

## Our Mission

To help individuals, teams and organizations reach their potential through strategic planning, innovative coaching, team development and management consulting.

## Cook & Company Areas of Concentration

Strategy

Coaching

Assessments

Team Building

Consulting

Training

Workshops &  
Retreats

Mergers &  
Acquisitions

Ethical  
Performance

*Well, its about time, right? Herewith we finally comment on the corporate governance events of the last two years. The article on this page suggests we take any article espousing the current virtue of any particular manager or leader with a grain of salt. The article overleaf raises some questions relating to the interaction of Wall Street's demand for performance and the pressure on leaders of public companies.*

## What "Best Managers?"

At the beginning of this year, *Business Week* trumpeted its annual article on "The Best Managers of the Year." But based on *Business Week's* past choices, perhaps it should have read "The Best Managers of 2002... We Think!"

Just for fun, I went back to previous *Business Week* lists and they contain some doozies!

Let's look at 1999. The editors are rhapsodic about their choices: "Some stood out by making smart decisions at lightening speed . . . In a year marked by hype, these execs' accomplishments were legit." Interesting choice of word, that word "legit." Let's see who they chose. There is John Chambers, CEO of Cisco Systems – his stock slid from 82 to 8 over the past three years. How about "Media maven Martha Stewart . . .?" Well, enough about her. Or there is Bernie Ebbers, who is cited as having ". . . won a hot bidding war for Sprint." Whoops!

Thinking 1999 might just have been an off year for these savvy pundits, I went back to 1995. There we find such luminaries as Gerald Greenwald of United Airlines and Ar-

thur Martinez of Sears Roebuck. Hard to believe neither gentleman had anything to do with their respective company's current woes.

What can we deduce from these picks? First, very few managers can be measured just on one year's performance alone – there are too many other variables. And what may look like good decisions when made may actually be shown to be disastrous with the passage of time. Finally, after Enron and Tyco, WorldCom and Xerox, take all of the supporting data with a grain of salt – it just might not be what it seems at the time.

So the next time you see a "Best Managers List," remember the phrase, "Don't believe everything you read." In fact, in this case, perhaps it would be better to rephrase and say, "When it comes to Managers of the Year, *forget* everything you read."

Who do you project might be the best managers trumpeted for 2003? I'm taking bets against the spread on whether they will all survive the test of time.

## Harnessing the Tyranny of Time to Improve Corporate Governance

Enron . . . Anderson . . . Worldcom . . . Xerox . . . ImClone. For years I have been writing about the interrelationship of leadership style, strategy, and organizational culture as drivers of unethical and/or illegal activities in organizations.

Are today's examples different than others of the past? Do they suggest a different approach to organizational reform? If so, what might that approach be?

One distinguishing characteristic of the recent disclosures is that they have all involved for-profit entities, and for the most part, activities in which only for-profit, public entities are directly or indirectly involved (Enron: private gain through undisclosed SPEs and swapping revenue; Anderson: possible private gain through ignoring accounting standards; Worldcom and Xerox: treating expenses as capital costs to accelerate earnings; ImClone: possible insider trading abuses).

All of these involve fraud of one kind or another, but what is more striking is that all of them involve *time* as the central constant. Consider one type of time-related fraud:

- Enron's revenue swaps accelerated earnings into current periods, allowing bonuses to reflect future earnings today.
- Worldcom and Xerox's characterization of expenses as capitalizable costs likewise accelerated earnings to current periods by deferring current expense to future periods.

A second type of time-related fraud that is related to disclosure is found again in Enron and also in ImClone:

- Enron's SPEs created profit for certain officers of the company – but it would be rare that over some period of time, probably measured in months but almost certainly not likely to be over one or two years, these hoaxes would not be discovered.
- ImClone CEO Samuel Waksal supposedly helped others with his inside knowledge – somewhat less likely to be discovered than SPEs, but probably a better than 50/50 chance of being discovered within a couple of years.

What does this suggest for reform in corporate governance? Several simple suggestions present themselves:

- Hold all special corporate gains in the form of bonuses and stock option exercises (not just the latter) hostage to an "audit period" of at least one to two years.
- Subject such bonuses to offsets for any insider trading or other malfeasance found in that audit period.

The idea here is that we have mistakenly coupled the rewards to executives, in terms of timing, to the speed of reported results. We need instead to couple rewards for potentially extraordinary achievement to *verified* results, and the latter can only be verified after a disclosure period.

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