

Director Daryl Koehn interviews Jack Blanton

DK: We often hear executives proclaim that their “employees are the number one asset.” Do you think companies act as if this statement were true?

JB: You can go all over the block and find employers that make statements such as this – some companies act as if people are their major asset, while others make the claim but by their actions and practices say the opposite. A lot of behavior is influenced by the characteristics and nature of the leadership of a company – mind you, I say “influenced,” and not “dictated.” In other words, you have to look at the individual characteristics of top corporate management, understanding that these managers will influence others by their nature. There is a big difference between influencing and dictating.

A look at what a corporation does in stock options for their less important employees versus what they do for the top level provides a good example of disparate treatment. For a corporation to know and also to treat their employees as extremely valuable contributors to the success of the company can be two different things. Employees must be treated with the respect they deserve. They must be treated as important contributors to the success of the company. On the other hand, employees must conduct themselves in ways that reflect their pride in their company and their confidence that their employer is treating them fairly. They must perform well, and employees must reach out and support fellow employees who need help – a corporation never gets too big to have the majority of its employees feeling that they are all one big family.

While it is impossible for you to please every single individual in a corporation, the best companies to work for have people who are proud of their employment, are proud of their top officials, and are proud of their company.

DK: What do you think can be done to make companies and their boards more mindful and effective?

JB: The entire board structure needs to be revisited by virtually every corporation. Many of these same corporations will decide, after examination of their policies, that the relationships between their board and management are solid, profitable and proper. But there are many that can't justifiably make this claim..

When I reflect on shareholders and boards, I immediately think about that individual who stands out very tall whenever he speaks on these subjects—Warren Buffet. I would urge every student to find and read some of Buffet's comments. Buffet comes right out and says—and here I quote from his widely read current annual report to Berkshire Hathaway Shareholders—“For too long, boards were too often a group of individuals who failed to

exercise their obligations for asking tough questions or fire executives who simply have not performed or who have conducted themselves in ways that are dishonorable...Far too many board members have held back in questioning executives and this is to blame for some of the recent corporate catastrophes.” Buffet notes that “it is almost impossible for a well-mannered board to debate the firing of a chief executive and this same paralysis of politeness also applies to critical looks at deals, or perhaps executive pay”.

Buffet also takes on many of the well-paid consultants who recommend exorbitantly high stock option grants, compensation, or other forms of enrichment. Others who feel like Buffet concur that the problem in many boardrooms is that directors are too polite not only to each other but also to the CEO. It is just all too often that boards permit a lack of accountability.

Bear in mind that not all boards should be painted with the same brush. There are many that are performing extremely well, that handle their responsibilities in a very appropriate fashion. We simply have to make sure that competence becomes prevalent and that we do not remain silent when we should have spoken out loudly. The board must have a thorough understanding with senior management--and most especially with the CEO--that everything is disclosed, warts and all. Then the board can take the necessary action or applaud the CEO for having done it himself or herself.

DK: Who should serve on a corporate board?

JB::Enough has happened in the past two or three years to alter the composition of many boards. Individuals should not even think about being on a board unless they believe (with a high degree of confidence) that they will be told what the corporation is doing. Some CEOs provide boards with this information, and some don't. Members must insist on asking for appropriate data so that the board can properly assess the performance of a company. In general, individuals must be confident that they know enough about the company to fulfill the duty of caring for the company and for employees and the duty of seeing that the right leadership team is in place to perform.

DK: Do you think there is a place for a “devil’s advocate”on a board?

JB: Not necessarily. The same result can be achieved by a director who asks important questions and keeps probing until he or she is satisfied. I think other directors recognize that there must be one or two members of the board who continue to press on a subject until they get a satisfactory answer. There is no problem with such exchanges as long as the directors’ purposes are proper and all parties engage in mutually respectful dialogue.

DK: What is an ideal relationship between a CEO and members of a board of directors?

JB: Hard questions have to be asked, particularly in today's environment. A top-flight CEO will learn the tenor of a board fairly quickly and will be able to discern how much a board wants to hear. One hopes that CEOs are hearing that their boards want to know everything of importance down to a certain level. It simply takes time before a board and a CEO get well acquainted with each other and have a general understanding of how much the board wants to hear. It also takes awhile for the board to hear enough to become comfortable with a CEO's performance. So both sides have a responsibility – it should not be and doesn't have to be confrontational – it is simply a case of both sides knowing what their responsibilities are and seeing that the right kind of communication occurs.

Again, good directors must sense, when a CEO asks for advice, how much of that advice to give. This judgment largely turns on personalities, but no CEO should run from seeking advice. The environment in a boardroom should be very strongly tilted towards a belief that all should have an opportunity to express themselves. Both management and board together have the responsibility of seeing that all necessary items on the table are discussed.

DK: We hear a lot about corporate culture and its effects on behavior. Given the high turnover in many American companies today, how can a company nurture an appropriate culture?

JB: If turnover and cultural erosion become an issue, then management has failed to do its job. The CEO needs to take the time to explain the company, as well as its corporate culture, to new arrivals. These new hires should, in turn, do the same for those whom they manage. Both top corporate officers and the board need to discuss corporate culture, meeting together or separately. Either way, they must agree that where they are headed is important and that they have some plan for reaching that point. In addition, both sides must believe that no subject is off limits.

In most cases, a good consultant or someone high up in the company can perceive when a corporate culture is not healthy. One warning sign is the refusal of one or more senior officers to speak with each other. If I were to see this type of behavior, I would ask the parties to sit down and to discuss their differences or issues candidly and openly. Matters must be addressed. If one party refuses to go half way, then that party is, in my book, in trouble.

