White Paper #9

Karma Rules

Why Integrity Matters More Than Ever

By Jude David Rake

The United States of America was founded on several core principles including liberty, freedom, and equality. These specific words are repeated often in the United States Constitution. While the word *integrity* is not used pervasively in that document, the two key ingredients of integrity, *honor* and *truth*, are. Integrity is a critical building block of what makes America exceptional. Without integrity, liberty, freedom, and equality disintegrate. The farther we get from 1776, the more American citizens take for granted what our founders fought so hard for us to have. It's not a given.

Many other cultures do not have these principles at the top of the priority list. My professional life has allowed me to experience some of these cultures firsthand, and that has helped me understand this critical difference and why America is so special. For example, in some cultures, harmony is valued over integrity. But valuing harmony over integrity can open the door to destructive forces such as passive-aggressive behavior, lying, cheating, and stealing.

Of course the lures of instant gratification and short-term success might also tempt these behaviors, but I grow more and more convinced of the truth of words I heard from my mother since early childhood: "What goes around, comes around." Over time I have seen good things come to those who behave with strong character and integrity. I've also witnessed the ultimate demise of people who cut corners to get ahead. For example, take a look at the leaders of Enron, or, more recently, at the 71st governor of Virginia. And although I can't speak with certainty about what happens to us beyond our time on earth, I increasingly have a strong belief that the way we handle ourselves and treat others matters longer term. As a leader, it also has an exponential effect on the organization you lead.

Leadership Principle #8

Operate transparently, deliver on your promises, and remain steadfastly focused on doing the right things. Karma eventually rules.

The Leader's Challenge

The further you climb up the leadership ladder, the more challenging decisions become because the lines dividing right and wrong become much less black and white. For example, when a vital customer asks you to share the system economics of your business relationship with them, what do you do? How do you answer piercing questions about a highly confidential topic from an employee at a town hall meeting? These are just a few of the ongoing tests of your commitment to transparency and integrity.

In his book *How Will You Measure Your Life?,* Clayton Christensen describes how marginal thinking can tempt us into compromising our principles. He uses the concept to explain how good people, even a Rhodes scholar such as Jeffrey Skilling, can end up in the slammer. The concept is similar to the business principle of marginal cost. People may choose to do the wrong thing because the marginal cost of doing something "just this one time" seems negligible. But the cost over time is multiplied. Christensen rightfully points out that there is a snowball effect to this kind of thinking because life is one unending stream of extenuating circumstances that tempt us to cross the line. Especially as you gain more influence. One of the most striking examples of this concept resulted in the tragic demise of the British merchant bank Barings in 1995. It was precipitated by one small questionable choice by a trader that led him deeper and deeper down a treacherous path. Each step of the trader's journey appeared to be a small compromise of principle, but over time it had a compounding effect that added up to the catastrophic collapse of a 233-year-old institution.

Integrity matters even more as we grow more socially connected. Increasingly, we live our life under video surveillance. Additionally, social media has opened up our worlds. Mark Zuckerburg has suggested that people of sound character should be less fearful of social media because they have less to hide. Following this line of thinking, people who exhibit bad behavior will be more exposed in a socially connected world, and that's a good thing. It's an interesting idea. Whether you agree with him or not, social sites such as Facebook, Twitter, Instagram, Snapchat, LinkedIn, Pinterest, etc. are clearly here to stay, and they are transforming the way we communicate.

Information travels at lightning speed, and consequently I do believe integrity matters more than ever.

In this increasingly connected world, leaders must assume that their most ironclad efforts to achieve confidentiality will fail. They must be prepared for the broad scale socialization of everything. You're either going to proactively and transparently manage and leverage the message, or it will eventually manage you, and you will be on your heels rather than your toes.

What Matters Most

My mother, whom I mentioned earlier, had a meager education. She never finished high school because her family needed her to enter the workforce early. She worked in the same factory for over 45 years, and she frequently worked supplemental jobs such as waitressing or selling Tupperware to make ends meet as a single mom. I admired her work ethic. I remember her saying that she was not smart enough to lie, because one lie would lead to more lies, and she was simply not smart enough to keep track of all the lies. This idea stuck with me. It's one pragmatic reason to tell the truth. But there are other reasons for those who think they *are* smart enough to keep track.

It has been my experience that people who have a good sense of personal purpose struggle less with this principle than others. They tend to be more motivated by opportunities to learn and grow, increase their influence and responsibility, be recognized for their contributions, and help others do the same. I'm not suggesting that money is not important to these people because it matters to anyone who wants to put food on the table. But people who are motivated first and foremost by money over nobler aspirations tend to lose their moral compass over time.

