

RANDE SOMMA

LEADERSH!T



A LOOK AT BROKEN SYSTEMS IN CORPORATE AMERICA THAT
ALLOW LEADERS TO BE REALLY GOOD AT BEING BAD



Although it is easy to see that many leaders have lost integrity, I would argue that it is much, much more than that. They have lost their dignity; they have lost our respect; and worst of all, they have lost our trust.

Should we just add more and more lawyers to concoct more and more clauses in more and more contracts in a futile attempt to head off more and more deviations from ethical behavior? Should we take more fights to the courts, so we can end up on more and more court dockets, and pass more and more expensive legislation to try to control it all, forcing businesses to pay the high price of this legal load? Or, it is all really just putting lipstick on a pig.

And, we are the pig.

In the end, the business reality is that the only real consequences for unethical or irresponsible leadershit behavior might be the self-inflicted hit that one would take to his or her sense of honor and integrity – the very virtues that obviously don't mean a rat's ass to many of those we select and accept as our leaders...

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LEADERSH!T

*A Look at the Broken Leadership System in Corporate
America That Accepts Leaders Who are Really Good at
Being Bad*

BY RANDE SOMMA

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CHAPTER 10

THE VALUE OF INTEGRITY

THE ENORMOUS ROI OF CHARACTER

*“I was born just five blocks from Forbes Field in Oakland to two high school dropouts, a waiter and a waitress at the Pittsburgh Athletic Club. I was raised in the South Hills and pretty much just an average student. So, I am here to tell you that you can achieve things beyond your imagination **without** surrendering your honor and integrity. I am here to tell you this... and I’m not guessing!” – Rande Somma*

Begin First with Integrity

The scholarships sponsored by me and my wife, Georgia, are called “Integrity First.” We offer four of these each year to deserving students at Robert Morris University Business School in Pittsburgh, Pennsylvania. Each year we review many essay submissions on a chosen topic that involves case studies where people are put in the difficult situation of choosing between honesty and integrity or the easy way out. We look for how students navigate these challenging situations. It is our belief that before anyone decides how they will accomplish something or process any decisions that they make, they have to make sure they have the guide rails of honor and integrity in place to keep them on the right course.

It may seem like a quiet, inconsequential and intangible aspect of your life and your career. You might believe it won’t play a big role in your success, but I am here to tell you that this is the **only** aspect of your career that will mean anything in the end, its power unmatched by anything you can measure on a spreadsheet or in a bank account.

There's no app that you can download to your smart phone or your iPad that will define success for you. It's something you do through a collection of decisions and dealing with the many inevitable moments in your journey when you will be challenged to stay the course, or abort your integrity . . . in other words, to sell out.

The Corporate Value of Ethics

Ethics has a connotation of compliance or consequences, like it's a speed limit of sorts. There is no reward for compliance, but there are penalties for non-conformance. The reality is that if you are true to your core values and work with integrity, it *adds value to the business*. You can be honest and make more money.

Does it take a whole different kind of philosophy on how to run a business? Yes. Does it take a whole different type of person to lead? Yes, it sure does. Everything is different when you do it morally, because you engage business with an ethical mindset, a different belief system. The way you engage your management, your workers, your customers, your vendors, your board of directors, your problems, your challenges, your successes is all different. This kind of leader sees themselves differently than the type of leader that is focused on a "win-at-any-cost" strategy, and because of that, people experience them differently.

Leaders that value results in numbers or metrics over everything, make everything expendable in order to achieve those results. People working under that value system feel secondary and disposable in the name of winning. Fear drives their behavior and their performance under that type of leadership. More importantly, it is unclear whether methods that are being implemented are held to a standard that match the corporate values. Boundaries are unclear. The company's future is unclear. Their personal future is unclear. This is a breeding ground for speculation and insecurity. Instead of feeling open and able to share, employees feel disassociated with their work in these conditions because they don't know if what they do

matters. What is clear is they have no reason to trust their leaders who do not hold themselves to the same rules or standards.

An ethical and inclusive culture has components of transparency and integrity embodied in the leadership that is apparent to employees. They can relax when they know they can trust their leaders. They see what is going on; they are informed, they communicate, and they know they are part of the big picture of the company's efforts. They matter, and when they matter, they care. And when they care, they invest more effort, which in turn generates better results. This is the equation of the value of integrity.

