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# The Perfect Storm: How the IPO Experience Threatens Good Work for Leaders of the Young Public Company

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**Abstract**

I describe the ways in which the transition to public company status creates impediments to good work in a range of companies, from the perspective of the chief executive officers (CEOs) of nine firms that have recently undertaken initial public offerings (IPOs). Specifically, I explore how this structural change in ownership, and the attendant changes in governance that accompany it, can inhibit a leader's ability to support excellent, ethical and engaging work by encouraging short-termism, investor bias and mission neglect. I conclude that this transition poses a substantial threat to good work, particularly in the early years of a CEO's tenure. The time lag required to develop strategies to overcome the challenges studied here may well be exacerbated by CEO reluctance to disclose weaknesses or impediments candidly, as well as by the "learned" nature of many of the most effective responses, discovered largely through trial and error. Further, many CEOs hold a narrow definition of good work, recognizing the importance of excellence and ethics but markedly underestimating the importance of engagement. The research underscores the immense complexity of the chief executive role in the modern public company and its importance in promoting good work. The study also finds that the dimension of engagement has been underemphasized and suggests the potential value of adopting an explicit mission focus for workforce management and for improved decision-making.

## Introduction

A wag once observed that "you can't fall off the floor," and that is perhaps the only comfort that the business sector in America can take from the findings of a recent annual Gallup Confidence in Institutions poll (June 14-17, 2009). The poll, which samples Americans' views on 16 public- and private-sector institutions, reports the percentage of respondents who express "a great deal/quite a lot" of confidence, by institution. There were some bright spots: the biggest gainer was the Presidency, almost doubling in the space of a year, from 26% to 51%, with Barack Obama's election reversing a six-year slide in public confidence in that institution. The military solidified its hold on the #1 spot, rising to 82% from 71%.

For big business, it was a different story. Big business came in dead last, at 16%, trailing even Congress by a percentage point. Big business (and banks) suffered the biggest confidence loss from 2008 to 2009 of any institutions in the survey and also had the highest percentage of respondents reporting "no confidence." Confidence in small business, on the other hand, has been moving upward and now stands at 67%—four times the performance of its larger sibling.

Why does this matter? It matters in part because low confidence levels affect virtually everyone involved in big business, from the beleaguered front-line service worker all the way up to the leaders of these institutions. These leaders, who feel personally responsible for the reputation and direction of their organizations, take poll results such as Gallup's seriously and see it as a problem that they should be able to *do* something about. It is perhaps of particular concern to those business leaders who are on the threshold of graduation into the ranks of this "exclusive" club, the men and women who are considering taking their companies public or who have recently done so in the current hostile environment

Is "good work" sustainable in this sector? In *Responsibility at Work*, Howard Gardner and his colleagues at the GoodWork Project expand and update their definition of good work as "work that is of *excellent technical quality*, work that is *ethically pursued and socially responsible*, and work that is *engaging, enjoyable, and feels good*" (Gardner, 2007, 5). The abysmal Gallup poll results suggest that all three elements of this definition—the three E's of Excellence, Ethics, and Engagement—are under attack in the public market context. The forces acting against them are perhaps never as acute as at the initial moments of entry into this world.

The rite of passage into the world of public governance is the initial public offering, or IPO, in which a company issues shares of its stock to the public for the first time. IPOs can be undertaken for a variety of reasons: as an exit mechanism for the founder; to provide ongoing access to capital for growth; or to create the highly-prized currency of stock options as a lure to top talent. They can also be a portal to a new and challenging world, in which a young, fast-growing business can easily lose its way.

I describe the months and years following the IPO as the period of the "perfect storm" for good work. While this image has been much-used in other contexts, it does effectively communicate the reality of three irresistible forces combining to create havoc around the time of this ownership transition. First, drawn by the irresistible pull of a new metric—the stock price—management engages in "short-termism": the tendency to make decisions based on their likely reception by analysts and investors, and therefore their impact on share price and market value. Second, and compounding the first error, the inexperience of most management teams facing the first (and, for many of them, the only) IPO experience in their career will cause them to lose sight of all of the constituencies that they are responsible for, and to focus only on investors. The conflicts of interest—or at least differences in interest ("nonalignment" in the lingo of the GoodWork Project)—among all firm stakeholders (management, investors, employees, customers, and communities), if not managed correctly, can destroy shareholder value, workforce morale, and company operating performance. Finally, leadership of the young public company can lose touch with what made the enterprise distinctive in the past, losing sight of both the core values and the purpose of the firm—particularly if firm performance should begin to deteriorate.

I have a particular interest in the question of whether and how the transition to public ownership might pose an impediment to good work. I lived through this experience when my partners *and* took our company public in 1999 and am curious about how clearly our perceptions and experience match those of other management teams. Additionally, I hope to counsel and coach the executive teams of young public companies, and so I am professionally interested in whatever insights and lessons might emerge from this study.

