



Exploring the 'Social Contract' we have with our Senior Leaders – (Boards, CEO's, Executives)

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It is one week in March 2002, and I am suddenly struck by the scanning of headlines of two daily issues of the business sections in Canada's two pro-business newspapers. It is a wake-up call to all who occupy positions of senior leadership and power. We are letting our communities down.

The trust between those of us in senior corporate, professional, or government leadership, and the communities in which we operate has clearly been shattered...

"What do you call yourself when you name is mud? (Enron)

"Rothmans Rakes in Fees" (termination fees in a failed take-over bid)

"Computer Associates being scrutinized by federal investigator"

"Northern Telecom CFO resigns amid insider-trading concerns"

"Michael Cowpland settles out of court for \$1MM" (over inappropriate stock-trading actions during decline of Corel)

"Rogers Communications reports a larger than expected Quarterly loss due to amortization expenses and higher debt-servicing costs" (At a

time of the lowest interests rates in decades.)

"Caisse tower purchase sparks concern over excessive concentration of Montreal's Class A space in the hand of just 2 giant players"

"The Association for Investment Management and Research calls for major changes in Accounting Practices – and an end to interference with bodies that set standards"

"RBC post record 1st Quarter results"

"Scotia bank client offices raided and five executives banned from leaving Argentina amid depositor complaints of being defrauded"

"Ex-CEO of Yahoo! ordered to stand trial in Paris for breaking French law" (offering Nazi memorabilia for sale through Yahoo's internet portal.)

"HP Company chiefs stand to gain huge pay packages in Merger" (\$69.8 million for Carly Fiorina, \$47.6 million for Michael Capellas)

"Full-time workers racking-up more absences each week to address family needs"

"TD Bank's head paid \$12.2 million in salary and stock bonuses"

"Ex-Enron CEO slams "witch-hunt" (complaining that lawsuits will wipe-out most of his \$66MM fortune amassed by selling shares before the company collapsed.)

"Canadian Manufacturing and Exporters Association suggests ratifying Kyoto agreement will cost up to 450,000 jobs"

"Consumer confidence slips again. Well below levels before September 11"

"Bank of Montreal chair assails offshore accounts" (13,000 accounts in 23 black-listed countries are held through Canadian investment dealers)

"Japanese plan likely to fall short" (Japanese PM's plan to revitalize their economy is rejected by economists)

"Ontario Teachers Pension Plan Board reports red ink in 2001"

"Softwood lumber fight goes to NAFTA as Ottawa challenges duties implemented by U.S."

I kid you not. These headlines came from only two days in one week. Juxtaposed, the message is inescapable. The integrity, judgment, accountability and trust of our society's directors of boards, CEO's & executives is being severely questioned.



And, the concern is widespread – touching multinational corporations, government bodies, professional associations, private investors, pension fund manager, charitable organizations, and more. It is directed at politicians, directors of board, CEO's and senior executives.



These headlines fall on the heels of the American President's recent 'axis of evil' comments; and some of the most incoherent policy comments yet, in the otherwise successful terms of office from our Prime Minister and Alberta's Premier. They also come not long after the dot-bomb experience of last year, the bankruptcy of yet another Canadian airline – with the near falter of several other large airlines around the world, and the Roman Catholic church sexual misconduct scandal.

The Community is Expecting More From Our Leaders

The growth in the past 50 years of a professional cadre of senior executives and board members has been unprecedented. At the same time, the demands and challenges of leading organizations and decision-making has become much more complex. However, as the community learns more about troubling results, the closing of factories in single industry communities, the layoffs, and the super-salaries of many of this cadre, the not-so fortunate members of society are asking questions.

The questions are good questions, ones for which the elite should have some lucid answers.



And yet many of us in this cadre are struggling for the answers ourselves. We have put in 60+ hour weeks for many years. We worked our way up the corporate ladder, achieved our executive positions and the various toys and comforts of office. We have found ourselves on corporate and community boards to lend our insight and give something back. Yet our lifestyle and personal energy output is starting to look unsustainable too.

The community is asking more questions and they expect our leaders to be answerable. The smart leaders will go one step further – they will be proactively accountable.

Does Give = Take?

While committed to the freedoms and privileges of democracy, plus the rewards for entrepreneurial risk that capitalism provides, we also must shoulder broader responsibility. We comment that our taxes seem to high, yet with all that tax money government is still having trouble paying off their debts and servicing the burgeoning needs of community.

Health, social services, education systems are all taxed (in a different sense), to the limits. Perhaps we are taking a little too much out of the systems.

