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Leading in Turbulent Times: Issues and Challenges

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As Yogi Berra was reported to have said, "The future ain't what it used to be." We have previously chronicled the many changes and challenges that managers in organizations throughout the world are having to address (Burke and Cooper 2000; Cooper and Burke 2002). These include the globalization of business, heightened competition, increased use of technology, a premium on speed often reflected in shorter product lifecycles, a more educated and demanding workforce, a more racially and ethnically diverse workforce, more sophisticated consumers and greater demands for efficiency, effectiveness, and innovation (Capelli 1999).

These changes are obviously reflected in the managerial job and the shape of organizations themselves. The managerial job has become more demanding on many fronts (Hammer 2001). More managers today live in a fishbowl subject to greater scrutiny from multiple stakeholders. Managers are facing greater pressures to achieve both short-term and long-term results. The challenges managers are now facing are also increasingly complex. Managers are encouraged to employ the latest approaches to their jobs: empowerment, teamwork, delegation, benchmarking, total quality management, leveraging diversity, and change-readiness among them (Lawler 2002). In addition managers need time to reflect on their own experiences and learn from them, to take care of their personal needs for replenishment and development, and to maintain high levels of focus, energy, and health (Loehr and Schwartz 2001). Among the consequences of these requirements are the increased terminations of managers, increases in the voluntary departures of managers, and decreases in the length of time CEOs are remaining in their jobs. CEOs worldwide are more likely to be forced from office than to die while in office or leave on their own accord. In 1995, 72 percent either died or left voluntarily; in 2001, only 47 percent died or left voluntarily. CEOs continue only as long as they perform at exceptional levels.

Organizational forms have also changed dramatically during the past decade (Lawler 1996). More organizations have restructured, merged, acquired, downsized, outsourced, and divested and this has been accompanied by reductions in levels of hierarchy, the

realization of network organizations and the emergence of virtual organizations (Burke 2002; Cascio 2002). These new forms of organizations, and changes to older organization forms, have also impacted those responsible for leading in significant ways. New competencies are required such as leading from a distance, influencing colleagues through personal rather than coercive approaches, and being responsive to unanticipated changes.

Leading in turbulent times is a tall order. This chapter presents an overview of the new landscape as well as setting the stage for the remainder of the collection. It identifies the challenges that face managers in increasingly turbulent times and suggests skills and actions for managers wanting to better understand how to proactively respond to them. The chapter addresses the following:

- leading
- a turbulent environment
- new and unexpected challenges
- ongoing challenges

Leading

The irony is that while students increasingly flock to and graduate from business schools, there is a shortage of leaders (Grove 1999). There are tens of thousands of articles on leading and it is not possible to review and integrate this vast body of work here. However, we have found the writings of John Kotter to be particularly relevant to the challenges at hand as we see them.

Kotter (1999) states that most organizations today lack the leadership they need and that this leadership deficit is large. Interestingly, this lack of leadership is not a function of a shortage of talent or effort. Rather, few individuals are providing the leadership now needed. And as the environment becomes more turbulent, leadership becomes even more critical. Effective leadership can impact on factors both inside and outside the organization. With inadequate leadership, firms fail or underperform. Leaders must bring about change. Leaders must function in a complex array of relationships. Leaders must anticipate and respond to changes in the contexts in which they work that are being driven by technology, the globalization of competition and markets, and changing workforce characteristics. Leadership style is not the issue; leadership substance is. These changes result in greater speed and less stability that demands more from managers, particularly in terms of bringing about change (reengineering, restructuring, restrategizing, quality management, culture change, mergers, and acquisitions).

Leading is different from managing. Leading is "the development of vision and strategies, the alignment of relevant people behind these strategies, and the empowerment of individuals to make the vision happen, despite obstacles" (Kotter 1999, 10). Managing involves "keeping the current system operating through planning budgeting, organizing, staffing, controlling, and problem solving" (Kotter 1999, 10). Leading and managing serve different purposes in organizations. Leading produces change; managing keeps the current

systems operating. Management is about coping with complexity; leadership is about coping with change. Organizations need both. Managers must combine leading and managing, maintenance and change, and the use of hierarchy as well as personal networks. Kotter believes that most organizations are overmanaged and underled.

However, it is not good enough to identify what successful managers and effective organizations are doing *now*. It is also important to anticipate some of the changes that are likely to occur and to proactively address these new challenges. Increasing environmental turbulence has created an atmosphere of change and uncertainty that requires new abilities to be successfully addressed. Managers and their organizations are facing wave after wave of change, posing both challenges and opportunities. Leaders must be proactive and future oriented. In addition, leading relates not only to business activities but also to how individuals manage their lives and the balance between self, family, work, health, and social activities.

Leading also includes representing your organization to the outside world. Dowling (2001) believes that strengthening a company's corporate image and reputation builds a strategic advantage over one's competitors. Leaders play a key role in establishing an organization's reputation. Important contributions to a corporate reputation include vision and mission statements in implementing company policies and the important role played by organizational culture and company communications in conveying an organization's goals and values to stakeholders. Employees must be treated as first-class citizens: many groups of stakeholders must be addressed, and time and money must be spent to implement a company's vision.

Watkins, Edwards, and Thakrar (2001) make the point that as a consequence of 9–11, business leaders and the public are placing new demands on government to act in several market areas. Governments are being asked to increase airline security, provide emergency financing for airlines, help airline workers who lost jobs, rebuild damaged areas of New York City, deal with the anthrax scare, and pass anti-terrorism legislation. All of these efforts will increase the role of governments in markets and society. Business leaders more than ever need to understand the importance of building relationships with the government agencies that affect their organziations.

Business leaders have both a right and an obligation to help governments shape their decisions and rules. This involves the development of relationships with elected and appointed government officials, regulators, suppliers, buyers, public interest organizations, and other stakeholders.

A Turbulent Environment

Being a manager 50 years ago was simple. Competitors were few and local, suppliers were local, and employees were relatively homogeneous (white males). When the manager went to bed at night and when he (yes, he) awoke the next morning, the world he entered was identical to the world he had left the night before. That is not the reality in the twenty-first century. A challenge we offer to our MBA students when they wake up

each day is to examine media coverage of business and world events and identify those events that occurred overnight that were unanticipated. Welcome to a turbulent environment.

