

Why Modern Business Is Bad for Your Mental Health

11:08 AM Tuesday February 23, 2010

by Roger Martin

The secret **backdating of stock option grants** is not just corporate hanky-panky, it is criminally fraudulent. **Yet starting in 2006, well over 100 US public companies were investigated for engaging in the practice.** And over 50 of them hailed from within the boundaries of the Silicon Valley business community. Some executives went to jail, many more were fined, and some were barred from serving as officers of public companies.

How can this happen? In some sense, it is unbelievable — a wide swath of industry consciously engaging in criminally fraudulent behavior. It is as unbelievable as a nationwide mortgage industry gleefully offering **'NINJA' (i.e. no-income, no-job, no-assets) mortgages**, then repackaging them in elegant slices and selling them to hopelessly naïve investors, almost bringing down the entire American economy. Where were the ethics and the values?

Bruce Springsteen explained the phenomenon once in his 1973 classic **"It's Hard to be a Saint in the City"**:

"The devil appeared like Jesus through the steam in the street
Showin' me a hand I knew even the cops couldn't beat"

My point here is that the criminal behavior around both stock option backdating and NINJA mortgages can be understood once you understand the nature of the

communities in which executives live; like the devil in Springsteen's city, these communities show their members hands that the cops find hard to beat.

It made sense to give compensation that doesn't show up on the books as compensation — an in-the-money option that is booked as a market price **option** — because it helps you win 'the war for talent' and maximize your shareholder value. You want to be a valued member of the Silicon Valley corporate community and that is what it takes in that community. And it is particularly important because the whole world thinks Silicon Valley is the paragon of business innovation. After the **Enron fraud** helped Congress gain the spine to take on Silicon Valley on the options expensing issue, Silicon Valley had the audacity to send emissaries to Congress to argue that even though it made accounting sense to **expense options**, it would destroy Silicon Valley and since it is the most important part of the American business community, **Congress should continue to allow options to appear 'free'**.

Similarly, it made sense for Wall Street investment bankers to slice, dice and repackage NINJA mortgages and foist them on investors who didn't understand what they were buying even as they were cleaning out their own portfolios of such trash — because that was what you did to succeed in the Wall Street community — and being a valued member of it was important because until late 2008, it was flying as high as high can be.

We simply have to acknowledge that the community created by a combination of shareholder value maximization dogma, executive compensation theories, Wall Street analysts and bankers, and the financial press creates an unhealthy and inauthentic community.

Think about it. A healthy community:

- Believes in reciprocity rather than exploitation.
- Believes in long-term relationships rather than one-off encounters.
- Protects its weakest members rather than targeting them for gouging.
- Worries about the externalities it creates rather than turning a blind eye to them.
- Discourages its members from playing games that endanger the community rather than encouraging them.

Of course the vast majority of US public company executives eschew actual illegalities most of the time. That said, unless we change the fundamental quality of that community, we will continue to have periodic outbreaks of criminal behavior. Think about it. Within the course of a single decade, we had the Enron/Worldcom/Tyco/Global Crossing/Adelphia accounting scandal, the options backdating scandal, and the sub-prime mortgage scandal. This is not an accident. This is the direct result of the rules of the unhealthy community we have created.

But as big a problem as this is — and as we continue to totter through the aftermath of the latest of the unholy trinity of scandals, it sure feels big — the bigger problem may be the effects of **the inauthenticity of the community** on business people as individuals. I

would argue that the vast majority of US public company executives grow up in reasonably healthy communities — their extended family, their neighbors, their churches, their sports teams or music bands, their schools.

On the one hand, these healthy communities act as a prophylactic against the executive falling prey to the unhealthy corporate community into which they eventually graduate. But on the other hand, the executive experiences a profound schism between the healthy communities that shaped childhood and the unhealthy community he enters. The pressures on businesspeople to operate in ways that do not conform to the rules of a healthy and authentic community have the effect of rotting out the moral core of the modern business executive. He is encouraged to live a lie — believing one thing but living another; believing that long-term customer relationships matter but operating as if next quarter's EPS is the only thing that really does.

In 1978, [Vaclav Havel](#) wrote a wonderful essay called *The Power of the Powerless* in which he posited the reason that the Soviet Union was able to maintain control of its subjects at home and in the Warsaw Pact countries — including those in his Czech home, though not including [Lech Walesa and his comrades in the Gdansk shipyards](#) in Poland to whom the essay was addressed. The Soviet Union was able to maintain control by forcing its subjects to live a lie — which Havel illustrated by the story of the shopkeeper forced to keep a sign emblazoned with "Workers of the World Unite" in his shop window. Since the shopkeeper knew that the Soviet Union had long ceased to be about workers of the world uniting but rather the subjugation of its people by a ruling elite, he was living a lie by putting the sign in his window. For Havel, Walesa was refusing to live a lie by organizing a labor strike against the workers' paradise. Havel predicted that the act of refusing to live a lie would bring down the Soviet Union — and history suggests he was right.

By encouraging executives to live a lie and pay daily homage to an inauthentic and unhealthy community, we are sapping the moral authority and strength of the business community. And we are causing many young people to think that they want to avoid it like the plague because they want to be authentic. For that reason, it is imperative that we improve the health and authenticity of our business community. My next post will focus 100% on what I see as prescriptions for this situation. In the mean time, I'd like to hear your ideas.

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