Why is this compelling intellectually but limited in its implementation? Because it completely flies in the face of today's broken system. By following – I mean *really* following – the core values of the company with integrity, finding business solutions without simply chopping away at company assets will produce extraordinary results far beyond what can typically be achieved.

Erosion of the Rock Layer called Ethics

To me it seems there used to be a time in business when right and wrong were pretty clear. Now, because the standards seem to have fallen so low, and because the path of least resistance has been made so attractive and acceptable, simply choosing to do business in a more ethical way has become more difficult than it needs to be.

This inversion of values is confusing and puts good men and women outside the scope of consideration for leadership positions. We live in a time where acceptable business practices can include violation of rules, violation of ethics, and worst of all, selfish greed that is handsomely rewarded by the system. Short of violating the law, business conduct and transactions have become something of the Wild West. As long as a leader doesn't do anything "illegal" – or I should say as long as a leader doesn't get caught – their behavior is deemed acceptable as "*it's just business.*" The worst part of

this is that it has really given Capitalism a bad rap. No, greed is not good. Not one damn bit.

Pee in This Cup

Leadership quality should first be measured by a person's character. When investors purchase stock it is always recommended that they research the company, but investing also requires us to make assumptions that the reported earnings and revenue figures are honest and accurate, and that the leaders of that company are competent and honest. How is the average American stock purchaser supposed to know whether any of that is true? Enron, WorldCom and Tyco gave us all reasons to stop and consider that we are quite vulnerable when we do not know the truth.

I gave a talk right around the time when controversy over steroid use by baseball players was hot and heavy and there was discussion about going to Congress with it. It was also around the time of those three big companies caught in corporate financial fraud. I postulated, "Look, if the authenticity of home runs is so important that we make baseball players pee in a cup randomly, then when CEOs do their quarterly calls to Wall Street on their earnings, why are they not hooked up to polygraph machines?"

And everybody laughed. And I said, "Why are you laughing? Are the consequences of those home runs being enhanced somehow more important than the consequences of CEOs misrepresenting their business performance and then their bubble bursting? I submit Enron. I submit Tyco. I submit WorldCom. You probably haven't talked to any of those people who lost everything as a result of the corrupt and irresponsible behavior of those leaders."

Those three companies are certainly not the only ones that have swindled shareholders. In 1986, Emanuel Pinez, CEO of Centennial Technologies reported \$2 million in revenue from PC memory cards, when it was really *shipping fruit baskets!* They manufactured fake documents to show sales,

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and Centennial's stock rose a staggering 451% on the New York Stock Exchange. They overstated earnings by \$40 million, and once the fraud was discovered by the SEC, the stock plunged to less than \$3. Over 20,000 people lost almost all their investment in a company who shipped fruit. From the very beginning, the company was designed to defraud investors, and Wall Street made it a darling.

And the list goes on and on: Barry Minkow, owner/founder of ZZZ Best Inc.; Bre-X Minerals of Canada, Richard Scrushy, CEO of HealthSouth; and who can forget Bernie Madoff, chairman and founder of the NASDAQ and founder of Bernard L. Madoff Investment Securities?

Leaders have been given something of a pass. They are in a position where they stand to personally make or lose a lot of money in stock options and bonus pay by steering their business toward a certain win...and they are not being scrutinized and held accountable enough for the numbers that they are submitting. They hold the fate of thousands of people in the palm of their hands. With that kind of power and responsibility, shouldn't we be more concerned? Shouldn't we demand more scrutiny?

There are some people that see a title, and by its very presence believe it decorates a really good person. Priests, doctors and other community and industry leaders hold a somewhat elevated profile with some folks who believe they must "know more" or are wiser or smarter than the average person. Their titles alone can elicit feelings of trust.

There are also a growing number of people who believe that anyone with a title cannot be trusted at all, that they are all frauds. Unfortunately, mistrust of all leaders seems all too common when you talk with people these days. And even more unfortunately, they have good reason for their mistrust.

Now what?

Is it apathy? Is it surrender? Is it the inability to envision the consequences of where this takes us all? I don't want to change the world entirely. I do want to wake people up. It seems that we are very off track with leadership and gathering traction and steam. I wish that we had corporate America's version of the ghost of Christmas future. It might help us all to see where our diminished value system is taking us.