The notion of an increasingly turbulent environment first emerged in the late 1960s. Somewhat surprisingly, writing on this subject since then has been limited. Some writers make reference to increasing environmental turbulence, raising potential implications of this for managing, but do not go much further (Aldrich 1979).

Organizational environments are becoming increasingly turbulent as a result of more rapid change, more complex problems, more interconnections among these events or problems, greater uncertainty about the consequences of one's actions, and an increasing unpredictability of what will happen in the future and when it will happen (Courtney 2001).

Environmental turbulence refers to the extent to which environments are being disturbed by increasing environmental *interconnection* and an increasing rate of interconnection (Emery and Trist 1965; Terreberry 1968). Increasing interconnections lead to externally induced changes due to forces that are hard to identify and therefore difficult to predict and plan for. These factors imply a decrease in organizational autonomy and an increasing inability to plan for the future. Turbulence also includes increases in potential as well as actual linkages between these events.

Turbulence does not imply chaos, but to an increasing causal interconnection that makes it more difficult for managers to understand (read) their environments. The causal links between external events become incomprehensible to executives lacking first-hand knowledge (understanding) of the distant forces at work.

Morgan (1988) uses the term "fracture lines" to refer to "points of change and transformation that have the potential to alter the nature of whole industries, services, and their constituent organizations" (Morgan 1988, xii). Leaders need to identify fracture lines and then specify the competencies necessary to deal with their consequences as they emerge over time. In an increasingly turbulent environment, the pace and complexity of change also accelerates. Many changes are unanticipated, placing a greater need to read and anticipate trends in the environment – to identify fracture lines. Leaders must take a more proactive and entrepreneurial approach to their environment. They must look ahead, seeking to identify problems and opportunities. They must respond to both problems and opportunities, reframing problems as opportunities. Leaders need to unleash the talents and knowledge of staff. This increasingly turbulent environment places more emphasis on learning and innovation (Weick and Sutcliffe 2002). To achieve peak performance, leaders must coordinate and align people through shared values (Katzenbach 2000).

Managerial competencies vary along with the nature of changes in the business environment. Different times demand different skills. Increased environmental turbulence, accompanied by change and uncertainty, demands new abilities in the face of new challenges. Managers must be proactive and future oriented (Morgan 1988) to grapple with the opportunities posed by this new reality. Many of the problems facing an organization reside in the broader socioeconomic contexts in which they operate; global competition, economic growth patterns, government regulations, and social attitudes and values. This is what this book is about.

New and Unexpected Challenges

Events of 9–11

> *Terrorism is the process of inducing fear in a civil population through violent acts that undercut trust and confidence, while creating a sense of personal vulnerability to random acts of evil.*
>
> **Zimbardo 2002**

The events of 9–11 have had significant short-term effects on some parts of the world. These include a loss of innocence, a heightened sense of vulnerability, the exploitation of freedom, grieving with the families of the deceased, compassion for those who suffered losses, confirming the centrality of the human condition, revitalizing bonds of social connection, recognizing the fragility of life and chance events, and highlighting the need to work less, play more, connect more closely with family and friends, nourish one's roots, and seek meaning and spiritual values in one's daily transactions.

There have been serious economic costs as well. The stock market has not yet recovered. The September 11 attacks on the US will cost property insurers over US$20 billion for claims on the World Trade Center and the Pentagon. The insurance industry will likely pay out over US$40 billion when other costs of property damage and related charges such as business-interruption insurance liability insurance, workers compensation, and life and health insurance losses are included.

The American public did not respond with panic but instead with effective and adaptive action. Panic was prevented by providing timely and accurate information and instructions so the public could make timely decisions. New heroes emerged, ordinary people, volunteers who made sacrifices for the well-being of others.

Aon Consulting conducts research on employee attitudes in the US on a regular basis. Their surveys have two broad objectives: examining the commitment of employees to their current employer and identifying what employers are doing to heighten commitment. They undertook a planned survey in February 2001, but following the events of 9–11 decided to collect new data in October 2001 (Aon Consulting 2001). This time period (2001) also coincided with a slowing American economy. They found that employee responses had generally not changed significantly. Some exceptions were observed however. First, employees indicated a shift in work–life balance priorities with more employees wanting to spend more time with their families. Second, employee commitment to their employers had increased. Third, employees had generally favorable views on how their employers had responded to events of 9–11 as well as on the state of the economy. Fourth, employees expressed less confidence, however, about the future of their own employers.

Employees gave their employers their highest evaluation in terms of managing business issues, lower evaluations in providing for employee safety and effective leadership in helping their workforce deal with the attacks of 9–11 and their aftermaths, and the lowest evaluations in helping employees cope with stress and anxiety arising from the terrorist attacks of 9–11 and future threats. Organizations directly affected by the 9–11 attacks were

likely to provide crisis counseling to their employees; employers less directly affected did less or nothing. Employees, following 9–11, had more positive perceptions of their organization's recognition of the importance of personal and family life.

Six months following 9–11, Americans seem to be getting back to "normal," the way things were on September 10. In the months following 9–11, the US was a wounded nation, having suffered the largest attack ever on its soil. In response, the US developed a common project and a higher cause. But the US is also a target. The citizens have generally rallied around President Bush and he has performed in ways that have exceeded the modest expectations many people had for him.

But some things have changed. Americans have a higher opinion of how government can help than they had in previous decades. An increasing number of Americans have invested in family, neighbors and community. Many Americans are now more tolerant of other cultures and religions. More Americans expressed interest in international politics and news. But these increases may only be short lived.

The Anthrax Scare

The anthrax infections of a few letters sent to US politicians and a news anchor following 9–11 have had various effects on the workplace and organizations. A few organizations had to shut down for days or weeks to permit testing and cleaning. A few deaths had also been attributed to anthrax infected letters. Mail is now more closely scrutinized, some hoaxes have been identified with culprits apprehended and punished. Individuals have been encouraged to report potential perpetrators (scientists in particular have taken part in this search). Potential perpetrators have been identified by government officials and anonymous letters have named other potential bioterrorists. This has led to heightened anxiety, paranoia, and bioterrorist conspiracy theories.