This handling of the IPO is important to study because of the potential benefits to society of executing it properly. I argue that one of the causes of the lack of societal confidence in big business is that management teams are not focused on the question of the impediments to good work in the public context and have very few opportunities to share insights and best practices in managing whatever impediments do exist. Further, my study is being conducted at an opportune time, as a range of initiatives to reform capitalism have taken on added urgency and momentum in the aftermath of the global economic crisis. The initiatives go by different names—generative capitalism, conscious capitalism, “just business,” and others—but all share some underlying belief that good work is entirely consistent with free market capitalism. Even the premier policy arm of the large corporate sector, the Committee for Economic Development, has published extensively on the topic, with the stated aim of restoring “public confidence in how companies are run” (Committee for Economic Development). These circumstances make it timely to ask executives atop our leading enterprises how they view their role and their company’s posture toward the market.

Finally, the time period around the IPO is perhaps the most interesting and valuable passage in the company lifecycle. Most executives who lead their companies into the public markets are first-timers, creating a tremendous opportunity for knowledge transfer to help these leaders avoid the mistakes of their predecessors and to enter this new phase of their company’s history on a strong platform of excellence, ethics and engagement.

I expected to find that the executives I interviewed would be well aware of the challenges to good work mentioned above, particularly chief executives, for whom the workload of interacting with the public markets can be all-consuming. I hoped that they would be candid with me, but I was conscious in all of my interactions that public company officers are typically “on message,” not allowed to share material non-public information outside of a tight fiduciary circle. I also expected to find a range of homegrown solutions—decision rules, rules of thumb, policies regarding the nature and extent of contact with the markets.

The area where I expected to find the greatest range of response was in the area of engagement, which I am interpreting as emotional commitment, and in particular articulation of, and attachment to, some lofty mission. I assumed that companies and their executives would differ in their definition of mission, and that therefore the level of salience and concern about mission would differ accordingly.

## Literature Review

There is a wealth of literature on the IPO process and on company performance in the aftermath of this event. Very little of this literature, however, is written from the perspective of company management practice—inside perspectives on the challenges that arise at various stages of the transition from private to public ownership. Much of the literature is devoted to financial analysis of techniques for company valuation and issue pricing, with discussion of the conflicts of interest among owners, investment agents and prospective investors.

The aspect of the literature I wish to examine here deals with the phenomena that underlie the storm forces under study. Why does the IPO experience constitute a pronounced risk to good work? I discuss three themes in the literature: the disconnect between stock price and company value; the impact of management team inexperience; and agency effects in the corporate governance model.

### *Disconnect Between Stock Price and Company Value*

One of the major culprits behind the "short-termism" afflicting many public companies is the tendency to invest the metric of stock price with too much significance relative to other, ultimately more important indicators of company performance and prospects. The management literature contains several good examples of experience in the "lessons learned" format. Porter et al. (2004) review of "seven surprises for new CEOs." They describe the frustrating and challenging process by which new public-company CEOs discover that analysts and shareholders are unreliable guides to value creation, focused as they are on the short term and on actions that have "immediate, dramatic" impact on share price. The former chief executive of AST published an article in *Harvard Business Review* in 1991 that relates his intoxication with the new metric of stock price: "When we took AST Research public in 1984, we allowed ourselves to be pushed and pulled by forces we could not control. We allowed it because we were being pushed to exhilarating emotional highs by an ever-rising stock price. And we became addicted to it" (Qureshey, 1991, p. 46).

Such "short-termism" can, of course, have a negative impact on long-term performance, but it can also cause a management team to lose sight of long-term vision and purpose. In *The Moral Advantage*, William Damon notes that "periods of rapid change always escalate the pressure on individuals to abandon their personal moorings," a statement that is eerily true of the IPO experience (Damon, 2004, p. 3). The authors of an interview with Indra Nooyi, the CEO of PepsiCo, note that Nooyi seeks to leave a distinctive mark on the company by advancing the philosophy of "Performance with Purpose," which includes a skill called "Your moral compass: Have the strength and courage to do what's morally right, not what's expedient. Your moral compass must be your true north" (Bingham & Galagan, 2008, p. 34). The value of visible leadership such as Nooyi's—emphasizing the importance of both short-term performance and long-term purpose—cannot be overstated.

*Management team inexperience*

Losing sight of long-term purpose can, of course, be a sin of omission, rather than commission. In the months, quarters and years following the IPO, a management team can gradually—and then suddenly—find itself in over its head. Le (2006) reports on the increasing pace of change in post-IPO governance on firm performance, highlighting the "liabilities of youth and smallness" that they shoulder, as well as the multiple, critical roles that key managers must fill in these organizations. Many of these responsibilities are new to the executive managers in charge of these firms. Ferguson and Peill (2009) emphasize the long-term commitment that the CEO and CFO, in particular, must make to manage the concerns and expectations of outside investors, as well as the time requirements that these roles entail. Compounding these challenges, Welbourne and Cyr (1999) find that young, fast-growing companies are the least likely to have well-staffed, experienced HR teams and human resource management (HRM) policies and practices in place to assist executive management. In the absence of these resources, it is difficult to maintain workforce morale and good communications hygiene, thereby aligning internal capabilities and expectations with the fast-paced external environment.