The MBA programs at top business schools teach us that our ultimate purpose as business leaders is to maximize shareholder value. While I agree with this premise and endorse the geometric value to society that capitalism and free market competition bring, I also like Peter Drucker's assessment that "profit is not the purpose of a company, but rather a test of its validity." It's how we keep score. Money matters, as do profits. But neither money nor profits compare to the purpose of helping and building up people. Those who understand and embrace this principle usually realize that the latter priority feeds the former. Leaders can have their cake and eat it, too. Emotionally intelligent leaders with a good sense of purpose get this, and people want to follow them because they are drawn to their integrity. Conversely, leaders who don't get it are eventually discovered as egocentric, and they lose the commitment of the people they seek to lead. Karma eventually rules.

Success Models

I like to use an analogy or metaphor to help crystallize a point, so let's look outside the business world to the military for a success model. My favorite is documented in the New York Times best-selling book *We Were Soldiers Once… and Young*. It's a true story about the Vietnam War written by Lieutenant General Harold G. Moore (Ret.) and war journalist Joseph L. Galloway. The book, written in 1992, was also adapted into the 2002 movie "We Were Soldiers."

Both book and movie tell how Lt. Gen. Moore recruited, developed, and led a team of 400 soldiers into battle against 4,000 Vietnamese soldiers—and won. Beneath the storyline is an insightful juxtaposition of two polar opposite approaches to leadership. Lt. Gen. Moore made a commitment to his soldiers to lead them from the front and to be the last one off the battlefield. First on, last off. The North Vietnamese Army was commanded by General Nguyen Huu An, who led his enormous force from behind, positioned in an underground control center.

Lt. Gen. Moore developed leaders and bonded with them while courageously fighting side by side. In comparison, General An treated his soldiers like expendable pawns on the chessboard of war. Because Lt. Gen Moore was on the front lines, he needed no interpretations of actions and results, so he nimbly course-corrected his team in real time around adversity to an improbable victory. Conversely, General An relied on reports from the field to make decisions in a command and control manner, away from the action. It's one of the best underdog success stories of all time, and an excellent foundation for leadership training and development.

I hesitate to use a war analogy because the challenges we face and the sacrifices we make leading businesses pale in comparison to the risks soldiers face when fighting for our freedom in war. But many of the leadership principles are transferable, especially the integrity with which Lt. General Moore selected, led, and cared for his troops. In the book and in the movie, the leaders to whom Lt. General Moore ultimately reports in Washington (analogous to stakeholders and headquarters in business) progress from being slow and out of touch with the reality of the battlefield to become vital partners who enable a successful outcome. And it wouldn't have happened without a courageous leader with integrity who fought like hell to connect headquarters with the battlefield and shift the center of gravity of the battle externally where it belonged.

Interesting side note: In 2004 I was having dinner with an important customer in Germany while attending a trade show. When asked by their President to share my favorite movies of late, I included *We Were Soldiers* in my answer. To my surprise, a lady toward the end of our long table said, "That movie is about my father." After recovering from my surprise, I gathered my thoughts and asked her several questions. I was happy to learn that the book and movie accurately portrayed Lt. Gen Moore. The additional texture she provided me about him was a treat I will never forget, and I was not surprised to find that his daughter had grown to be an impressive leader in her own field.

A couple of years later in 2006, a little more than a year after Recycled Paper Greetings (RPG) was purchased by a reputable private equity (PE) firm, I was hired to lead its turnaround. The two founders of RPG were wonderful gentlemen who remained partial owners and members of the Board of Directors. However, RPG was falling short of financial projections and was ebbing toward covenant default. The company had not achieved distribution at several large retailers as projected in the investment thesis.

As the new CEO, I worked urgently with the leadership team and Board to develop a vision and strategic plan for the company's profitable growth and future prosperity. In the first six months, we successfully restructured the company and secured the financing we needed to upgrade the leadership and management capabilities. We also quickly improved same store sales by deploying a proprietary consumer validation model to elevate the success rate of new greeting cards, added several new artists and creative partners to boost consumer preference, streamlined the supply chain to improve quality and reduce costs, and secured new distribution at several large retailers to fuel growth.

