reasons people behaved inappropriately like being told to “do whatever it takes,” “get the job done,” or “stop acting like a woose,” we get to the real reasons. They always sound like these, “Nobody told me.” “Why didn’t somebody stop me?” “How was I supposed to know if nobody said anything?” “Everyone else was doing it first.” “My boss seemed to encourage me by not discouraging me.”
Compliance sets the minimum standards, and establishes the metrics for monitoring and quality assurance. Codes of conduct generally list the things that can’t be done, shouldn’t be done, or are reportable if done.
The little green book is about what to do; where to go; how to act, speak, behave, and respond with integrity; and specific guidance on what the right thing to do is, all the time. The little green book is the employee handbook to integrity.
- **Step Five:** Establish recognition processes and programs, including financial rewards that highlight, teach, and provide obvious examples of integrity-based behaviors. What gets compensated gets done.
- **Step Six:** Revolutionize business school curriculums. Find decision-making and strategy alternatives to combative and confrontational styles where testosterone is the rule. Stop using science to drive out or discredit actual business experience and integrity. Expand real business experience and acumen. The current structure of methods and process teaching will continue to be used until there is more faculty who have business experience than those who don’t. Bring mom in once in a while and see what she really thinks.
- **Step Seven:** Business leaders and leading business organizations need to step up and speak out about integrity problems, about the need for integrity, as

well as setting tougher standards based on the right kinds of thinking and decision making.

- **Step Eight:** Make the CEO the Chief Integrity Officer (CIO) of the organization. It takes the power CEOs inherently have to drive organizational behavior.

One could argue that our mothers taught us most of what we need to know, and we should bring ideas and behaviors like these with us to work. But, most employees feel that they are required to leave their home-style ethics in the parking lot when they enter their work site. If this is the case where you work, you are part of a serious integrity deficit within your organization.

People want to know what to do. Yet, what they usually get are extraordinary instructions on what not to do. This is the great, intentional tragedy of avoiding integrity, and a powerful ongoing vulnerability for management. Until it becomes acceptable for senior managers to act, talk, and expect integrity, the parade of confused, corrupt, and convicted leaders and corporations, including those with award-winning compliance programs and codes of conduct, will continue. It is up to the organization’s top managers to model, promote, and expect integrity. This is the only way the right things get done at the earliest possible time.

The state of integrity in American businesses sits on the desk of every CEO in every organization in the land. If you want to make serious change in the impact of this powerful ingredient in workplace behavior and accomplishment, it is the CEOs who will drive it. No other efforts truly matter. It’s going to take a very concerted, long time, persistent effort to reverse the current trend in public attitudes about business and business leaders.

In the mean time, there will be more public humiliation, media persecution, and government prosecution of businesses and their leaders. One would hope these, in and of themselves, could be incentives to move toward integrity. As I was walking out the door to come here this morning, I was handed a clipping from *The New York Times* detailing a dispute between the CEO of Blockbuster and his board over compensation. It seems that the company’s fourth-quarter earnings fell 28 percent, and income dropped five cents a share compared to the year before, earnings were adjusted with a multimillion-dollar goodwill impairment charge plus a \$25 million adjustment for reserves charge. There were other details. The point of the story was that despite this bad news, the CEO insisted on receiving his multimillion-dollar bonus.

There is a lot to do. But the fundamental principle remains: Personal integrity is the foundation of all trust and credibility. Until American business leadership focuses on the enormous power of integrity, avoiding it continues to jeopardize the relationship of trust between these individuals and the American public. Without integrity, little else matters.