And all of the above assumes that things are going well. Kwon (2002) writes on the "dark side of going public," when the stock price has begun to falter ("tank") and management begins to panic. This situation can lead to additional confusion and risk-taking, relegating focus on values and the long-term future of the company to secondary status. Kaplan et al. (2009) have documented the increased incidence of workforce turnover in this time of spiraling company value.

There is evidence in the literature of attempts to address the “experience challenge.” MasterCard, in particular, was notable in preparing for its IPO years in advance. The company partnered with Insead business school to produce an educational curriculum for its 200 top leaders on how to lead in a post-IPO environment, as well as creating a “RoadMap to the Future” strategy education program (Whitney, 2007). I have found no other example of such intentionality in preparing the management team for performing in the new environment in either the academic or popular literature.

*Agency effects*

This last category is perhaps the most well-documented of the three. Seminal is, Michael Jensen’s landmark work on agency costs: “the conflict of interest and incentives between management and shareholders that ends up reducing the value of most if not all public companies” (Walkling, 2008, p. 29). No event better illustrates and animates Jensen’s concern than the IPO, which one study in *Business Ethics Quarterly* has characterized as “a web of conflicts of interest” (Dalton et al, 2003). In their study of the post-issue operating performance of IPO firms, the authors believe that a pattern of “overperformance” exists in the years leading up to the IPO of many firms, in order to support an inflated offering price.

The relationship between pre- and post-IPO performance has been receiving more attention generally. These analyses are being driven by the increasingly visible phenomenon of a company performance lag in the years immediately following the IPO. Jain and Kini (1994) find a significant decline in post-IPO operating performance, attributing this trend to managerial inability to sustain artificially-inflated pre-IPO performance levels following the transaction. Martens (2005) reports that, while founder-led companies do lag professionally-managed companies in the years immediately following the IPO, this performance gap does close after a period averaging three years.

**Methods**

To compose the research sample for this study, my ideal target was executive leaders whose tenure coincided with the initial public offering of the firm's shares. This ideal interviewee would thus have been the first leader of the organization in its public incarnation and would have comparative experience in both the private and public realms. Given this ideal, I imagined that most of the companies included in the study would have gone public in the past decade.

The final interview base for the study included nine executive leaders of young public companies, six of whom met the tight profile outlined above. One leader was the president of the firm, not its chief executive, though he did handle almost all interactions with Wall Street on behalf of the CEO. One was the second CEO in the public era of his company, but was in senior management at the time of the IPO and had participated in the initial round of presentations to investors. The last interviewee included in the sample was CEO of a firm that has not yet gone public, though this person has public company operating experience in his past. I include him because his views provide an interesting contrast to those of his somewhat more experienced peers.

All of the leaders I interviewed were Americans, leading companies headquartered in America, though seven of the nine firms have extensive global operations. Companies ranged in size, as measured in market capitalization, from $110 million to $3.5 billion, with average market capitalization of $1.2 billion. Six of the firms went public in the past nine years. The interviewees range in age from 42 to 59, and six have prior public-company management experience. They are (lamentably but characteristically) non-diverse: All are middle-aged white men, ranging in age from 42 to 59, and most if not all are now financially independent, though it is typical for them to note that they came from modest family backgrounds.

Significantly, four of the executives included in the sample were no longer in their former roles. One had moved on to chairmanship of his company, having groomed an internal successor; one had retired from his firm after a 15-year tenure; and two had left their firms abruptly, in the wake of accounting irregularities. While neither was directly responsible for the mistakes, or even aware of them in advance, both were held responsible for the errors as chief executives—and both accepted the responsibility by voluntarily stepping down. These four individuals added additional perspectives—and welcome candor—on the challenges facing the modern CEO.

All of the interviewees were assured that their names would not appear in the research, and that comments would not be associated with company names, to ease concerns that the things they said might make their way into the press. I use industry classifications to characterize companies (e.g., financial information, consulting, apparel, defense services, etc.), and when relevant I comment on the presumed degree of experience or mission focus exhibited by an interviewee.

The interview base was a convenience sample, assembled using a snowball methodology, emanating from referrals from my former CEOs and from the investment banker we worked with at our lead bank. The sample is therefore decidedly non-random and, if anything, should be imagined to over-represent companies interested in developing a reputation for good work. All of the interviews were conducted by telephone across March and April 2010, and interviews ranged in length from 45 minutes to one hour. I asked all interviewees for permission to tape the interview, which all granted, and assured them that the file would be deleted before the end of May 2010.

