



Business Ethics: Five Questions Too Avoid Disaster©

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The business world has had its share of ugly, public scandals that have brought major companies to their knees. Who can forget Enron, WorldCom, Bernie Madoff, AIG, the mortgage debacle and the collapse of Wall Street legends?

Each was an ugly event that cost companies billions and executives their income and reputation. Even more amazing, however, is how easily the embarrassment of these disasters could have been avoided by asking five simple questions.

Before any decision is made, the following five questions should be asked and the answers strongly challenged. I'm certain a number of boards and executives that preceded you wish they had asked these questions.

1. Is their economic value in the deal or transaction for the company?

When Enron made the decision to form off balance sheet entities and then sell assets to them with full recourse, they created no economic value for the company other than hyping the stock price in the short term. There was no economic value to the company; all the benefits accrued to Jerry Fastow, the CFO, who was paid to run the companies.

2. Is the decision supported by our stated corporate values and culture?

WorldCom capitalized costs that should have been expensed in the current quarter. Their values spoke about honesty and integrity in everything that they did. Their values spoke of responsibility to shareholders and others. Their actions ran counter to what their stated policies were. They practiced deceit while screaming honesty.

3. Is it legal?

Bernie Madoff committed blatant fraud. He relied on the fact that others trusted him and he violated that trust. He took money that did not belong to him and that is clearly illegal. Knowingly providing false information for your own benefit is fraud. What Enron, WorldCom and others did was illegal and was proven illegal in court.

4. Is it the right thing to do?

Backdating options is taking a heads I win tails you lose bet to a whole new level. With backdating companies issued options to executives and rather date them at the date of grant, they picked the lowest price around the grant for the strike price of the option. While the legality of the practice is grey, the ethics of it are not. They were creating a sweet heart deal for executives and it should not have been done.

5. Will people and the press have a positive impression of us when the decision becomes public knowledge?

I don't think it takes a financial genius to know that people will frown on transactions that hide or disguise financial problems. Back dating documents to enhance personal wealth would never be accepted by the public at large.



Manipulating transactions to maximize bonuses as they did at mortgage investment banks at the expense of shareholders could never be sold.

Apply these five questions to every business decision. If the answer to any of the questions is no, don't do it. If you move forward after a no, you will live to regret it just as Ken Lay, Bernie Ebbers, Joe Nachio and numerous bankers and others have over the years.

Dave Guenther is President of BSM Executive Advisors. Dave is an executive advisor, consultant and speaker that has been where you are, where you are going and beyond. Dave co-founded and grew a company from an idea into a Five billion dollar Fortune 500 company. Dave used the same principles to help the owners of RTG Medical grow their Company, in less than five years, from a \$3 million dollar revenue company with 39 employees into a Company with revenue over \$30 million dollars and in excess of 250 employees. Visit Dave @ <http://www.bsmexecutiveadvisor.com/>