

CEO Hubris and Compliance Catastrophes

What is the common denominator of every corporate catastrophe that you have heard about? Reporter Lucy Kellaway, in a Financial Times (FT) article entitled “*Road test CEO’s to avoid corporate car crashes*”, says that it is the “hubristic CEO”. I thought about that line as I sat at Minute Maid Park last weekend and watched the Houston Astros all but knock out the Philadelphia Phillies from the National League (NL) Wild Card hunt by winning 3 of the 4 games. The Astros then, of course, began their next series with a more routine loss to the St. Louis Cardinals; thus allowing the Astros to reach the rarified triple digit ignominy of 100 losses for a second consecutive season. But do not be disheartened, there are still 14 games left so the Astros could blow through last season’s record of ‘only’ 106 losses. Think that might qualify as a ‘catastrophe’?

Apparently not according to Astros owner Jim Crane, who once again shows that I am *unsophisticated* because I measure the success of a baseball team by that outdated metric of wins and losses. But what I did not realize about Mr. Crane is that he fervently believes that baseball is not simply a game. He once again pointed out my lack of foresight in an Op-Ed piece for the Houston Chronicle, “*Building a baseball team and a city-together*”, where he said “Baseball is a singular life experience that brings communities together, develops youthful confidence and strong values, shapes destinies and builds city spirit. Important life lessons are learned on the baseball field.” He then went on to note that the team’s “ultimate goal is not only a better team, but a better city.” How is he going to accomplish this rather lofty goal? Believe it or not, it all starts with the public presentation of the Astros new uniforms that he has been secretly working on all year. He actually ended this Op-Ed piece with the following line, “*The first big step is only a few weeks away, on Friday, Nov. 2, at 5 p.m. at Minute Maid Park, when we reveal our striking new logo and uniforms reflecting the fresh start we will all make together next season. We hope every Astros fan will be there, as excited and fired up as we are about the bold new experiences ahead.*”

Be still my heart. He is actually planning to make the City of Houston a better place by introducing new uniforms. I am sure the Mayor of Houston is thrilled with this assistance. Unfortunately I cannot find a public comment she has made on the subject to report to you. I suppose any long suffering Red Sox (think Jay Rosen) or Cubs fan would tell me wait until your team has a bad century and then you have the right to sound off as, after all the Astros were in the World Series in 2005 but Mr. Crane, really new *uniforms*, how about some old fashioned wins?

Kellaway’s piece asks that even in this age of documenting, checking, measuring, stress testing and reassessing with remedial actions of every conceivable type of risk, what is the one which is never tested? She believes that the answer is “the chief executive gets so high on power that he or she losses the plot.” Kellaway’s idea to help remedy this situation is amazingly simply. She argues that the idea is “to force all top executives to take an annual hubris test modelled on the

MOT (UK Ministry of Transportation) test for cars.” She acknowledges that she poached this idea, from Chris Wiscarson, the head of Equitable Life. Kellaway’s contribution is to have the test administered by a company’s Board of Directors. The test itself would consist of simple questions presented to a Chief Executive Officer (CEO) such as:

- How would you rate your own arrogance? (Rate from one to five)
- Has it increased recently?
- Have you changed your mind on anything substantively in the past year?
- Have you done anything “slightly dodgy”?

She believes that “In answering these questions, spineless non-executive directors would be discouraged from fudging answers by the promise of a prison sentence should they fail to be candid.” In addition to this annual test, Kellaway believes that if a CEO makes some type of extraordinary statement of “exceptional hubris” this would cause an “immediate MOT failure.” She gives the example of the now former head of Barclay’s Bob Diamond who told the UK Parliament “a year ago that the time for bankers to apologise was past” he would have been “instantly out”.

The British Press seems to be leading quite a bit of soul searching these days about the trouble City banks and other companies have gotten themselves into recently. I found Kellaway’s piece interesting because she appears to realize not only how important “tone-at-the-top” is to set an ethical standard for a company; but more importantly she is engaging in the conversation of how to address this issue. If your corporate culture is simply to either make your numbers every quarter or ‘resign to pursue other opportunities’ this may speak of a hubris which leads to a compliance catastrophe like the one Wal-Mart faced on April 21, 2012 when the story broke on the front page of the New York Times (NYT). But the Board of Directors must be prepared to lead this effort, in other words, a Board must actually govern. So maybe when the FCPA Professor characterizes the Wal-Mart Foreign Corrupt Practices Act (FCPA) scandal failure of corporate governance, he is on to something.

On the other hand, if you are Jim Crane, apparently if you get some snazzy new uniforms, you not only make your baseball team better but the entire City of Houston.

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