The interview protocol contained 18 questions, and the conversation divided into four parts: background on the interviewee; focus on public company management; challenges of public company management; and interviewee values and beliefs. An emergent coding methodology was used for thematic analysis. A complete questionnaire is reproduced as Appendix A.

## Findings

I was surprised by the executives' thoughtfulness and candor with respect to the challenges they face in running fast-growing public companies. I was also struck how resolute they were about facing squarely into these challenges. None of the challenges described above as comprising the "perfect storm" (short-termism, investor bias, and mission neglect) was unknown to any of the interviewees, though individual assessment of the severity of each challenge varied markedly. Indeed, the conversation was, if anything, too familiar, and the challenges too real. Commenting on the challenges we discussed, the CEO of a firm that had gone public in 2009 observed:

> One of the reasons why clichés exist is that they resonate often enough with a lot of people that there is something true about them, and I've found all the things that I thought were clichés about public company management to be absolutely true.

In this section of the paper, I will review each of the posited impediments to good work—short-termism, investor bias and mission neglect—separately.

*Short-Termism in Company Performance Management.*

Of the three challenges hypothesized as inhibiting good work, the danger of short-termism, or excessive focus on near-in quarterly targets at the expense of long-term investments and strategy, was by far the most salient. All nine raised this challenge, and most placed it first in their list of concerns. An apparel company president put the challenge bluntly:

> I think that the cycle of reporting every 90 days is a nightmare, and it leads in some companies to decisions that are short-term oriented that are actually destructive in the long term.

Several interviewees also noted that they could never have imagined the sheer amount of time required to perform the quarterly analysis and communications required by investors. In addition this time investment came at a direct cost to their ability to work with clients or with internal staff on more productive pursuits. One financial services CEO who estimated that he spends one-third of his time on these activities described how all-consuming they can become:

> What you can't possibly understand [before going public] is how your communication with Wall Street and the analyst community will drive your stock price and your value, and it becomes just an enormous time commitment, talking with all of these people that have different levels of understanding of your business. . . . Every quarter, every 90 days, you have to sit down and you have to prepare your earnings and not only do you have to go through the numbers and make sure they're all right, but then you have to interpret these numbers for people and you have to tell them what they mean and answer their questions, and the preparation of all this is very complicated, it takes a lot of time.

Beyond their unhappiness with the time requirements surrounding compliance and communication, what really irked CEOs was the organizational distraction that resulted from employees focusing on the stock price as an indicator of their performance. These executives all demonstrated an instinctive belief in the ability of markets to value assets over the long term, alongside complete skepticism about the connection between stock price and company performance at any given moment. As a result, just as their assessment of the problem was universal, so too was their favored remedy: pay no attention to stock price in the moment. Two CEOs expressed the view of the group with the familiar phrase that performance is "a marathon, not a sprint." The CEO of the financial information company stated, "I'm not interested in winning a quarter; I'm interested in winning decades." The apparel company president expressed this view as follows:

> Companies that are well run are fairly valued, so if the stock goes up or down over a quarterly or daily or weekly period it's best not to look at your monitor every 15 minutes to see how the company's doing but rather judge it over longer periods of time.

The defense services CEO imagined what he would say to a staffer who came to him with concerns over the share price:

> Don't follow stock price. It's a real benefit for me to have started my career working on Wall Street, so I understand markets. If you get ecstatic over the fact that it's 17 one day, we did not deserve the 17—it's just what the market's doing that day. And if you get despondent because it's 11 ½, we didn't do anything wrong, it's just what the market's doing that day. Why did your stock drop? Well, there must have been more sellers than buyers.

The other executive action to fight short-termism is more external in nature: Resolving to eliminate quarterly guidance. The practice of offering quarterly earnings guidance—of providing a self-forecast of quarterly performance for the coming year to Wall Street—was once near-universal; it was originally intended to serve the goals of transparency and assessment of management quality. Momentum has been building, however, to eliminate this practice, on the grounds that its principal effect is to promote short-termism. One interviewee noted that a recent Committee for Economic

Development policy statement strongly advocated eliminating guidance, on the grounds that it “attracts short-term, speculative trading rather than long-term investing.” (Committee for Economic Development, 2007).

Six of the nine CEOs represented in the sample had either eliminated quarterly guidance or had resolved never to adopt the practice. One respondent observed, with a mixture of ruefulness and honesty: “I think there’s enough pressure without the additional pressure of setting yourself up.” It should be noted that Wall Street analysts give up this information only grudgingly. The CEO of a corporate services firm that went public in 2007 reported:

> I learned my lesson from my time at [his former employer]. I set the expectation from day one that I was not going to be providing quarterly or annual guidance. Even though they pressure you for it, I’ve now survived two full years without having to give one minute of guidance to anybody.

