Five management scandals: What you can learn

Author: Smartcompany

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Companies screw up all the time. Look behind every business debacle, and you will find one of three time bombs: culture failure, systems failure and brain failure.
The News Corp hacking scandal is a failure of culture. It has raised an important question about Rupert Murdoch's organisation: what is about the company that created this debacle? When Rebekah Brooks, Murdoch's henchperson and the most powerful person in the UK media resigned, Mark Lewis, lawyer for the family of Milly Dowler, said: "This is not just about one individual but about the culture of an organisation". Veteran Watergate journalist Carl Bernstein claims he was told by one source, a former executive of News Corp: "Murdoch invented and established this culture in the newsroom, where you do whatever it takes to get the story, take no prisoners, destroy the competition, and the end will justify the means."

For the Murdoch empire, the hacking was a failure of culture. Another News Limited entity, Melbourne Storm, was at the heart of a different sort of culture failure. A 2010 investigation found that Melbourne Storm had perpetrated salary cap breaches amounting to at least $1.7 million over five years. It showed a salary cap breach of around $400,000 in 2009 and another projected to be $700,000 in 2010.
It also revealed there had been an alleged dual contract system, kept in different rooms at the club with a number of current and former Storm officials allegedly colluding with third parties to make secret payments to a number of players.
The organisation was punished for such brazen cheating. True, it has bounced back this year and the club is now on an eight-match winning streak ahead of the NRL finals. But questions remain as to why News Corporation—which owns 100% of Melbourne Storm and 50% of the entire
National Rugby League competition – did not pick it up. NRL salary cap auditor Ian Schubert said the salary cap scandal at Melbourne Storm exposed a "toxic culture of deceit". The question is whether that culture went beyond the club.

News Limited Boss John Hartigan has consistently claimed that the deception had been concealed from News Limited and that there has been no illegal or unethical practice at News Limited. But then, did News Limited check the invoices of its subsidiary thoroughly? Did it ask auditors to check how much money was flowing through the club?

Hartigan's assertion that News Limited was unaware of the rorting is eerily familiar. It's an unsettling echo of James Murdoch's claim that he was unaware of the full extent of the phone hacking and Rupert Murdoch's assertion that he knew nothing about Brooks admitting to bribing police in 2003.

Is there a pattern? The full story of the Melbourne Storm scandal has not been told. Until then, we won't know the full extent of the culture failure.

The David Jones sexual harassment debacle was also about a failure of culture. Kristy Fraser-Kirk's lawsuit targeted the DJs board, alleging it engaged in misleading and deceptive conduct under the Trade Practices Act by claiming that harassment by then chief executive Mark McInnes was an isolated incident.

According to the writ, David Jones PR manager Anne-Marie Kelly told Fraser-Kirk she was aware of a separate incident involving McInnes and another female employee and said: "Next time that happens you need to be very clear and say, 'No, Mark and he'll back off'." The writ suggests what was happening at DJ's was very much part of the culture.

According to the statement of claim, McInnes prior to his appointment had been reported to management for "bullying aggression via screaming and abusive foul language". "That bullying approach was continued by McInnes and later adopted by certain of his management," the writ says.

McInnes and David Jones denied all of Fraser-Kirk's allegations in documents lodged in the Federal Court. While the company also denied there was a problem with its culture, this became the major focus of the case.