Baseball is just a game. Compare the consequences of cheating at that game to the consequences of falsified or manufactured numbers reported by a CEO. Outcomes for Enron and others destroyed the lives of human beings. They lost everything; their jobs, their income, their marriages, their credit, their livelihoods, their retirement savings, their homes. There are also the intangible losses generated from stress and anxiety that cannot be quantified like peace of mind, self-esteem, family harmony, security, and a good night's sleep.

The cheating, lying, and stealing with cooked books of publicly traded companies literally impact the future of thousands, perhaps hundreds of thousands, of people and families. Isn't that worth checking to make sure that those numbers are authentic? Isn't that every bit as important as peeing in a cup to make sure a home run is real?

Even if numbers are not falsified, isn't it just as concerning if they are a reflection of the proficiency of the accountants, rather than the proficiency of the business? Shouldn't we verify that good results in the numbers were a direct function of healthy, robust methods and practices, rather than shortcuts and the path of least resistance?

Authentic leadership is becoming a lost skill because it is not needed or valued any more. In some cases it is not wanted any more. Are boards holding leaders accountable? In the context of the day-to-day operations, they don't even know what is going on 90% of the time. They meet a couple times a year, check off their boxes and are satisfied with the spreadsheets. Done. Let's do lunch. They don't ask how results were achieved. Leaders are

not always being asked by their boards to create a sustainable process or culture. They are being asked to hit numbers consistently.

We have had so many disappointments from this type of short-sighted leadership. Interventions with regulation have had temporary success, but they are reactions more than preventions. Think of it this way: one guy got on a plane with a bomb in his shoe, and now everyone has to take their shoes off for airport security. While TSA is busy examining all the shoes, terrorists are simply coming up with new ways to circumvent them. It is the same with corporate leaders. There are regulations designed to thwart fraudulent activity, but where there is a will (and millions of dollars to be made) there is a way. What is really preventing us from getting “Enronned” again? Perhaps we already are getting Enronned and don’t know it yet.

Make Character Part of the Process

I was having coffee with a long-time acquaintance who is an executive for an international executive search firm. He does a lot of CEO searches. I asked, “You do a lot of interviewing for CEO positions. Do you have a section in your interview where you at least make an attempt through some methodology to vet the candidate for the depth of their character?”

I was asking him if his firm investigates how deeply rooted the character and belief systems of the leadership candidates are to determine if they can withstand the temptations of the position. In other words, would they walk away from the money, power and celebrity rather than conform to an unethical, immoral or corrupt culture?

I said, “I understand that is much more of an intangible than a GPA or an IQ score, or the number of jobs they had as a VP, president or CEO, but don’t you think you should at least try to get an idea of the type of person they are?”

He looked at me and said, “I totally agree with you, and a way to fully measure those intangible traits just doesn’t exist. It isn’t asked or even talked about.” He did add that there seems to be an emerging interest in trying to get at those answers and that some search companies are investing more in assessment tools and methodologies that would evaluate a candidate’s character.

It is my opinion that in the corporate leadership system, the “bad guys” and “wrong guys” now outnumber the “good guys” and “right guys,” and they are getting much smarter about deception. The system has made it easier for them too, as high standards, oversight and assuring compliance have shifted to an agenda of tolerance and even acceptance or just straight-up disregard of bad behavior.

While there are structured interview questions that test a candidate’s principles, unfortunately, there isn’t a fully comprehensive and full proof test that you can give people to determine whether they are going to do the right thing in any given situation. Even if there was such a test and you could find honest leaders with integrity, you would have to keep giving them the test as a guard against a system so skewed that over time, even the most honest and forthright leaders can be tempted to sell out. I know. I’ve seen it.

And considering that this is a systemic issue, what good are character screening tests if they are meaningless to those doing the hiring? If leadership cultures already administer morale surveys that they have no intention of using; if they put out suggestion boxes for suggestions that they have no intention of reading, why would we expect them to hold potential leadership applicants to a character test? You have to wonder if you can fix the leadership problem this way without first eradicating existing leadership and/or boards and starting with a clean slate.

It is not easy to tell who might be seduced to leadership. When a leader has had many solid wins and they win all the time (because they rob the

company's long term success for short term gains and leave before the shit hits the fan – I'm looking at you, Welch), people come to expect them to always win. But it doesn't work that way in real life. In real life there are ups and downs; wins and losses; victories and defeats. We all experience setbacks. It's called life.