Enron

> *Why Enron went bust. Start with arrogance. Add greed, deceit and financial chicanery. What do you get? A company that wasn't what it was cracked up to be.*
>
> **McLean 2001**

The bankruptcy of Enron in the fall of 2001 has given renewed interest to issues that were previously identified but ignored. These include poor quality financial reporting by firms making it difficult for investors to make informed decisions, the separation (prohibition) of providing consulting services to firms that accounting firms audit, concerns about corporate governance, and the roles and responsibilities of corporate directors.

In Enron, as many as 3,000 off-book partnerships were created, at least in part to hide massive debts and inflate profits. A scathing report undertaken by a special committee of

Enron board members blames greed, a corporate culture of "pushing the limits" and manipulation of the financial records as leading to the company's demise.

Enron's board, particularly the six person executive committee, had both Kenneth Lay and Jeffrey Skilling as members; the four other directors had been on the board since the mid-80s and were lacking in financial expertise. The same was true of its audit committee. Of its six members, only two had an accounting background and none had expertise in derivatives. The Board of Directors of Enron either was fooled by senior executives, or went along with shady deals as Enron failed.

Most Enron executives called to testify at Congressional hearings into the company's collapse took the Fifth Amendment (not to testify on the grounds that my testimony may incriminate me). Two key Enron employees were trying to make deals with federal investigators in the US to avoid prosecution or lessen possible criminal liability in exchange for providing testimony (David Duncan, chief auditor; Ben Glison, Enron's former treasurer).

Enron executives were paid huge one-time bonuses of about US$320 million as a reward for hitting stock price targets in 2000 at the same time that executives were improperly inflating the company's profits by a billion dollars. A total of US $55 million in bonus payments were paid to top executives immediately prior to the company's collapse. Kenneth Lay sold around US $100 million of Enron stock in 2001.

Enron filed for bankruptcy court protection in December 2001 wiping out large sums of employee retirement savings and shareholder investment. Both Duncan and Glison were fired by Enron: Duncan for disposal of documents (shredding); Glison was centrally involved in partnerships used to inflate Enron's earnings and hide its debt, also profiting personally from these transactions. Enron admitted overstating its net income for 1997 to 2000 by nearly $400 million or more than 10 percent.

Enron Corp. paid out more than $744 million in cash and stock to its 140 top executives as it was rapidly moving toward collapse in 2001 ($310 million in salaries and bonuses; $435 million in stocks). Kenneth Lay, former chairman and CEO, received $153 million, Andrew Fastow, former CFO, $4.2 million, Jeffrey Skilling, former CEO $35 million, and Mark Trevert, former vice-chairman, received $32 million. Former Enron employees who were laid off stood to collect a maximum severance of $13,500.

The lawyers representing Enron Corp. in its defense submitted a bill for $26.1 million (US) for four months' work. This included $23.8 million in legal fees for 66,276 hours of work performed by 360 lawyers and staff. A charge of $2.3 million covered expenses: $67,000 for taxis, $129,000 for meals, $612,000 for photocopying, and a $40 charge for "professional development." The top three lawyers charged $700 an hour: 56 other lawyers charging between $500 and $605 an hour. Dollars spent on these fees are not available to pay creditors or former employees.

Arthur Andersen

No one would have predicted the demise of Arthur Andersen LLP as recently as one year ago. Although Andersen had been sanctioned and fined for its conduct of audits during

the 1990s, it appeared to be no different from the other Big Five accounting firms. Enron changed everything. Andersen was Enron's auditor.

As the investigation of what happened at Enron was launched, Andersen employees in Houston (the headquarters of Enron) and other cities took steps to hinder this investigation by shredding documents. Andersen now faced criminal indictment from the US Department of Justice (criminal obstruction of justice) and the trial began in Houston on May 6, 2002.

Andersen had 55,000 employees in 84 countries in 2001. Since this scandal arose, hundreds of Andersen clients have dropped the accounting firm. Defections are a who's who of worldwide businesses: North East Utilities, Polaris Industries, Brunswick Corp., Valero Energy, FedEx Corp., National Bank of Canada, Abbott Laboratories, Liz Claiborne, Merck, Delta Airlines, Freddie Mac, Sara Lee, Kerr-McGee Corp., and Introgen Therapeutics Inc.

Morale within Andersen offices has plummeted. Employees are afraid they will lose their jobs, and thousands have. KPMG and Andersen have had talks on ways of possibly combining operations outside the US. Andersen units in Switzerland, Spain, China, and Chile have independently announced plans to leave Andersen's global network. Andersen affiliates in other countries (Canada, Spain, Chile) explored breaking away from the international network of partnerships. As this chapter was being written signed arrangements had been undertaken to acquire the operations of Andersen by other Big Five firms in a number of countries worldwide. This raises the daunting task of merging two very different firms such as Deloitte and Touche and Andersen in Canada, for example.

Andersen advised Global Crossing Ltd and Qwest Communications International Inc., as well as other telecommunications clients, on how to structure the controversial "swaps" of network capacity. The swaps may have been used to inflate earnings.

Andersen's insurer has been rendered insolvent. Andersen is now unable to pay settlements it had previously agreed to (including Enron's employees) or future lawsuits. The collapse of Enron and the probable collapse of Arthur Anderson may shift the risk of billions of dollars of liability from Enron to the banks that were financially involved with Enron. A US $25 billion dollar lawsuit has been filed against Enron by former shareholders. CIBC, along with eight US banks, was seen as complicit in the Enron affair because of their knowledge of the questionable partnerships and other transactions, thus knowing Enron's true financial situation as they sold Enron securities to investors.

Should Andersen fail, however, this would create a problem for over 2,000 Andersen clients who would now have to find another auditor. It is unlikely that, because of limited resources, the other Big Five accounting firms would be able to pick up this work.

The US Securities and Exchange Commission (SEC) indicated (March 18, 2002) how clients of Arthur Andersen LLP should handle their regulatory filing requirements following the indictment against Andersen. Clients ending their relationship with Anderson will be permitted to file unaudited financial statements on a temporary basis. Andersen will continue to provide auditing services following GAAP.