Less than 7% of our population donates 73% of our community volunteer hours. While the number of charitable donors is growing slightly and the average gift (\$70 per donation, \$259 annually) has grown slightly over the last 3 years; very few of us donate even 1% of pre-tax earnings to charity (the average is 0.4%). **What is very disturbing is that the donor rate amongst Canadians with incomes over \$100,000, fell from 91% in 1997 to 86% in 2000, as did the average amount given.¹**

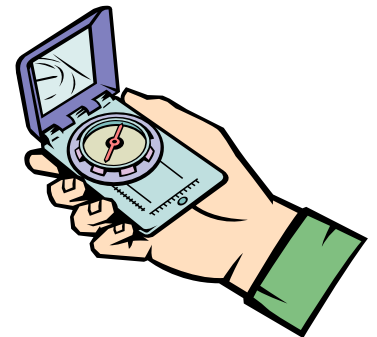
Few business even give close to the recommended 2% of pretax profits to charity. Who are the mysterious shareholders and board members demanding us to do more with less, to cut back on expenses such as environmental clean-up and/or strictly philanthropic contributions, to create mega

mergers in hopes of both market domination and increased effectiveness?

'They' is us – through our pension funds and investments, through our purchases of globally competitive products and services. It is really time to pause and reflect upon our expectation of 'annual returns', as well as what we give back to the community ourselves.

How is your Moral Compass?

This constant drive for profits and consumerism is not in itself bad (though many might question the Earth's carrying capacity to continue the



way we are). I am now more concerned, even occasionally outraged, by examples of our ethical standards being openly ignored, fractured and actively manipulated by our elite. So far into this 'game' have we been sucked, that may of the new generation of senior leaders have forgotten some of the basic rules.

So intense is the pressure to perform, that we can lose sight of our moral compass and make poor decisions.

The time has come for boards, CEO's, executives and political leaders to re-examine our ethical standards, and the social contracts we have with our communities as key components of our broader stewardship responsibilities.

Our ethical standards of course, must be defined. And they are defined by considering the balance between the 'rights' or privileges of individuals compared with the common good of the community.



BALANCE BETWEEN THE RIGHTS OF INDIVIDUALS ↔ COMMON GOOD OF THE COMMUNITY

Shareholder Return	↔	Community Return
Individual Wealth Creation	↔	Improved Conditions for our Poor and Disadvantaged
Company Debt	↔	Future Generation Debt
Continuous Product/Service Improvement	↔	Continuous Environmental Improvement
Company Loyalty	↔	Community Trust
Knowledge/Innovation Leverage	↔	Knowledge-Building of Youth, Workers, Less Fortunate Countries/Communities
Leverage of Natural Resources and Government Loan Guarantees	↔	Real and Sustained Pay-back to Community and Future Generations

In addition, just because accounting principles local laws and regulations or foreign laws and regulations don't actively forbid some practices, this doesn't mean the 'community' does or should allow these practices.

Our **'social contract'** is comprised of both the spoken and unspoken expectations of our community. Expectations – with respect to the decision-making, communication, and 'return' from companies, elected leaders, and board members given the privilege of working in our communities or occupying those positions of authority.

These social contracts include such expectations as:

- Appropriate stewardship of both enterprise and community
- Systems-thinking and network decision-making that considers impact/implications beyond the narrow focus of the enterprise
- Jobs (short-term), plus longer term improvement of skills, knowledge and capacities
- Replenishment of or off-setting sustained benefit in return for extracted natural resources
- Respect for local culture, spirituality and history
- Truthful communication, transparency, integrity of 'word'

I find it useful in this context to think how you would explain your actions to your grand children a few years from now!



Towards an 'Oath' of a Professional Leader

In the medical profession, doctors take the Hippocratic Oath, which among other things promises that they will **'do no harm'**. If the modern executive 'profession' were to create an oath for both existing and new entrants – what do you think it should include?

What would 'do no harm' mean for society's senior leaders?

As I have explored this topic, I am struck by some further questions for us to consider:

- What special expectations would we hold for professional bodies and industry association leaders?
- What important non-financial stewardship conversations should we be having at the executive or board table?

- Do we know what our core values are, and would the community see us as 'living' them effectively?
- Are we appropriately re-thinking our economic models and fiduciary responsibilities in the context of the evolving global-local communities?
- What new stewardship measures might we create and report upon to our communities? (consider 'Return to Community,' 'Improvement in Trust & Respect,' 'Enhancement to shared understanding and common good').

As recent events and headlines have indicated, gone are the days where our senior leadership cadre could operate invisibly. Indeed, in order to maintain the privilege to lead, and to earn large paycheques, we will here forward be expected to proactively identify and report on the social contracts we have with our communities. This is one more element that the new generation of leaders must have in their 'tool kit', in order to be successful.

Doug Macnamara is President, **Banff Executive Leadership Inc.** Recently he served for over 7 years as Vice-President, The Banff Centre; and General Manager, The Banff Centre for Management guiding an organization which ran approximately 150 programs and worked with over 4,000 executives and mid-level leaders in business, government, Aboriginal, and 'third sector' organizations each year. Today, Banff Executive Leadership Inc. provides public & customized programs, strategic facilitation and coaching services to senior executives and Boards across Canada and Internationally.

For more information see: www.banffexeclead.com

¹ Canadian Centre for Philanthropy and Volunteer Canada – 2000 National Survey on Giving, Volunteering and Participating