

## A Corporate Cancer That Must Be Cut Out

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**M**ore than a quarter-century ago, in *The New American Ideology*, George Cabot Lodge wrote about "...the legitimacy of great institutions... about the ideas which once gave them authority but which now no longer do; about their justification and purpose, their structure and behavior...the distance between what they are and are becoming, and the myths and ideas which have justified them." Prominent among the institutions discussed by Mr. Lodge, for some time now a professor at Harvard University, were large, publicly held corporations. His discussion of corporate managers and directors is well worth reading.

The governance of many public corporations is in disarray today and the consequences are grave. The sudden crash of hundreds of dotcom and high-tech companies two years ago did not happen mysteriously or by accident. Less evidently, perhaps, than the debacles at Global Crossing, Lucent, Qwest, WorldCom, AT&T and elsewhere, and surely less egregious than what occurred at Enron, the managers and directors of those companies and their allies in the accounting, securities and banking firms knew or should have known the truth about corporate assets, purchases, costs, revenues and profits. They had the professional and ethical responsibility to know the relevant facts and, according to their respective roles, provide truthful information to employees, investors and the

public. Instead, too often, management withheld this information from shareowners, lenders and the public, disregarding the consequences of their actions for these stakeholders, but profiting personally from the information they denied others.

The stewardship responsibilities inherent in the positions of corporate managers and directors do not require mathematical and accounting brilliance; we are talking about maintaining factual balance sheets and adhering to standard accounting practices. This is not about managerial genius and once-in-a-lifetime leadership; it is about knowing what business your company is in, a basic principle of management, and directing human and other resources prudently and wisely to serve customers well and enhance shareowners' value. Managers need not be saints; what lenders, shareowners, employees, customers and the public ask and have a right to demand are integrity, honesty and fairness.

Too often senior managers of the companies named above, and others, have dishonestly and unfairly pocketed enormous salaries, bonuses, stock options, lavish severance payments, special retirement benefits, and more, while ordinary employees, kept in the dark about their companies' real sales, revenues and profits, have seen their jobs and their retirement savings dissolve before their eyes. Shareowners, meanwhile, uninformed and misguided by management, accountants and analysts, now look forward with dread to their next quarterly securities statement.

The men and women chosen to manage and direct public corporations accept responsibilities when they take office. Their jobs are difficult and often stressful, so they should be paid well. But they are not movie stars or sports celebrities, as they sometimes seem to imagine, and should not expect or be given celebrity status and benefits.

Holding senior managerial positions at Enron gave Kenneth Lay, Jeffrey Skilling and their cohorts no legitimate title to the underhanded dealings they devised or allowed, and no license to abuse their positions and privileges. Gary Winnick and some of his top managers at Global Crossing, Richard McGinn at Lucent Technologies, Joseph Nacchio at Qwest, Bernard Ebbers at WorldCom, John Rigas at Adelphia, and others, have taken advantage of their positions to build or fatten their own fortunes, while the corporations entrusted to them have diminished or crumbled, with disastrous effects on shareowners, employees and customers and a loss of public confidence in business.

The injustice and harm resulting from corporate ineptitude does not stop with the losses caused to customers, the betrayal of dedicated employees and loyal shareowners, or the havoc caused in their lives and far more widely. Enron shamelessly used influence and duplicity to establish itself as a leading energy supplier in India, and then raised prices so high as to cause customers to default. Even so, Enron won support from the U.S. Government, until

the company itself collapsed. As Enron and its copycats have fallen from the pedestals they and their satellites created, the entire business community has been tarnished. Wise investors now often question corporate financial statements and forward guidance, and doubt the integrity of accountants' and analysts' judgments as well.

If it was not clear in 1975, when *The New American Ideology* was published, it must be obvious to everyone paying attention today that, with respect to senior corporate managers and directors of large, public corporations, self-policing will not correct the mismanagement and abuse at the top of these corporations. Too often, senior executives who control the corporate board of directors will take advantage of their positions and power to promote their own interests. And executives who nominate and promote the candidacy of board members will exercise control over those members. Typically, today, senior managers nominate candidates for their company's board and are then able to marshal the resources needed to support their choices. Directors chosen in that way tend to be beholden to management and will frequently rubber stamp executives' decisions without serious challenge.

The integrity of any corporation is compromised by such self-interest and further compromised by accounting firms, banks and analysts who have conflicts of interest. As Enron's accountant, Arthur Andersen signed off on untruthful financial

reports, while, as a consultant to Enron, Andersen simultaneously received millions of dollars in consulting fees. Leading banks and Wall Street brokerage houses face similar charges: professing to provide objective research and analysis for their investors with respect to firms in which they have significant interests.

The economic slump of the past two years is not over for some industries, telecommunications and high tech, for example. It is unfortunate and unacceptable that companies in these industries now confront a crisis of confidence that should never have occurred. Industry leaders are smart enough to know how to draw a clear, bright line between the executives and directors of public corporations, and between the corporate responsibilities they chose to accept and their personal interests. They also know a conflict of interest when they see one and they know how to prevent it. But none of that seems likely without government's stepping in. It is time for government to do that, before more shareowners and employees are hurt and before customers and the public, domestically and internationally, lose all faith in the integrity of U.S. business.

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