A Houston jury found Andersen guilty of obstruction of justice on June 15, 2002 sounding the death knoll of the company.

Ongoing Challenges

How do you know when management is lying? Their lips are moving.

Business Week (May 13, 2002) had as its cover story "Wall Street: How corrupt is it?" Concerns about the workings of the financial system are not new. What is highlighted now is how many stakeholders in the financial system are being implicated in shady or incompetent activities. The *New York Daily News* renamed Wall Street "Crook Street." On June 26, 2002, US President Bush deplored the lack of corporate ethics in America and called on company leaders to clean up their acts or face prosecution. Trust in the financial system itself is at stake.

Trustworthiness of Financial Analysts and Brokers

Financial analysts who research and recommend stock are supposed to be independent and objective in their work. So too are the brokers who market this stock. In light of their recommendations and marketing of Enron stock, however, the trustworthiness of these professionals has been tainted. As former SEC Chairman Arthur Levitt has been quoted as saying, "It is not merely the accounting firm that was to blame for this [Enron] tragedy. It was the Board of Directors that was seduced. It was the security analysts that simply weren't doing their job and had their own levels of conflict. It was the rating agencies, which dropped the ball." He also noted that in early December 2001, at which time Enron stock was trading at roughly 75 cents per share, 12 of the 17 analysts who covered the company rated the stock either a hold or buy. Conflicts of interest are rampant. Sell ratings made up less than 2 percent of analysts' recommendations.

The US SEC has begun an investigation of conflict of interest on Wall Street focusing on the role of research analysts. The New York Stock Exchange and the National Association of Securities Dealers have proposed rules to reduce analysts' conflicts but it is also possible that national standards will be imposed. Analysts touted stocks they believed to be "junk" and "crap" solely to generate investment banking fees.

But despite the flurry of activities over the past year, not much of a tangible nature has happened. No one has gone to jail. Only one individual (David Duncan, partner with Andersen) has been charged. Enron was a problem of greed and opportunity. If no one goes to jail there will be no deterrent effect. If the flaws in the system aren't corrected there will be more Enrons. So far only millions of investors have lost.

Investors are alleging that analysts at brokerage firms were fraudulently promoting stocks of companies with which their firms had investment banking relationships. Several levels and departments of government have begun investigations of at least ten firms. Concerns were voiced about Wall Street's initial public offering (IPO) allocation practices, its selling of partnerships involved in the Enron collapse, the huge fees Wall Street insiders made by advising clients to hold stock in Enron until it went bankrupt. The very integrity of financial markets is being questioned.

Canadian business leaders want tough actions taken against brokerage houses to prevent conflicts of interest. Seventy percent of CEOs and business leaders were concerned about brokerage house conflicts, about the same percentage worried about accounting firms in an earlier poll. About 70 percent of those surveyed supported barring brokerage houses from providing both investment banking to corporations and investment counseling to individual investors to protect counseling independence. Fifty-nine percent indicated that efforts by the New York attorney general were long overdue, and an additional 25 percent said these efforts were somewhat overdue. Seventy percent stated it should be easier to sue brokerage houses whose analysts provide bad advice grounded in conflict of interest. There was, not surprisingly, lower support for the creation of a government agency to supervise and discipline brokerage firms.

Trustworthiness of Securities Firms

Related to the trustworthiness of research analysts and brokers is the trustworthiness of securities firms, under whose auspices these professionals work. Specifically, securities firms have been found accountable for pressuring analysts and brokers to behave nonindependently and nonobjectively in their work. These pressures created conflicts of interest for analysts and brokers, which paralyzed them from behaving according to their professional ethical standards. As President and CEO of the Association for Investment Management and Research (AIMR), Thomas A. Bowman, testified at the Senate Governmental Affairs Committee hearing, "Wall Street analysts [and brokers] are sometimes pressured to be positive about the prospects of the companies they follow." As such the trustworthiness of securities firms has been tainted. Included in Bowman's five key recommendations to reduce and eliminate this pressure are for securities firms to "foster a corporate culture that protects analysts [and brokers] from undue pressure to be positive from the companies they follow" and to "not link analyst [and broker] compensation directly to the success of investment-banking activities."

Trustworthiness of Banks

The trustworthiness of banks has also been tainted. For example, since 1992 Oveseas Private Investment Corporation loaned $544 million to support various Enron projects abroad. The Export-Import Bank of the United States loaned $675 million to companies affiliated with Enron. The biggest lenders to Enron were J. P. Morgan Chase and Citigroup. J. P. Morgan Chase helped to finance the merger that created Enron in 1985, and Citigroup helped Kenneth Lay "pay off" a corporate raider a year later. Citigroup disclosed that its exposure from Enron exceeded $1 billion, and it and J. P. Morgan Chase wrote off more than $680 million against their 2001 fourth-quarter earnings to cover anticipated losses. The immensity of these loans, and their subsequent defaultings – especially to such prestigious and reputable banks – raises the question of whether the capability of banks in general to assess the creditworthiness of potential creditors can be

trusted. Furthermore, it has also been speculated that Enron's lenders were strong-armed (by Enron's sheer power and size) into lending the company money. This raises the perhaps more serious question of whether the immunity of banks in general to the duress of large institutional creditors can be trusted.

Swiss and US banks that financed South Africa's apartheid regime are facing a US $50 billion obstruction lawsuit brought on behalf of the victims of apartheid. Finance ministers of G7 countries raised the prospect of sanctions against countries that they experience as uncooperative in their campaigns against tax evasion and money laundering. Although not mentioned by name, Switzerland defended its actions in this regard.