In order to overcome a setback, some leaders are willing to bend the rules and get to the right numbers the wrong way. But you cannot tell who is doing that because they all say the right thing. The terrorist getting on the airplane doesn't strap the dynamite to their forehead either.

The Checks and Imbalances

When you look into things that are supposed to be preventive, like oversight by boards of directors and whistleblowers, those don't always necessarily work either. Nobody wants to suffer the consequences of standing up against the status quo, even if the status quo is corrupt. The stakes are too high.

I spoke to an acquaintance familiar with the SEC. We were discussing SEC regulations that are in place to check publicly traded company numbers. Accounting firms generally do the best they can, however, if a corporation is intent on deceiving their accounting firm, they can sometimes get away with it by burying things in the numbers.

So the SEC is the next line of defense against this sort of corruption. The SEC can do one of two things: check the quality of the numbers before fraud is discovered – which is a detection or preventive component in the accounting – or they have the forensic accounting – which is called the autopsy – that happens after a company is caught with bad accounting. So they either check that it is pure as it is going on, or it blows up and they go in to do the full autopsy to find out why.

What I learned from my acquaintance that was familiar with the SEC processes is that so many resources are sucked up by forensic autopsy accounting that they don't have anyone left to do the prevention/detection. In other words, a lot of people are being deceptive and trying to get away with it. Prevention is being left behind as the SEC devotes time and personnel to reacting to the damage of the leaderships.

It is not difficult to produce clean numbers once you have a system in place. Lying complicates everything. When I was running Johnson Controls North America, I knew that we were running clean financial numbers. While other companies needed weeks to organize and justify expenses and revenue, we were so clean that we were closing our books within only a few days after the end of each month. North America alone was an \$8 billion revenue stream. An added bonus to running clean numbers is that we didn't have to keep track of any bullshit. I'm here to tell you that the truth works just fine. The truth has teeth. It is sustainable. And it is easier than lying.

And eliminating bullshit eliminates the desire for corporate leaders to fudge numbers.

Helping Others Careen Down the Mountain

I watch the winter Olympics, and even though I don't ski, I am fascinated by the slalom skiers. They would run the course and once they arrived at the bottom, the skier who just finished would get on a radio with a teammate who was at the top of the course waiting their turn to come down. The skier at the bottom of the course would tell the teammate at the top to watch out for soft snow on certain turns, watch their speed at certain places on the course, and watch for bumps and other hazards. They had made the journey, they knew where the pitfalls were, and they were passing that information along to their teammate in the hopes that they would be able to better navigate the course and avoid the same difficulties.

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I left Johnson Controls in 2003. I thankfully was offered opportunities to join other leadership teams. I received calls from former customers, partners and analysts. Other companies invited me to be part of their leadership team. Despite all of these wonderful invitations to come on board with other big corporations, my separation from JCI was difficult and I was not ready to dive back into corporate America.

I thought that maybe my purpose is better served if I double back down the path that I followed for 30+ years and talk to those who are getting ready to set off on their career journeys. I wanted to give students and young leaders some idea of what they may encounter as they grow in their professional world.

After three companies, six cities, being chairman of a corporate board, a vice chair of a corporate board, and a member of three other boards, for-profit, non-profit, really big ones, and not so big ones, I haven't seen everything, but I have seen about as much of business as any one person can pack into a lifetime.

In talking to the students at universities, I encourage them to truly try to understand the bridge from the academic *knowledge* to the on-the-ground *application* of knowledge in the job. There are subtle but compelling dynamics that everyone experiences as they make that transition in the beginning of a career.

A student's readiness and ability to orient and integrate with a company is a big challenge. My ambition in working with the universities has been to prepare students for the reality of the workplace by showing them how to apply their learned skills and giving them a glimpse of the world that they are about to enter.

Perhaps there isn't a lot of information that I can convey with respect to leadership and business that students haven't heard in some context before. What I think I can help clarify is what bits of information are

theories, which are myths, and which need their close attention. Here is what really matters:

Integrity matters. Pay close attention to integrity.

Integrity is a characteristic that will buoy a person's reputation and deliver them through the most difficult of professional situations. People only want to work with people they know they can trust. If professionals lose that trust, they lose their reputation, and they lose the ability to convince people that they are trustworthy. And if they lose that, they may eventually lose everything.