Thus, while the interviews confirmed that short-termism is a real potential impediment to good work, CEOs interpreted excellence as relating to fundamental performance, and not to stock price. While none expressed complete happiness with the investor-management relationship, all seemed resolute that the pressures described here “come with the territory” of public company leadership and cannot be ignored.

*Bias Toward Investors Over Other Stakeholders*

Related to the challenge of short-termism, a bias toward investor interests over those of other stakeholders is a threat to the second E of the good work model, Ethics. This threat arises when management makes decisions that favor immediate investor financial interests (which may also coincide with their own short-term financial interests) over the interests of other, longer-term focused stakeholders, such as employees, customers, and communities. This concern tends to center on short-term investors—so-called momentum investors, who are looking for a quick return on their investment—though occasionally long-term holders can seek to influence strategy conversations. One CEO whose principal investor is also on his board characterized this situation as “The strategic soupiness of multiple constituencies involved as shareholders with differing ideas about who you should be and what goals you should go after.”

By far the most common culprit behind this investor bias is the much-bruited view that the role of management in the corporate governance model is to maximize shareholder value. One reason that this view might have developed is that, as Barendsen notes, it becomes easier to make decisions this way: “Perhaps for professionals who are able to cite one primary responsibility, difficult decisions are more easily and confidently reached” (Barendsen, 2007, 194).

What I discovered in the research, however, was a much more balanced view, one in which CEOs imagined that they were holding the interests of all stakeholders in tension. In other words, while the CEOs I spoke with privilege their fiduciary responsibilities toward the owners of the company, none of them interpreted this dictum as meaning that they should ignore other constituencies. The CEO of the financial information company expressed this best:

> The thing you hear people say, unthinkingly, is, ‘Maximize shareholder value’—that’s what everyone tries to blow out. But, if you focus on shareholders at the expense of the other 3 or 4, you’re not going to prosper.

The CEOs who had the easiest time holding all of these constituencies in tension were those whose shares were concentrated in the hands of a few seed investors, and whose interest was almost by definition long term. The CEO of a personal services company that is majority-owned by a European family reported:

> They (the family) don't ask me to sacrifice any long-term growth investments because they want to put two more pennies into [this quarter's] EPS (earnings per share). For the most part, everything I deal with is pretty rational.

Another CEO whose shareholder base is predominantly early-stage investors reported that he is able to think of all of the stakeholders he serves in relationship to each other:

> I've always thought that there was a value chain: The CEO and senior leaders set an exciting direction for the company, which leads to employee engagement when people get excited about that vision, which leads to the acquisition of great clients, who see the excitement in your people's eyes, which leads to great financial outcomes, which spits out value for the ownership of the company.

This concept of a value chain is not original to this CEO—several consultancies and companies have promoted this idea over time. However, his company is at such an early stage of its journey, and is backed by such loyal owners, that it sounded to me like more than merely convenient rhetoric for an interview. When prodded, he provided an example of how this long-term view had caused his people to spot and communicate an embarrassing analytical error to a major customer on their own volition, because they instinctively knew that they were focused on building long-term relationships. He noted proudly:

> They even suggested that we reimburse the client the expense they would incur to go back and check our work, which I thought was a great idea. The team came up with that.

Of the three impediments to good work that we are exploring in this research, investor bias is perhaps the most difficult for leaders to self-identify. While all of the CEOs have significant personal stakes in the company (it is typical for them to own shares outright and also to be compensated with stock options and restricted stock grants), it is beyond the scope of this study to investigate the extent to which "field" forces, such as personal financial concerns, drive management decision-making. When interviewed on the subject, CEOs profess themselves to be aligned with, and in the service of, long-term stakeholders. The interview excerpts I reproduce above attest to their experience with, and facility at thinking through, the issue.

*The Danger of Public Ownership to Mission Neglect*

The third impediment to good work investigated in this research is mission neglect, the gradual departure from the lofty mission of a firm in the face of commercial pressure. It is this falling-off that I see as threatening engagement, at both the executive levels as among the rank-and-file workforce.

Tellingly, perhaps sadly, this danger is only relevant to about half of the companies in my sample. The rest have missions that are entirely commercial in nature and therefore, one can imagine, not likely to stimulate high emotional attachment of the workforce to the company. Indeed, for these latter companies, when I asked the CEOs if their company's mission had changed since going public, most expressed little interest in the question. Most, in fact, responded as if I had asked "Has the *strategy* of your company changed since going public?" When mission is not in the conversation, it is really not in the conversation.

And then there were the five companies in which the sense of mission *is* in the debate—and, in some, at the forefront of the conversation. In each case, the CEOs had identified the pursuit of social good, or other-focus, as one of the themes guiding their own career decisions, and it was apparent throughout the interview that this dimension mattered to them deeply on a personal basis. In these companies, mission neglect was not a prominent problem, because the CEOs prioritized mission over almost everything else.