Trustworthiness of Financial Statements

The trustworthiness of publicly issued financial statements has also been tainted. A major source of this has been Enron's perverted use of "special purpose entities" (SPEs). SPEs are suborganizations that parent organizations may create, in order to, among other things, move assets and debts off their statements. The financials of SPEs do not appear on the financials of the parent. Enron created such entities under the guise of them having research and development missions. Since the nature of R&D is to incur years of heavy upfront losses before beginning to turn a profit "no one was the wiser." Specifically, Enron funneled the capital raised by its SPEs back into its (parent) financial statements, while retaining the debt associated with raising this capital in its SPEs. Enron's 2000 annual report lists more than 300 such entities. As a result of this, the trustworthiness of public companies' financial statements in general has been jeopardized. General Electric is a popular cited example of this; of its $500 billion in assets, approximately $55 billion are in SPEs. As a result of the attention drawn to public companies' use of SPEs, many have chosen to incur the penalty of filing their taxes late, in order to get their SPEs "in order."

Xerox Corp. admitted on June 28, 2002, that it had inflated revenue by $1.9 billion and profit by $1.4 billion over a five year period.

Trustworthiness of Auditors

Related to the trustworthiness of public companies' financial statements is the trustworthiness of the auditors who authorize these statements. While their trustworthiness has no doubt been tainted, comments by former SEC Chairman David Ruder, in *Business Week* (January 15, 2002), put this in perspective:

> I think the auditing function is still being handled extremely well. We're not talking about any high percentage of audits. We have 4,000 to 5,000 companies filing audited financial statements every year with the SEC, and the number of poor audits is remarkably small . . . I happen to think that the auditors overwhelmingly are honest and are trying to do the right job, and what we're seeing are the occasional aberrations in their performance. And we need

> to be very concerned about it and try to prevent it in the future. But I don't think we can say the system is broken.

While Ruder's comments suggest that the public might take the allegations against Andersen with respect to Enron in stride, their behavior clearly indicates the opposite. Specifically, as at April 30, Andersen is reported to have already lost at least 10 percent of its auditing clients (2,300 to 2,062).

USA Today and the Gallup Poll undertook a survey of 1,001 adults on February 8–10, 2002, on how the public views accountants. Here are some of their results. Only 32 percent rated the honesty and ethical standards of accountants very high or high. Only 56 percent were confident that the audits by major accounting firms provide an accurate assessment of a corporation's financial situation. Fifty-six percent believed that the way that large corporations are audited needs a complete overhaul or major reform. There was also a decrease in percent of respondents who gave accountants very high or high ratings for honesty and integrity: 32 percent in 2002, 41 percent in 2001, and 38 percent in 2000.

Trustworthiness of Regulators and CEOs

Concerns have been raised about the behaviors of regulators and those being regulated. There were "gifts" between Enron officials and regulators/CEOs – conflict of interest (e.g., even President Bush). Why didn't the SEC do a better job to enforce insider-trading rules – with so many already existing rules, how did former Enron CEOs squeak by without having to disclose their exercise of options and large dumps of shares prior to leaving the company? Why were so many CEOs allowed to jump ship when times are tough or when forced to face the heat.

The June 24, 2002, issue of *Business Week* had as its Special Report cover story "Restoring trust in Corporate America." The first page of the story (30) had 16 color pictures of CEOs who have been indicted, arrested, resigned their jobs or were under pressure to resign. CEOs must speak up; business must lead the way to real change. Instead too many CEOs are silent and some have protested against any change.

Trustworthiness of Board of Directors

When it comes to corporate acquisitions, do managers act in the best interest of shareholders or themselves? This question was addressed by Paul Gompers and Joy Ishii of Harvard and Andrew Metrick of The Wharton School. They created a Governance Index for 1,500 US firms between 1990 and 1999. They looked at twenty-four provisions, including poison pills, golden parachutes and super-majority requirements for approval of mergers. Firms with at least 14 of these provisions were grouped in a Management Portfolio, indicating high management power, while firms with 5 or fewer were grouped

into a Shareholder Portfolio. For example, in 1990, Kmart Corp. was included in the Shareholder Portfolio.

After adjusting for several factors such as market performance and firm size, the Shareholder Portfolio outperformed the market, while the Management Portfolio underperformed. Firms with weaker shareholder rights tended to have lower profits, lower sales growth and higher capital expenditures.

Byrne (2002) quotes an incoming CEO of a troubled company describing his boardroom "like an aquarium filled with dead fish." Boards should be independent of management and have no special arrangements or interlocking contracts (consulting). Their major role is to hire, oversee and – if necessary – fire the CEO. The CEO should focus on managing the business, not on external relationships: compensation should reflect a "pay for performance" philosophy. The role of board chair and CEO should be split.

In Canada 12 institutional investors with combined assets of $500 billion have joined forces (The Canadian Coalition for Good Governance) to pressure Canadian companies into better corporate governance.

Trustworthiness of Consulting/Accounting Firms

The trustworthiness of consulting/accounting firms has also been tainted. From an economy-of-scale perspective it makes sense for those firms who audit a company's financial statements, and are thus deeply familiar with it, to then provide the company with other consulting services. However, as Andersen's "kick at the can" has suggested, firms may have difficulty separating out their auditing and consulting services so that "one hand does not wash the other." Major companies such as Apple, Borland Software, Freddie Mac, and Walt Disney have already announced that they will no longer use the same firm for both auditing and technology-consulting services. Shareholders of least 30 other companies, including Johnson & Johnson, Motorola, and PG&E, have proposed similar measures. The remaining four of the Big Five have followed suit. Specifically, Deloitte & Touche, Ernst & Young, and PricewaterhouseCoopers have announced plans to separate out their accounting and consulting services, just as Arthur Andersen did roughly two years ago when it separated out its consulting services to Accenture.

Greed

Time magazine (June 17, 2002, vol. 159, 36–9) in a story on Dennis Kozlowski, just resigned CEO of Tyco, wrote that he was fond of saying that "Money is the only way to keep score."

Capitalism has, as an economic system, been shown to produce benefits such as a higher living standard for many people. Unfortunately, some individuals get so caught up pursuing the economic benefits of capitalism that they engage in self-destructive behaviors. Enron has been described as a story of greed. A number of executives ending up in prison for a variety of criminal offenses (fraud, insider trading, embezzlement) have

enjoyed lavish lifestyles funded by their ill-gotten gains. A number of behavioral pathologies (workaholism, coronary prone behavior) have, as an antecedent, the need to prove oneself, the need to be valued by one's colleagues because of one's possessions (homes, cars, lifestyles).

