



Technology Infrastructure Solutions, Inc.™

Deployment Achieved with Breakthrough Speed

www.DeployTIS.com

Insight

To Restore Trust, Start At The Top

by Raul Pupo

Investor confidence in American financial markets has been shaken profoundly in recent months. Unfortunately, those who seek the monster responsible—in a post-bubble economy, budget deficits, a weak dollar, an impotent Federal Reserve or even in terrorist cells—are looking in the wrong places.

More likely, investor confidence has been lost as our institutions of business have continued to hail profits over ethical leadership, integrity and trust. This will continue to be a problem as the pressure of the bottom line renders other priorities to secondary status.

I am embarrassed by the moral waywardness, no, cowardice of so many executives in business today. These greedy executives unfortunately have given all of us in business a bad name. The wrath of the public has been stirred and, in turn, that of policy-makers who are well on their way to injecting their political and philosophical beliefs and biases into the conduct of business. The consequence of the dishonesty of these bad apples, of course, will be more laws, rules, and regulations for all of us to contend with. I am not optimistic that even the most draconian measures will suddenly clear the ethical confusion plaguing company managements. More and more complex dilemmas born of increased global competitiveness, new technologies, and new markets will continue to emerge that cannot now be anticipated by the most prescient of rule-making bodies.

I would much rather implement voluntary actions given the institutional and legal framework we presently have in place. Here are but a few examples:

1. Hire independent directors.

Directorships are important and coveted positions that must be filled by leaders with the requisite time, technical background, experience and integrity to assist a company's executive management in running a successful business. Independent directors, that is, directors without executive responsibilities in the companies they represent, are less apt to rubber-stamp management proposals that require board approval than are insiders, or friends and family of the boss. Remember, a director's first allegiance is to the company's stockholders. In addition, the CEO benefits from the added scrutiny and challenge that an independent director can provide.

This lesson was clearly lost on John Rigas, chairman and CEO of Adelphia Communications, who was not satisfied simply having effective voting control of his company's stock and who then felt the need to stuff the



Technology Infrastructure Solutions, Inc.™

Deployment Achieved with Breakthrough Speed

www.DeployTIS.com

**To Restore Trust,
Start at the Top** *(continued)*

board with his three sons and son-in-law. In sum, with the possible exceptions of executive managers such as the CEO, CFO and chief general counsel all other directorships should go to outsiders.

2. Mandate term limits for all outside directors.

Directors who serve on the same board for many years can become beholden to the companies they serve for reasons of prestige, reward or loyalty to a corporate chieftain. This, I'm afraid, can challenge a director's objectivity.

For example, directors were clearly compromised at Tyco International, where they proved incapable of preventing Dennis Kozlowski, chairman and CEO, from using company money for purely personal reasons and to arbitrarily and lavishly compensate his chums on the board.

At Vivendi Universal, Jean-Marie Messier was ousted as the board lost confidence in Mr. Messier's ability to restore the company's once-high-flying stock price. Yet, this same board approved the purchase of a Manhattan apartment for \$17.5 million for Mr. Messier's use during his stays in New York!

Again, as CEO I want the benefit of expert, independent, and honest counsel. As a result, I would limit the number of years a director could serve on my board to five.

3. Rotate financial audit partners.

A cozy relationship sometimes can develop between public accountants and client-company executives. This may or may not blur the judgment of those responsible for the audit engagement, but as a CEO, I'm seeking to fortify existing checks and balances and institute new ones.

It is conceivable that Arthur Andersen partner David Duncan took it upon himself to destroy documents related to Enron's audits as a way to "protect" his client, a client he had served for seven years. Obviously, Mr. Duncan's loyalty to his client was manifestly perverse.

By rotating the audit engagement partner and key direct reports, say every two or three years, it would improve the odds that fresh questions will be asked, old assumptions challenged and new tests designed and conducted.

4. Steer clear of influencing a stock analyst's recommendation with investment banking business.

It has been said that full-service Wall Street firms have multiple if, at times, conflicting objectives. Unfortunately, the safeguards proffered by the metaphorical "firewall" between investment banking and research are paper-thin. A prohibition on trading of securities of covered companies by analysts and pay programs that have no bearing on the amount of business brought in by the investment bankers are steps in the right direction, but the problem is much deeper.

Wall Street has to do its part, of course, by instituting new processes that will generate truly independent, hard-hitting and original research. Furthermore, firms must warrant that there has been an adherence to a set of due-diligence standards at the time that an analyst's recommendation is made public.



Technology Infrastructure Solutions, Inc.™

Deployment Achieved with Breakthrough Speed

www.DeployTIS.com

**To Restore Trust,
Start at the Top** *(continued)*

Jack Grubman at Salomon Smith-Barney and Henry Blodget at Merrill Lynch, with utter disregard for the investment public, and possibly for securities law, never were able to publish anything but the most unrealistically rosy outlooks on covered companies—Worldcom and Infospace—companies that also happened to be important banking clients. Worldcom, of course, is bankrupt, and Infospace is on the brink.

Mr. Grubman also was at the center of a controversy when he raised his rating on AT&T stock ahead of that company's \$10.6 billion issuance of stock at its wireless phone business. That piece of underwriting business was worth \$45 million to Salomon Smith-Barney. Having pocketed those fees, Mr. Grubman proceeded to downgrade the stock again!

The recent acts of fraud and abuse perpetrated by company executives are the result of individuals operating in an ethical vacuum. Vigorous prosecution and new policing actions will provide some relief, but they are poor substitutes for CEOs who can produce profits without compromising integrity and trust.

Raul Pupo can be reached by telephone in the US: 561-998-9847 or by email: raulpupo@deploytis.com

From *The Palm Beach Post*. September 1, 2002
Copyright © 2002 The Palm Beach Post