The board shouldn't only have been looking out for sexual harassment. The
directors should have been cognisant of the arrogance that goes with sexual harassment, the stuff that shapes culture. The writ suggests that there were some managers in the company who thought that the stated culture regarding sexual harassment was one thing and the tolerated behaviour of the leader was another. This allowed them to behave badly. That works like a primary cancer on a company’s culture, with cancer cells breaking away and travelling to other parts of the organisation. The body of the organisation’s culture eventually breaks down. But other companies experience two other types of botch ups: systems failure and brain failure. The Civil Aviation Safety Authority grounded Tiger Airways in July when the Australian Transport Safety Bureau was investigating incidents involving Tiger flights this year. One was where a Traffic Collision Avoidance System alarm was triggered when an A320 flew too close to a small aircraft as it approached Alice Springs Airport on a flight from Melbourne, another where incorrect data was suspected to have been entered into an A320’s flight management computer during pre-flight planning for a service from Melbourne to Perth. But that’s not it: a Tiger A320 from Brisbane to Melbourne also flew less than the required safe distance from a Boeing 767. This was part of a pattern. In 2009, the ATSB investigated three further incidents involving technical malfunctions that were blamed on manufacturers. These were basic mistakes. The budget airline ignored a demand from the Australian Competition and Consumer Commission (ACCC) to better inform customers of its situation. The Tiger predicament was a systems failure. Across to property, and Federal Court in June found that eight directors of the Centro property group breached their duties in late 2007 when they approved final financial statements that failed to disclose billions of dollars of short-term debt. During the case, former Centro chairman Brian Healey told the court he did not believe it was his job to look for mistakes in the accounts. Centro shareholders would have been surprised – according to Centro’s 2007 annual report, he collected $376,050 in fees. For all that money, Healey said he had placed his total confidence in work done by the property group’s
management and auditors. He also conceded that he did not read the full version of Centro's 2006-07 final accounts before signing a declaration on September 6, 2007, certifying they were true and correct.

The Australian Securities and Investments Commission is seeking to ban and fine the eight Centro directors and executives when the landmark case returns to court next week. That's a big penalty for a brain failure.

Management consultant Kevin Dwyer from the Change Factory says that the three types of breakdown – culture, systems and brain – have a common root: they all come from a failure of leadership.

"If you don't provide a culture that has ethical boundaries, then people will do things they think are okay like phone tapping because they don't see boundaries," Dwyer says. "Did Rupert put in place audits with all his papers? I'm guessing not because if he did, they would have found out about things before they hacked a murdered girl's phone."

"Did Melbourne Storm management send in an auditor to look for underhanded payments when they knew the salary cap was an issue in the rugby league? And with Centro, they sent in auditors but they didn't know what they were doing."

"With David Jones, McInnes had a track record but they still hired him and ignored protestations. That's shirking accountability."

"With Tiger airways, it was a failure of systems but at the end of the day, it was also a failure of leadership. It's the leader who has to make sure the systems are in place and that there are checks and balances to ensure the systems are all working."

Dwyer says that the leaders in all these cases were confusing responsibility and accountability.

"The leader is not responsible because the representatives they are putting in place are the ones doing the job," he says. "The thing that Rupert is missing is that he might not be responsible but he sure is accountable. The accountable one is the one who puts the systems, processes and culture in place. These guys get paid mega millions and they get paid that because of the accountability they accept. They don't get paid because they are super creative and wonderful, they hire people who are super creative and wonderful. But they're accountable for governance and risk management."

Julie Zetler, a senior lecturer at Macquarie University's department of
marketing and management, and an expert in business ethics, corporate governance and risk management, says that the problem now is that many companies are outsourcing their accountability.

"That means the corporate governance issue can be compromised quite a bit," Zetler says. "All of a sudden, it's a case of we're not really to blame because we have contracted that out to other professionals and they have their own code of conduct. It's a denial of accountability. What you have now is all these people who sit up in high positions who don't know, or don't want to know what's going on."

Management consultant Joel Barolsky says part of the problem now is that good management practice these days requires executives to delegate power and give subordinates more decision-making ability.

"At the same time, there is an equal force around enhanced accountability at senior positions," Barolsky says. "At board level, directors are being held more accountable. There is this tension at senior levels now where they have to know everything that's going on but from a productivity perspective, it's all about devolution. Trying to marry these two forces is an interesting dilemma and it's a tension that every organisation has to face."

However, it can be done.

"Good reporting and information systems could be developed to try and marry these two objectives so you devolve power but at the same time, have good mechanisms in place to monitor what they do and make sure there are appropriate checks and balances and that there is transparency in all the activities," Barolsky says.

He says companies can develop a strong culture through their performance management systems where people are judged not only on how effectively they meet key performance indicators but also how much they live the values. Systems failure can be avoided with regular reviews of key system and risk management. Brain failure can be managed with good recruiting, training and development.

The three kinds of mistakes – culture, systems and brain failure – have been with us forever. Companies have always screwed up and it's the same pattern every time. Accountability was ditched and management did whatever was necessary to get the results. Smart companies will recognise this and put systems in place to ensure the three kinds of failure don't
happen.