There is increasing evidence that working hard, making lots of money or having a conspicuously consumptive lifestyle per se are not harmful; rather, the motives for embarking on these paths are potentially harmful. Srivastava, Locke, and Bartol (2001) found, in samples of MBA students and entrepreneurs, an association between motives for money and psychological health. Ten motives for money were considered. MBA students and entrepreneurs more strongly endorsing motives of social comparison and overcoming self-doubt also indicated greater psychological distress. There are negative and positive motives for money.

Ethics and ethical issues are now more commonly discussed in the popular media as well as in the training of managers in MBA programs. Can you teach ethical behavior? This is debatable. Courses in ethics certainly highlight the complex role ethics plays in leading. Managers-to-be are more aware of how ethics is relevant to several areas of organizational functioning (marketing, finance, accounting, etc.). Individuals who feel a need to prove themselves by engaging in shady activities so others will esteem them so they can value themselves are likely to cut corners. Police officers in North America have been charged and convicted of robbing banks, selling drugs, and stealing money from their police forces. It is almost certain that these police officers were aware that robbing banks was unethical.

Cynicism

69 percent say Government corrupt

***National Post* headline, April 22, 2002**

A recent poll of 1,500 Canadians showed that 69 percent believed their federal and provincial politicians were corrupt. Eighty percent of Canadians wanted major reforms of rules and regulating the awarding of government contracts.

And also consider that the CEOs of Canada's largest companies saw their compensation increase 54 percent in 2001 despite an average earnings fall of 13 percent. This trend is a betrayal of shareholders who have seen their investments diminish severely. This lack of pay as an incentive encourages mediocrity, neither rewarding CEOs for good performance nor punishing them for poor performance.

Kanter and Mirvis (1989), in a national survey of American employees, conclude that cynicism has become widespread in the workplace. Confidence in business leaders fell from about 70 percent in the late 1960s to about 15 percent in 1988. Causes of cynicism include a lack of meaningful and challenging work, limited opportunity for advancement and negative managerial styles that lead to disillusionment and disappointment. Heightened expectations also feed into increased disillusionment. There is a growing gap

between what people want from their jobs and what they get, and the gap between the search for excellence and most company realities has also widened.

Is it any wonder that people are cynical? The mass media over the years has been full of stories showing the widespread hypocrisy between words and deeds.

- President Clinton's statement that it all depends on the meaning of the word.
- Executives get paid huge salaries yet pay almost no taxes.
- Enron paid no taxes and even got a tax rebate.
- Corporate leaders take the Fifth Amendment or if they speak (Jeffery Skilling) they stonewall or remember little.
- Catholic Church sex scandal, hundreds of priests molesting little boys with few punished. The Vatican stonewalls.
- Everybody is doing it (insider trading).
- Doping scandals at the Olympics; fixed judging at the Olympics.
- Greed of athletes, drug use by athletes, and crime committed by athletes.
- Free agents – sell talents to the highest bidder. Loyalty is dead.
- The rise of "paper entrepreneurialism," the dot coms. The widespread shuffling of corporate assets, the millions lost or gained in paper transactions, the massive hirings, firings, and layoffs that continue today. Successful companies still downsize.
- Short-term focus on profits.
- Greed over ideals.
- Buy companies and sell-off assets (asset stripping).
- Golden parachutes; stock options.
- Shoddy goods and services. Deceptive advertising.

Globalization

Globalization is an international system with its own rules and logic that directly or indirectly influences the politics, environment, geopolitics, and economics in almost every country in the world (Friedman 1999). Globalization is the spread of free-market capitalism to almost every country of the world, involving the increasing integration of markets, countries, and technologies. Under globalization you have both the clash of civilizations and the homogenization of cultures, the triumph of free market capitalism and a backlash against it. Countries throughout the world are increasingly being tied together into a single globalized marketplace and village. More countries are now tied together through economics and information (telecommunications). Countries can reach farther, faster, cheaper, and deeper around the world than ever before. The world has been increasingly dominated by the American dollar, the American military, American power, and American culture.

Globalization is creating a backlash from those hurt or left behind by this new system (Friedman 1999). One byproduct of globalization is a winner-take-all ethos. This shows up in greater income inequalities within countries. For example, the incomes of the poorest fifth of working families in the US dropped by 21 percent between 1979 and

1995, adjusted for inflation, while the incomes of the richest fifth jumped by 30 percent during this same period (cited in Friedman 1999). The US had 170 billionaires in 1998 compared with 13 in 1982.

According to a 1999 UN Report, the 20 percent of the world's people living in the highest income countries have 86 percent of the world's GDP, 82 percent of the world export market, 68 percent of foreign direct investments, and 74 percent of the world's telephone lines. The bottom fifth in the poorest countries was about 1 percent in each of these areas. In 1990, 20 percent of the world's people living in the richest countries had 30 times the income of the poorest 20 percent; by 1995, the richest 20 percent had 52 times as much income.

A backlash to globalization began to emerge in the early 1990s, culminating at the 1999 WTO meetings in Seattle. Rapid changes brought about by globalization were producing disruptions to traditional business practices, social structures, cultural traditions, and environments (Stiglitz 2002). Plant closings, downsizings, moving plants to Mexico (and other low-wage paying countries), nonunion workplaces, the need for more education and skills, and increasing numbers of people under threat or who have lost ground were some of the symptoms targeted. Some people have developed a negative reaction to the Americanization of the world. There is both admiration and envy and resentment toward the US.

Others, however, embrace globalization. They realize that if they are to have a better life, an improved standard of living, they must get into the capitalist system (prosperity, freedom, choices). How do we use globalization to benefit more people and countries, the 1.3 billion people in the world still living on one dollar a day? You need better and more accountable governments. The US still is the best example we have of a country well prepared to use globalization for benefit.

As the World Economic Forum concluded in New York in early February 2002, some of the euphoria of globalism appeared to diminish. The developed world was challenged to address high levels of poverty. A parallel forum was held in Porto Alegri, Brazil, by opponents of globalization and free trade (The World Social Forum).

