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BLOG: THE CONVERSATION

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What We All Lost When Business Lost Respect

by Roger Martin

I want to explore the growing malaise around business, in particular in widely-held, publicly traded corporations. I believe we have migrated — quite by accident — to a set of conditions such that in order to operate their corporations, senior executives are pressured toward a form of existence that is substantially inauthentic. And in the course of leading inauthentic business lives, they lose their moral compasses and play games that make them feel ever more inauthentic. This will take several posts, so bear with me while I lay out the first tranche of the argument.

At our core, we are all social creatures. Community matters to us. This is why even when humans engage in profoundly anti-social activities; we do it in tightly knit social groups whether they happen to be called Crips, Yakuza or Al Qaeda. This is because as social creatures, much of our happiness is derived from our relationship with community — however that community is defined. We long to be: a) a valued member of a community; b) that we value; and c) is valued by people outside the community in question.

Drew Brees is happy because he is a highly valued member of the New Orleans Saints, which he sees as the best team in the National Football League and all sorts of people outside the New Orleans Saints think is a fantastic football team — and they are right: the Saints just won the Super Bowl and Brees was the MVP. It all works — though for professional athletes, happiness tends to crash precipitously upon retirement because the happiness equation falls apart entirely.

Unlike star athletes, Crips, Yakuza and Al Qaeda members are only medium-happy because they only have two items of the happiness trinity working for them. While they are valued members of a community that they value, most people outside their community think they should be hunted down and jailed or executed. (Of course, Crips' happiness increases when prominent rap stars openly advertise their Crips affiliation, thus glorifying and legitimizing their gang to the outside community.)

Business executives want to be happy too. In the simpler and kinder business era of the 1950s and 1960s, that was more straightforward. The communities of which the business executive was part tended to be mutually reinforcing and authentic.

Imagine an executive of Boeing in those decades. He would feel a valuable member of the Boeing senior management team, and since Boeing was a highly successful corporation that had materially helped the Allies win World War II, he would feel pride at being part of that team and would bask in the glory of people outside feeling that Boeing was a great American company — a technology leader and one of the country's biggest exporters. He would likely also be a pillar of the Seattle community as a successful Boeing executive. And even though William Boeing, the beloved founder, had sold his stake in Boeing in 1934, he would likely feel a sense of community with the longstanding shareholders of Boeing. When he went to work, he could feel pride in doing a great job for his team, his city, his customers and his shareholders — all communities of which he could feel genuinely a part.

Now let's fast forward to the 21st century. Since the early 1980s, the mantra has become that the purpose of the corporation is to maximize shareholder value. Shareholding has become a short-term and opaque thing. Program traders shift positions daily based on tiny price variations and most share certificates are held in 'street form' — i.e., not registered to an individual because they are owned by a fiduciary institution like a mutual or pension fund that stands between the corporation and the shareholder.

In 2001, in the interests of maximizing value for these ultimately detached owners, Philip Condit, then CEO of Boeing put its corporate headquarters location up for the highest bidding city and Chicago paid the biggest municipal bribe to move Boeing from its Pacific Northwest home. It was short-term shareholders who kept pressuring Boeing for higher and higher earnings increases, and in its efforts to satisfy them, Boeing engaged in procurement corruption and industrial espionage which resulted in huge fines, jail terms, the forced resignation of Condit, and, in due course, of his successor too.

Undoubtedly there is no one reason for anything like the fall of Boeing. But a big piece of the puzzle was certainly the replacement of a community of long-term shareholders with short-term, opaque shareholders and the replacement of a sense of the purpose of the company as being to produce great products and great jobs with producing shareholder value. As a result, Seattle jobs could be destroyed to create shareholder-value-friendly Chicago jobs. Rules could be bent — or outright broken — to increase earnings for a dominant community of faceless, nameless, transitory shareholders. And if senior executives didn't produce share price growth for these shareholders, they would be held to ridicule in the financial press.

So the dominant management community at Boeing came to be dedicated to satisfying a bunch of insatiable shareholders, who could dump their stock at a moment's notice with no explanation. That just isn't anything close to a healthy community. But as with Crips, Yakuza and Al Qaeda, everyone wants to be part of a community, however unhealthy. So corporate executives drink the Kool Aid of shareholder value and attempt to be valued members of a community that they value and is valued by the outside community of stock price aficionados by dedicating themselves to the community of shareholder value maximizers — itself a wholly inauthentic community.

More to come...

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