Unfortunately, our progress was interrupted by the economic crisis of 2008. The crisis destroyed many boutique retailers, including some of our customers where we made the most profits. As chance would have it, we were just a few months away from securing distribution at the largest retailer in the world. Launching at this huge retailer would dwarf every task the company had undertaken in its 36-year history, and it would require laser-like focus from our entire workforce. We knew that landing this retailer would increase our sales by over 30% and catapult us toward financial prosperity. To use a football analogy, we were on the one-yard line, but we were running out of the cash we needed to score fast.

We focused our team and attempted to restructure our balance sheet a second time, but our PE owners and second lien holders could not agree on financial terms. As we ebbed closer to financial insolvency, some of our first and second lien debt holders lost patience and sold some of our debt to our fiercest competitor, a much larger company. I later learned that our PE owners had previously met with this competitor to discuss a potential acquisition, and the competitor had signed a legal agreement that would preclude them from making the aggressive move they were now taking. Our PE owners filed a lawsuit, but we quickly realized that the legal system was not going to move fast enough to solve our financial challenges.

Once our competitor had purchased a significant amount of our debt, it became increasingly unclear who actually owned RPG. At a time when we were preparing for the biggest customer launch in the history of RPG, the earth beneath our feet grew progressively unstable. However, I was very fortunate to have our CFO, Ed Stassen, at my side. Ed, with rock solid integrity, did not waver throughout this saga. Additionally, our point person at Rothschild, the firm we hired to help us manage the financial restructuring, was Neil Augustine, and he provided sage advice and guidance. As lawsuits and depositions proliferated between stakeholders and competitors, Neil guided me to focus first and foremost on my fiduciary responsibilities as the leader of RPG. He also warned me that it would not be easy. His coaching would prove invaluable because I was soon inundated with paradoxes and choices that were much more gray than black or white.

The following months were rife with awkward and challenging moments. I found myself reporting to different constituencies who all had conflicting business objectives for the company. It became increasingly clear that what might be best for the company might not necessarily be financially best for me nor my team. I kept my team steadfastly focused on the long-term financial survival of RPG, even if it meant surrendering our own financial equity in the process.

While this job had been the most enjoyable and satisfying of my career, these nine months were also the most challenging of my life. Fortunately, I had a loving and supportive family that anchored me in what matters most, and I had the unwavering commitment of the best leadership team I had ever assembled and cultivated. We focused on running the business despite persistent meetings with law firms and restructuring advisors from all parties involved. Throughout the process, we held regular town hall meetings with *all* of our people to transparently communicate our status. My team and I delivered the good news of marketplace progress as well as the bad news of the hard choices we had to make to survive financially while we navigated our ownership structure with stakeholders. I will never forget standing in front of our company before the Christmas holiday season and explaining that even though we were winning in the marketplace, we had to make difficult cost cutting decisions such as suspending merit pay increases and 401K contributions.

Just a few weeks before our first ship date to our new, largest customer, I was notified that our competitor was on the verge of owning a majority of RPG. My General Counsel and I met with their leadership, and we began negotiating the next phase of our company's journey. RPG survived as an enterprise and consumers can still buy RPG cards because we avoided financial insolvency. The company was saved, and we now reported to new owners.

Our new owners had been fierce competitors, but they treated us fairly, and we grew to be collaborative business partners. Once they achieved an insider's view of the innovations we had brought to the greeting card industry and learned why we had been gaining market share, my team and I were asked to stay on to lead the business forward. They then purchased the wholesale business of Papyrus and asked us to merge Papyrus and RPG. We were asked to lead integration efforts into their supply chain and systems, and run the combined businesses as a stand-alone company in Chicago. Over the next 18 months, all lawsuits were settled, and we exceeded business goals by 60% and integration goals by 220%. While my team and I were disappointed that the outcome fell short of our original goals, we were proud that we left the business healthier than it was when we started, and consumers could find RPG and Papyrus greeting cards in more stores and online.

But I am most proud of the integrity, transparency, and courage we exhibited throughout this journey. By persistently doing what was right and standing up to adversity, we retained the trust of all vital stakeholders when many could have abandoned ship. We resiliently executed our strategy in the face of unprecedented headwinds, and we could not have done it without the commitment of everyone. We remained steadfastly focused on doing the right things, and the right things eventually came back to us.

About the Author

Jude Rake is a veteran CEO with a 30+ year track record of building businesses to create economic value, from well-known consumer packaged goods companies such as The Clorox Company, PepsiCo, and SC Johnson, to smaller family owned and private equity backed businesses. He founded JDR Growth Partners in 2014 to help other leaders achieve profitable growth.