The financial crisis in Argentina threatens to become an equally significant social crisis. The unemployment rate in 2003 is 20 percent. The peso has lost half its value against the US dollar since January 1, 2002. The banking system is insolvent. The recession is in its forty-sixth consecutive month. Inflation is climbing. As the poor become more desperate and disillusioned, Argentina may see a massive social explosion. Compounding this is the likelihood that the recovery plan put together by the current president (the fourth in three months) may be unrealistic and unworkable. Instead more major reforms are needed. The International Monetary Fund would require Argentina to reduce spending dramatically, including large-scale job cuts. The IMF is called the International Misery Fund in Argentina. With unemployment running at over 20 percent, the IMF is making efforts to prevent Argentina's continuing economic troubles from spreading to Brazil, Uruguay, and the Caribbean region.

A coup in Venezuela (April 1, 2002) forced President Hugo Chavez to resign. At least 14 people were killed in street demonstrations with more than 200 people wounded. Venezuela is the world's fourth largest oil exporter but has extreme levels of poverty. A leading Venezuelan businessman had been nominated to replace the duly elected Chavez,

but Chavez regained the presidency a few days later. At the time of writing, street demonstrations continue in Venezuela on an almost daily basis.

Is Capitalism Working?

The World Bank *World Development Report: Attacking Poverty*, 2000/2001, classified country economies by estimates of 1999 GNP per capita:

- High-income countries, averaging $25,730 GNP/capita (with individuals earning $9,266 or more), represent 15 percent of the world's population. These include Europe (Switzerland [$38,350], Norway [$32,880], Japan [$32,230]), the United States ($306,000), Singapore ($29,610), Australia ($20,050), Canada ($19,320), and New Zealand ($12,780).
- Upper middle-income countries, averaging $4,900 GNP/capita (ranging from $2,966 to $9,265), represent 10 percent of the world's population. These include Argentina ($7,600), Brazil ($4,420), and Mexico ($4,400).
- Lower-middle income countries, averaging $1,200 GNP/capita (ranging from $755 to $2,995), include 36 percent of the world's population. This includes China, with $780 GNP/capita and 1.3 billion people – the world's most populated country.
- Low-income countries, averaging $410 GNP/capita (with individuals earning $755 or less) are inhabited by 45 percent of the world's population. This includes India, with $450 GNP/capita and nearly 1 billion people – the world's second most populated country.

These are country averages; obviously, great variations exist within countries. There are tremendous social and technical disparities that go with this economic stratification among the countries of this world. For example:

- The adult illiteracy rate varies from 30 percent of males and nearly half of all females in low-income countries to only 1 percent or 2 percent for men and women in high-income countries. In fact, nearly one-third of all women and 18 percent of all men in the world are illiterate.
- The secondary school enrollment ratio – the percent of high school age kids enrolled in secondary school – varies from 51 percent in low-income to 96 percent in high-income countries. As expected, enrollment in higher education drops precipitously below these ratios. One in one hundred people in the world today have a college education.
- And if you think that distance learning and e-commerce over the web can address these disparities, think again. People in low-income countries have only 3 personal computers per 1,000 people, and people in lower- and upper-middle income countries have only 13 and 53, respectively, whereas people in high-income countries have 311 computers per 1,000. Fewer than 1 in 100 people in the world today own a computer.

The citizens and nations of the world are becoming increasingly polarized into the haves versus the have-nots, the rich versus the poor. While the business elites and political elites were in New York City attending the World Economic Forum at the Waldorf Hotel, an antiglobalization conference was being held in Brazil. There is increasing concern that the elites are out of touch with the plight of billions of the world's inhabitants. Pro and anti-globalization forces have fought pitched battles in Vancouver, Seattle, Genoa, Quebec City, Munich, and New York City over the past few years. In the absence of dialogue and partnerships, it is certain that the backlash and violence these forums have produced will increase.

The magnitude of the economic gap between rich and poor in the US has widened. Shapiro, Greenstein, and Primus (2001) reported that between 1979 and 1997 the after tax income of the poorest fifth of US households fell from $10,900 to $10,800 while that of the top 1 percent of households increased from $263,700 to $677,900. Figures for childhood poverty were roughly the same in 1979 and 1997: of over 12 million children, one-sixth live in poverty. The poverty rate among single working mothers was 19.4 percent, the same level in 1995 and 1999 (Single mothers 2001). The US, along with the other developed countries, is not a classless society.

In 1981, America's ten most highly paid CEOs were paid an average of US $3.5 million; in 1988, the average was $19.3 million; by 2000, the average was $154 million. The wages of top US executives rose 1,300 percent between 1981 and 2000; the wages of ordinary workers doubled. A number of apologies have been offered for these wages. First, these CEOs were rewarded for huge achievements. Most of the top ten made money by selling stock options before their firms experienced financial downturns. Second, nothing can be done to limit the accumulation of wealth. The biggest fears posed by capitalism are not economic but political. The great imbalance of wealth and democracy will be increasingly difficult to maintain in the years to come.

Mintzberg, Simons, and Basu (2002) recently took issue with the short-term focus on shareholder value. Too many companies look good in the short term by reducing staff while increasing job demands and exhaustion of staff. They describe a model of selfishness building on what they term "half-truths": a narrow view of actors as economic men, organizations focusing on shareholder value, leaders as heroes, organizations becoming lean and mean, and a view of society best represented by rising tides of prosperity that improves the lives of everyone. In the 1990s self-interest was on the rise, reaching perhaps unprecedented levels. Greed became an important but unexpressed priority, companies focused more narrowly on shareholder value over the short term, and it seemed as though CEOs alone made organizations successful. They argue that if capitalism only stands for individualism, it too will collapse.

Individuals are more than economic men (and women). A focus on short-term shareholder value pits the interests of those who create the economic performance and those that benefit from it.

Heroic leaders create a gulf between themselves and everyone else. Effective organizations can be lean and mean; such organizations can also produce exhausted, angry employees, poor quality products, and unhappy customers. Finally, the evidence indicates that increased economic prosperity has not trickled down proportionately to those at the bottom levels of society.