Three broad themes emerged from this line of questioning in the interviews. First, some companies have a built-in advantage in this area—their work naturally draws out deep pride in the workforce, which translates to high levels of workforce engagement. At the point in the interview in which we were discussing mission, the CEO of the defense services company stated:

> I've got a whole floor of people below me working on [a major Transportation Security Administration program], and I don't need to tell them how important the work they do is to the lives of the passengers on those planes. In fact, when my people are talking about Passion for the Mission, they are not talking about our company's mission—the passion they feel is for the customer's mission.

This level of passion reminded me of the type and depth of engagement exhibited by teachers for their students, or by doctors for the welfare of their patients—in good work terms, professions that provide services for individual clients.

The second theme that emerged was the importance of mission to good decision-making. Three of the interviewees described instances in which the company's sense of mission was useful in helping to make a critical decision. For example, the apparel company president advised:

> Make sure that there's a mission, a set of values, a strategic intent that's well defined and that there's alignment among the senior people, because that will set boundaries for decision-making.

The importance of strong guides to decision-making cannot be over-emphasized in the dynamic context of a high-growth young public company. Such broadly-communicated and deeply-felt guides to behavior enable rapid, decentralized decision-making and, as the company grows, are easily imparted to successive generations of the workforce..

Finally, perhaps the least well-recognized attribute of a lofty mission is that it can provide access to highly-talented segments of the workforce who require a mission-component to their work. The CEOs often expressed this in reflecting on their own careers. One interviewee who had recently retired from his company after 15 years said:

> The company's values were fundamental to my staying as long as I did. . . . I was really lucky that I was able to work at a place where I didn't have to separate who I was from what I did, when it came to leaving the threshold each morning and coming home each night. . . . And the connection of the company to social justice, environmental stewardship, and citizenship allowed us to attract people of common values with wildly different backgrounds; and to build a culture. I think it's important to be able to attract people with common values and be explicit about what they are.

This same interviewee also recounted how much scrutiny his company received for its high-profile commitment to these values, and how committed they were to them, on performance grounds, as well as on the grounds of ethics and engagement. He described a time when he was heckled at a business-school lecture by someone who got up and said that he and all of the senior managers should be fired for wasting shareholder money on social justice. Our interviewee asked the questioner where he had worked before business school, and how much his company—a Fortune 25 firm—had invested in marketing the brand in the prior year. The heckler made a guess and then demurred when asked to quantify the impact of that investment. Our interviewee reported that he responded:

> OK, then tell me how you want me to measure [the impact of a stringent] code of conduct in my factories on brand reputation, or how important values are to retention and to attracting talent. I believe some of these things are hard to measure, but that doesn't mean that they're not valuable.

As a telling coda to the story, my interviewee concluded:

> It was funny, I was looking out at the audience as I said that, and 90% of the women were nodding, saying "I agree with this guy—that's so cool"; and most of

> the guys were nodding their heads the other way, saying “What is this moron doing here—he’s not a real business guy.”

That exchange, and the audience reaction, crisply captures the challenge of mission neglect in the public context. CEOs who lead mission-driven companies, and who are committed to the advancement of a mission beyond commerce in their careers, are willing to support these investments in the face of pointed skepticism. And they are equally confident of the returns of these investments to their company’s attractiveness in the labor markets, the emotional commitment of their employees, and their ability to retain their most engaged employees.

## Discussion

### *Relevance of the GoodWork Model as a Guide to Public Company Management*

Perhaps the broadest conclusion that can be drawn from this research study is the validation that it provides of the relevance of the GoodWork model to public company leaders. The study confirms the existence and power of the impediments to good work that we hypothesized from review of literature and from experience. In each of the three areas, we solicited and received strong affirmation of the existence of the impediment and the threat that each poses to excellence, ethics, and engagement, respectively.

The strategies that CEOs suggested they were employing were learned responses, arrived at through trial and error, with no indication that they had performed this learning in any structured or intentional way. Thus, one would expect these challenges to present most acutely to the inexperienced CEO, and for learning to be accomplished slowly, by trial-and-error. In each area, interviewees described being subject to great pressure to act against their instincts; in a candid moment, one CEO reflected:

> Being a public company can easily encourage all of those things—short-term vision, conflicts, management distraction, doing thing not in your long-term interests. . . . . It doesn't mean that everyone submits to that; it doesn't mean that it causes every company to make short-term decisions. But it absolutely does create those pressures and impediments.

Responses such as these indicate the potential value of the GoodWork framework as a heuristic model for new CEOs interested in learning how to approach their responsibilities in the public company context. A resource along the lines of the GoodWork Toolkit containing insights on the challenges to good work in the public company context would likely receive significant use by individual chief executives, as well as by academic and governance organizations with an investment in the education and performance of these individuals.