The Parable of the Seed - Plant Today, Reap Tomorrow

A successful business man was growing old and knew it was time to choose a successor to take over the business. Instead of choosing one of his directors or his children, he decided to do something different.

He called all his young executives in his company together and said, "It is time for me to step down and choose the next CEO. I have decided to choose one of you." The young executives were shocked. Their leader continued. "I am going to give each one of you a seed today - one very special seed. I want you to plant the seed, water it, and come back here one year from today with what you have grown from the seed I have given you. I will judge the plants that you bring back, and the one I choose will be the next CEO."

One man named Jim was there that day and he, like the others, received a seed. He went home and excitedly told his wife the story. She helped him get a pot, soil and compost and he planted the seed. Every day, he would water his seed and watch to see if it had grown.

After about three weeks, some of the other executives began to talk about their seeds and the plants that were beginning to grow. Jim kept checking his seed, but nothing ever grew. Three weeks, four weeks, five weeks went

by, still nothing. By now, all the others were talking about their plants, but Jim didn't have a plant and he felt like a failure.

Six months went by -- still nothing in Jim's pot. He just knew he had killed his seed. Everyone else had trees and tall plants, but he had nothing. Jim didn't say anything to his colleagues, however, he just kept watering and fertilizing the soil - he so wanted the seed to grow.

A year finally went by and all the young executives of the company brought their plants to the CEO for inspection. Jim told his wife that he wasn't going to take an empty pot. But she asked him to be honest about what happened. Jim felt sick to his stomach, it was going to be the most embarrassing moment of his life, but he knew his wife was right, so he took his empty pot to the board room.

When Jim arrived, he was amazed at the variety of plants grown by the other executives. They were beautiful, and in all shapes and sizes. Jim put his empty pot on the floor and many of his colleagues laughed, a few felt sorry for him! When the CEO arrived, he surveyed the room and greeted his young executives. Jim just tried to hide in the back.

"My, what great plants, trees and flowers you have grown," said the CEO. "Today one of you will be appointed the next CEO!" All of a sudden, the CEO spotted Jim at the back of the room with his empty pot. He ordered the Financial Director to bring him to the front. Jim was terrified. He thought, "The CEO knows I'm a failure. Maybe he will have me fired!"

When Jim got to the front, the CEO asked him what had happened to his seed - Jim told him the story. The CEO asked everyone to sit down except Jim. He looked at Jim, and then announced to the young executives, "Behold your next Chief Executive Officer." Jim couldn't believe it. He couldn't even grow his seed. How could he be the new CEO?

Then the CEO said, "One year ago today, I gave everyone in this room a seed. I told you to take the seed, plant it, water it, and bring it back to me today. But I gave you all boiled seeds; they were dead - it was not possible for them to grow. All of you, except Jim, have brought me trees and plants and flowers. When you found that the seed would not grow, you substituted another seed for the one I gave you. Jim was the only one with the courage and honesty to bring me a pot with my seed in it. Therefore, he is the one who is qualified to be the new Chief Executive Officer."

Plant honesty and you will reap trust.

Integrity is Deeply Personal

I am not asking leaders to do something simple. All leaders are tested, and tempted A LOT. It is hard to consistently and confidently maintain integrity. Leaders who do, who achieve success the right way, will have something that is so deeply valuable that no amount of money can buy; that is a pride and unwavering confidence in *who you are as a leader and as a person*. You will have your self-respect, your dignity.....your authentic you.

Leaders leave a legacy and they don't get a do-over. In the end, when all is said and done, a leader's honor, integrity and reputation are all that really matters.

"People will forget what you said. People will forget what you did. But people will never forget how you made them feel." – Maya Angelou



Although it is easy to see that many leaders have lost integrity, I would argue that it is much, much more than that. They have lost their dignity; they have lost our respect; and worst of all, they have lost our trust.

Should we just add more and more lawyers to concoct more and more clauses in more and more contracts in a futile attempt to head off more and more deviations from ethical behavior? Should we take more fights to the courts, so we can end up on more and more court dockets, and pass more and more expensive legislation to try to control it all, forcing businesses to pay the high price of this legal load? Or, it is all really just putting lipstick on a pig.

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