Mintzberg and his colleagues propose engagement as a concept to balance selfishness. They note the increase in selfless behaviors such as helping, becoming engaged and sensing a collective need in one's larger community. There needs to be a balance between self-interest and selflessness. They challenge directly the glorification of greed. The best way to do this, they argue, is to promote values of trust, judgment, and commitment to promote socially responsible behavior. Engagement is possible.

Rich countries, members of the G7 in particular, have an obligation to help the poorest countries. One initiative that has already been implemented calls for the forgiving of the debts of the world's poorest countries. The World Bank and the IMF have been slow to respond however. To qualify for debt forgiveness countries had to prove they had policies and programs in place to make their economies stable. Few countries have demonstrated this however.

Few wealthy nations attended the UN food summit meetings held in Rome on June 10, 2002. Kofi Annan, UN secretary-general, opened the conference by calling for cutting the number of hungry in the world to 400 million by 2015, a target that looks increasingly unrealistic. World hunger appears to have a low international political priority. The Italian prime minister ended the four day conference early to accommodate a World Cup soccer game featuring Italy. Country delegates seemed to spend as much time shopping and sightseeing as they did grappling with hunger among 805 million starving people worldwide. Some sessions were sparsely attended.

Kim et al. (2000) examine how and why poverty, vulnerability, and social suffering flourish as wealth and technological power increase. Large numbers of people remain poor at a time when much of the world shows growth and material gains from economic prosperity. The structure and current rules of market-led economic globalization widens the gap between rich and poor. These growth-oriented policies have not improved living standards of the poor and have added more suffering.

Conclusions

CEOs are becoming increasingly visible, in some cases achieving celebrity status (Jack Welch, Mathew Barrett, Carly Fiorina). This living in a fishbowl, working under heightened scrutiny, adds to the demands of an inherently difficult job. It has been reported that 45 CEOs of the top 200 US firms left their jobs in 2000, either voluntarily or involuntarily. These departures are increasingly played out in the pages of the business press.

The current recession, compounded by events of 9–11, have heightened performance pressures. An increasing number of firms worldwide have reported below expected returns, in some cases huge losses. Air Canada was expected to announce losses of $1 billion in 2001, an increase over the $200 million loss in 2000.

Organizations today are searching for the best available talent. Demographic realities indicate that this talent is increasingly found in nontraditional employees (i.e., women, people of color). It has been reported that three-quarters of new workforce entrants in this decade will be nontraditional. North American organizations have attempted to leverage this resource over the past ten years with some, but mixed success. It has proven difficult

to create new mindsets placing diversity as a central competitive advantage, in a strategic sense, rather than as short-term tactical initiatives. Cross-generational differences in values among traditional employees (white males) also raise significant management challenges (Zemke, Raines, and Filipczak 2000).

The Enron debacle has raised ethical concerns to a central place on the corporate radar screen. This is not a new circumstance. Ethical concerns become a topic of concern whenever a major scandal captures national attention (Watergate, the Savings and Loan scandal, Monica Lewinsky). But when the dust settles it seems to be back to business as usual.

The US treasury secretary Paul O'Neill has called for CEOs to come out publicly against corporate abuses (June 18, 2002). A few other CEOs in North America have also come forward and expressed the same sentiments. In addition, the US Senate Banking Committee and the SEC have proposed accounting committees to review corporate audits.

The scandals of Corporate America are hurting US moral authority. The US has criticized Japan in the past for many of the same events that have recently damaged the US financial system. The US business model and accompanying ideology is now being questioned.

Given a demanding job in turbulent times, how do women and men in senior management maintain their own emotional and physical well-being? How do they achieve an integration of their work and personal lives (Rapaport et al. 2002)? How do they recuperate in times of duress and revitalize their spirits and souls?

Organization leaders today are more than ever required to be abreast of events in their competitive environment both locally and internationally. Cross-culturally, sensitivities have achieved a new status. In addition, more expatriate managers now function in executive positions in other countries.

Organizations continue to restructure, reorganize, merge, and downsize. These transitions are complex and difficult to undertake successfully. It has been reported that perhaps half of these transitions fail to achieved the financial objectives that were anticipated.

There are movements toward a common currency and a common trading block (the Euro, the EEU). NAFTA ties together Canada, the USA, and Mexico. There is some discussion in Canada about whether it should have a common currency with the US. Business–government relationships take on a new importance in these initiatives.

Changes are occurring in the nature of the employee–employer relationship (Hall 1996). Loyalty may in fact be dead! Greater use is now being made of part-time, contract (temporary workers) and outsourced functions. Managing contingent workers poses a different set of challenges.

Too many corporate boards have traditionally underperformed. Conger, Lawler, and Finegold (2001) document this concern and offer new suggestions for adding value at the top. They offer guidance on board functions, board member recruitment selection and evaluation, and group process dynamics.

The career landscape is also in flux. Employees and employers are now more likely to develop a contractual relationship, rather than a long-term relationship. Employees are more likely to change places of employment, voluntarily or involuntarily. It is now clear

that employees will have a number of careers during their working life. How does one build a career under these circumstances? How does one develop the competencies, knowledge and relationships necessary for continued success? What competencies or metacompetencies contribute to continued success?

Organizational restructuring and downsizing continues. Recently, Nortel has cut another 4,000 employees to bring layoffs to 55 percent of their staff; 44,000 remain following the latest cuts, having reduced by 50,500 employees since the start of 2001. Ericsson planned to cut 20,000 jobs, Lucent Technologies another 6,000 jobs, and Telecom companies have cut 517,229 jobs since the start of 2001 (Nortel, 51,000; Lucent, 51,000; Motorola, 43,000). Mergers show no sign of slowing, now involving larger units and moving across borders. In the UK, electricity and gas networks announced plans to merge (April 22, 2002) to create a US $34 billion group, National Grid Group PLC and Transco UK.

There is "no quick fix," no "magic bullet" to equip leaders for managing in turbulent times. Managers, particularly in North America, have jumped on the bandwagon of the latest fad only to be disappointed. Such fads have included one minute managing, process reengineering, total quality mangement (TQM,) just-in-time (JIT), and executive coaching. The evaluative evidence on these and other initiatives indicates that they fail to achieve results as often as they contribute to results. Instead, a much longer-term investment is needed if success is to be realized.

NOTES

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