*The Difficulty of the CEO Role*

Second, the study affirms the sheer difficulty of the CEO role in the modern public-company setting. Before conducting this research, I might have depicted each of the three challenges as forcing a choice between poles, as depicted below. So, for example, with reference to the first element in the exhibit, I might have imagined that CEOs would be faced with the choice of a short- or a long-term time horizon in making performance-related decisions:

Framework for Depicting the Conditions of GoodWork in the Public Company Setting

| | Time Horizon | | |
|---|---|---|---|
| ***Excellence*** | Short-Term; Quarterly | ←-------------------------------------→ | Long-Term; Multiyear |
| | | **Stakeholder Focus** | |
| ***Ethics*** | Investor Focus | ←-----------------------------------→ | Multiple Stakeholders |
| | | **Mission** | |
| ***Engagement*** | Commercial; Operational | ←----------------------------------→ | Beyond Commercial; Aspirational |

After completing the research, I see now that this is not an either/or, but rather a both/and, challenge. That is to say, the CEO must balance both short-term *and* long-term views on performance; hold the needs of investors *and* other stakeholders in balance; and execute in light of commercial *and* aspirational missions of the firm. To return to Barendsen, I now understand her characterization of the responsibility of business leaders to make “tough choices.” Her respondent illustrates this perfectly:

> So it's an optimization philosophy rather then [sic] maximization philosophy, so we just try . . . at any given time . . . to optimize the value we add to all the different groups, and that’s the trick of management in terms of doing our best—sometimes the objectives are conflicting.” (Barendsen 2007, 192-93)

This decision-making environment places paramount value on judgment and integrity. And it is necessarily error-prone—it is a web of complex choices on a set of (mostly) indeterminate problems, with no “correct” answers.

*The Personal Costs of Remaining Relentlessly “On Message”*

I observed earlier that four of the nine executives interviewed were no longer in the CEO role, two having moved on at a time of their choosing and two forced from the job in the wake of accounting irregularities. In almost all cases, these individuals exhibited the most freedom in discussing the challenges of the IPO process and of managing the expectations of Wall Street and other external constituencies, and I have incorporated those comments throughout this paper. These conversations provided welcome relief in the round of interviews, because the difference in candor of the retirees was palpable; there were many instances in my interviews with incumbent CEOs in which I could tell that they were responding to my questions with scripted answers they had recited many times in the past.

The interview setting poses a very difficult set of circumstances for a CEO, who is literally constrained by law from sharing nonpublic information with anyone who is not an officer of their firm. This condition definitely influenced both the tenor of the interviews and the candor demonstrated by interviewees. CEOs are relentlessly "on message"; indeed, several noted that one of their surprises was how much their words and their actions were subject to scrutiny by observers inside and outside their companies.

I would speculate that there is an interesting psychological impact to this "cloistered" existence as well—particularly for longtime CEOs. One retiree captured the existential loneliness of the position as follows:

> When you become (sic) in these positions in public companies, it's a very lonely position in many ways. There's not a lot of people you can talk to about things, because everything you are doing is private—you can't discuss it. So it becomes challenging finding ways to talk.

It is easy to imagine this feeling of isolation becoming corrosive across time, perhaps even leading to "bad" or "compromised" work in isolated cases. Indeed, this enforced silence undoubtedly lengthens the “time to role mastery” for the new CEO and provides further indication of the potential benefits of executive education aimed squarely at the challenges to good work posed by the corporate governance model.

*The Paramount Importance of Moral Integrity*

Given the above findings, it will come as no surprise that the personal values of the decision-maker rise to paramount importance in this setting. William Damon refers to these values as comprising what he calls moral integrity: “an integration of virtue throughout one’s conduct at all times” (Damon, 2004, 16). The closing section of the interview offered several opportunities to probe for markers of the existence of this quality in interviewees. The penultimate question in that section was “In your work, to whom or to what do you feel responsible or loyal?” I had the same reaction that the original GoodWork researchers had—this question was a stopper, which required the respondent to go off message, to pause and think. And the responses were telling. By far the most common response was to tick off the people directly around the individual—employees, investors, customers. Interestingly, however, two of the three most mission-oriented respondents immediately cited “myself.” One noted:

> I’m driven by my own need to challenge myself—to keep the commitments that I make to the company and to where we are going. . . . All you have at the end of your life is your reputation; the quality of my personal relationships is more important to me than personal wealth or my status in the community.

This response struck me as a pretty fair rendering of the “mirror test” (Gardner et al., 2001, 11-12). It is also highly reminiscent of the sentiment expressed by Mike Hackworth, a Silicon Valley CEO interviewed by the GoodWork project, who said: “At the end of the day, what counts is your integrity, your reputation, your good work, your honor” (Damon, 2004, 61).

Another highly mission-focused respondent described this feeling of responsibility to self as sort of an existential posture of "being." He stated:

> It's not about religion, it's more about being, it's more about good name. The one that matters to me is being, but as a father and a husband and a brother I don't ignore good name either.

