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Don't Bet Against Reality

Corporate, Securities, and Governance



According to Peter DeMarco, founder and president of Priority Thinking, a leadership and executive coaching firm, there are four common operating priorities that are fundamental to businesses:

- Flexibility: The company's overall financial performance.
- Quality: The character of products and services.
- Safety: Physical safety and fidelity to legal and ethical standards.
- Delivery: The timeliness of on-specification delivery of products and services.

Most would agree that all four of these operational priorities are vital to business success. But, are they all of equal importance? How would you rank them for your business?

This was a question DeMarco posed to a group of business professionals several years ago at a business ethics forum. DeMarco then segmented forum participants into four groups and gave them 30 minutes to discuss the issue among themselves. Afterward, they were required to report the results of their deliberations.

Interestingly, each of the four groups ranked the priorities for their businesses differently, thus representing every possible permutation. During the report-out, the groups took turns justifying their ranking by citing their business's unique attributes. DeMarco listened without comment.

After the group reports were complete, DeMarco stunned the assembly by asserting that only one group was correct and that the other three were wrong. As a murmur of surprise and disagreement rippled through the crowd, DeMarco boldly asserted that, for every business, there is only one correct operational priority ranking:

1. Safety.
2. Quality.

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3. Delivery.
 4. Flexibility.

Many in the audience expressed strong disagreement and explained the necessity of a different order for their business. In response, DeMarco observed that all four operational priorities are “good” and essential to business success. But, to optimize long-term performance, business professionals must consistently choose the “greater good.” He used the example of a restaurant to drive his point home.

If you are a restaurant owner, DeMarco asked, which should be the higher priority: Producing food that does not sicken patrons or food that tastes good, is delivered in a reasonable timeframe, and provides a desirable cash flow? All agreed that food safety trumped the other priorities. For your restaurant to succeed, he subsequently asked, which should be the higher priority: Producing food that meets quality standards or food that maximizes your return on investment? Once more, the assembled group agreed that quality is more important than delivery and flexibility. Finally, DeMarco asked whether it is more important that food be delivered to the table in a timeframe consistent with patrons’ expectations or to have slow service (perhaps because of inadequate staffing) to maximize profits? The audience agreed that when forced to choose, delivery was more important than flexibility.

DeMarco then observed that the optimal rank of operational priorities is not unique to the restaurant industry. It applies equally to the banking, chemical, medical device, pharmaceutical, consumer products industries, and any other commercial endeavor. Driving the point home, DeMarco stated that when company leadership, wittingly or unwittingly, errs in ranking these operational priorities, they are “making a bet against reality.”

DeMarco refers to such failures as “priority inversions.” He further observes that priority inversions are common. They are also the root cause of catastrophic business failures — especially when companies systematically rank flexibility over safety.

When BP cut corners on safety for many years to maximize flexibility, they experienced a series of costly environmental catastrophes culminating in the massive oil spill in the Gulf of Mexico. When Wells Fargo placed flexibility above safety, it created a culture in which employees systematically defrauded customers. When Johnson & Johnson ranked flexibility over safety, it outsourced manufacturing without proper oversight, resulting in a massive recall of defective children’s medicines and a severe blow to its reputation. The pharmaceutical and medical device industries ranked flexibility over safety for decades when they systematically paid bribes to healthcare professionals and promoted their products off-label to maximize profits, resulting in billions of dollars in fines and costly corporate integrity agreements. When the banking industry ranked flexibility above safety in the decades leading up to the financial crisis in 2008, they suffered massive losses and nearly caused the collapse of the global economy.

These and thousands of other corporate calamities are manifestations of “bets against reality” being paid. Sadly, such bad bets are common, and they always lose in the end.

To avoid the same mistake, it is not enough for business professionals to just have an academic understanding of operational priority rankings. They must exhibit what DeMarco refers to as the five attributes of a “Good Will Leader.”

- They must recognize the “greater good”;
- They must have a genuine passion for pursuing the “greater good”;

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- They must choose the “greater good” over lesser goods — even when it is hard;
 - They must make a habit of choosing the “greater good”; and,
 - They must have the courage and organizational savvy to “secure” the “greater good.”

When DeMarco first shared his “Good Will Leader” thesis with me, I questioned whether the fifth attribute was essential. I asked, “If I possess the first four attributes, isn’t that sufficient to be an ethical leader?” DeMarco responded by explaining that if I possessed the first four attributes, I might be a virtuous person, but I would not qualify as an ethical leader. To be a leader, DeMarco opined you must exhibit the qualities necessary to get others to follow. You must be effective in “securing” the greater good by creating a culture in which the proper operational priority ranking is baked into your organization’s DNA.

As I reflected further on DeMarco’s “Good Will Leader” model, I began to see that my own professional experiences validated its accuracy. For over three decades, I have had the privilege of working as counsel in the US Army JAG Corps and seven multinational corporations. I have witnessed dozens of senior leaders. Most of these leaders were good, decent business professionals; some were incompetent, some self-serving, insecure autocrats. Others were scoundrels. Only a small minority exhibited the attributes of a “Good Will Leader.” However, unlike the others, the “Good Will Leaders” who I observed succeeded in creating strong safety and compliance cultures that ranked their operational priorities in the proper order.

Resolve now to strive to become a “Good Will Leader” to ensure your firm gets its priorities in order and avoids making bets against reality.

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