DK: What specifically is the CEO's responsibility when it comes to creating an ethically sound culture?

JB: I have several thoughts on this matter. (1) The CEO has the final word when it comes to company actions and policies. CEOs obviously cannot know everything; **but** they must be confident that those reporting to the CEO and the board understand their responsibilities; that these subordinates know that the CEO must be informed about everything consequential; and that these subordinates exercise good judgment concerning what is permitted under corporate policies. (2) The top echelon reporting to the CEO must have, in turn, the same confidence in their direct reports. Good officers of a company will place confidence in those subordinates who understand their job responsibilities. This same chain of knowledge and confidence should extend from the top of the company to its lowest levels. If an employee has a question about the propriety of some action, he or she **must** discuss it with the party to whom they report. Of course, no one has time to discuss every little aspect of every operation. However, those in positions of responsibility must be comfortable with a corporate policy requiring them to question matters connected with the discharge of their responsibilities and with the well-being of their company. Enron went wrong because there were too many individuals who felt that they did not need to clear questionable actions. (3) Sometimes companies hire consultants and/or attorneys who advise managers that a certain action is legitimate and proper. Now matters get somewhat murky. If people at Enron had adequately aired and examined certain actions, these actions would not have been performed, regardless of whether some consultants assured the company that these acts were legitimate and permissible. Some matters fall into a gray area and need to be decided by **good judgment**. When people feel under extreme pressure—perform or else—they have an incentive to keep looking until they find a consultant or advisor who will assure them that everything is all right. In the end, we need to use mature judgment to determine whether some proposed course of action has a bad odor or not. We should try to find a colleague inside the corporation who is accessible and on whom we can rely to give good advice if something questionable comes up. I am not sure how to advise you beyond this point, except to say that acting well is a matter of using mature judgment to determine whether something has a bad odor or not.

It is imperative that companies perform an objective analysis of their corporate character. It is extremely hard to do this sort of analysis, and it frequently seems to be a burden, especially because pressure can be intense. It may not be easy to tell superiors that you want to delve into something a little deeper. It is also very difficult at times to question the directions and motives of those above you. The only advice I can offer is to handle the inquiry with delicacy and with words that are not meant to be challenging but to convey relevant information to those doing the questioning.

DK: If the culture is not healthy, is it reasonable to expect that current managers—the very people who might have helped generate a sick environment—will be able to do this objective analysis and to rectify problems?

JB: Where you find a corporation whose practices and policies have become undesirable, possibly unethical and extravagant (such as with stock options, salaries, etc.), it is highly

unlikely that a management that permitted these excesses to occur will ever straighten them out. Most of the time new management, uncontaminated with the past, will be needed to come forth with sound, sensible, fair and wise policies. It is indeed rare, when salaries and other benefits have been established and are inappropriately far too high, to see the same leadership happy with considerably reduced benefits. If stock grants, bonuses, or any other form of compensation get too big, human nature is such that employees are not going to be happy about cuts in their pay.

Virtually everything I just said and have been saying reflects my belief that almost all work relationships are better (1) when complete trust is present and when it is reciprocal; (2) when employees make sure that their conversations are clear, not evasive, and that what they have said leaves no doubt as to what they intended; (3) when parties to a disagreement converse about where they stand and what they meant to convey; 4) and when people speak respectfully and plainly not only to their superiors but also to those who report to them.

DK: A number of companies now have ethics officers. Do you think ethics or compliance officers are effective?

JB: I have never had experience with ethics or compliance officers. The main thing that I would say is that there must be opportunities for communication among senior officers and staff. Any time that a CEO or a top official sees a problem, it needs to be brought out into the open.

DK: Americans are a country of laws. We speak about our Constitutional rights. If something occurs that we don't like, we say "there ought to be a law against this behavior." Often we seem to conflate what is ethically sound with what is merely legal. Do you see this conflation as an issue?

JB: I would submit that a person's judgment and good behavior should override almost anything that is allowed simply because no law forbids it. Those who hide under this blanket excuse, claiming that they did nothing unethical because they didn't break any laws, don't cut it in my book. Senior management should insist on ethical and sensible decisions and not approve of an act simply because it lies within the law. You've entered a dangerous area when you do something questionable and then unilaterally decide you are not breaking laws and go ahead with the action.

DK: We see an increasing number of American companies downsizing. Is there a right way and a wrong way to do this downsizing? Is it necessarily unethical?

JB: In almost every company, there will be a right time to expand and a right time to contract. Employers do have to make tough decisions, such as closing plants or seeking cheaper materials. Costcutting entails that managers judge how deeply to cut and ascertain which cuts are appropriate in the circumstances at hand. Employers should discuss with employees the challenges that the company faces in order to be competitive. Employees generally can reach their own conclusions as to company policies, some of which are very fair, others unfair. They can also see that some policies are a necessary response to competitive conditions. The main thing I would say is that managers need to be understanding of what is happening to their employees. Are wages fair under the circumstances? Is healthcare and health support fair under the circumstances? Does management spend adequate time talking to employees and their leadership in explaining some of their policies and why it is necessary that they take certain actions? Communication is extremely important. When your competition is manufacturing products in China and India, can you still be competitive with products made in America? Again, both management and employees have a responsibility to communicate freely and openly with each other.

DK: It used to be that “a man’s word was his bond.” Do you think we could still make this claim today in America business?

JB: So long as both parties know the subject and what is agreed, a verbal transaction should be as strong as one written. The same applies to a handshake. If your word is worth very little, you are worth very little.