In future work, I would like to investigate the markers of moral integrity more deeply, probing the question that Mihaly Csikszentmihalyi expresses in *Good Business* as "What is the stuff of great souls?" (Csikszentmihalyi, 2003, 155). My instinct is that a good angle into this inquiry is to seek to understand better the optimal balance between other-focus and self-focus. I am interested in this area as a potential diagnostic—a "personal symptom" of the propensity for good work—as well as a potential teaching tool for executives interested in reflecting on their own integrity and integration.

*The Advantage of a Mission Beyond Commerce*

Finally, I was intrigued by the variability in the quality of discussion of mission in the interviews—for those to whom the issue was not important, it was dead air in the interview; and for those to whom it was important, it was the centerpiece of the time we spent together. For some of these, as with the defense services firm, the mission focus was integral to the work of the firm. For others, for instance the apparel company, the positioning was a choice, rising to a brand identifier in the marketplace, as well as in the labor market.

I am impressed by the triplet of advantages that interviewees described as arising from a focus on mission beyond the (merely) commercial: the advantages of emotional commitment; better decisions; and broader access to the best talent. Here, too, an educational opportunity exists, both to document further the advantages enjoyed by exemplars as well as to create a taxonomy of strategic positions relative to mission. Such a taxonomy could reveal how companies that have successfully grafted a mission focus onto their work (such as the apparel company, above) are able to sustain that focus across time—and under commercial pressure. I believe that this area is worthy of further research, both to test the economics of the above assertions and to determine how "teachable" executives not previously disposed to this aspect of company identity might be.

**Validity/Limitations**

Two primary limitations exist in the survey as conducted. First, the sample was composed as a convenience sample and does not provide for depth in any dimension that was under test. Second, the interviews were conducted over the telephone, with no prior opportunity to set the respondents at ease and no ability to build relationships across time. As was established earlier, this condition is particularly challenging for chief executives, who have a fiduciary responsibility to guard against disclosure of material nonpublic information.

**Future Studies**

It would be interesting to incorporate an entirely different methodology in future studies, conducting in-person interviews after some trust-building had taken place. I hypothesize that respondents would admit even more frustration about each of the impediments to good work studied here and would welcome follow-on conversations about how their peers are dealing with these challenges. Studies featuring more intimate, and more sustained, encounter in the research process would undoubtedly yield high returns in terms of candor.

It would also be particularly useful to interview a broader sample of CEOs and to segment them according to experience, current status (active/retired) and gender. The apparel executive's memory of the approving response of the women in his audience to his firm's commitment to social justice is intriguing, but uncorroborated elsewhere in this study.

Finally, it would be highly enlightening to mount distinct survey efforts along the dimension of mission strength, in order to determine if there are reliable markers of moral integrity, as well as to determine the correlation between the good work of these companies and measurable commercial outcomes.

**Conclusion**

I have shown that nine current and former CEOs and presidents of young public companies recognize the impediments to good work represented by the pressures of short-termism, investor bias and mission neglect. While none would admit being unable to counter any of these challenges, they did speculate that other leaders might fall prey to them, and they did share their candid views on the difficulty of resisting these pressures in the face of investor pressure, earnings preoccupation, and public criticism.

The study further demonstrates the robustness of the GoodWork model as a teaching tool for business leaders and as a frame for their thinking. CEOs are not, by disposition, a reflective lot. But, as demonstrated by the robust sales of business books and magazines, many CEOs do find value in teaching devices that can advance their agendas for their organizations, and many would find the comprehensiveness of the

GoodWork model useful.  Several respondents volunteered that they had few opportunities to learn from their peers in a confidential setting, and almost all expressed eagerness to receive a promised summary of the findings of this study.

In conclusion, I suspect that the field of business will continue to be the site of intermittent good work, with some CEOs serving as exemplars of all three aspects of the definition, and others falling woefully short.  What emerges from the study is the centrality of the CEO to the sheer ambition to perform good work.  While a focus on excellence and ethical behavior is automatic to these individuals, for too many "good work" is limited to these two elements.  CEOs eager to take on all three elements of the model, and to integrate a mission focus that has the ability to unleash the emotional commitment of their workforce, will be able to add the third E to their company's work, with accompanying benefit to their firm's reputation, performance and impact in the world.

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## Appendix – Interview Protocol

### I. Introduction

1. Could we begin with a recap of your career history. I've read your bio. How did you get into the line of work you are in today? Are you surprised to find yourself where you are?
2. Where are you in your career? Are you in your "destination job"? Do you have goals in other lines of work that you want one day to pursue?
3. What do you like about your work? Dislike?

### II. Conditions of the Domain/Field: Unaided

4. I want to focus a set of questions on the story of your company's going public. Can you tell me the story of the company's going public? Why? When? How much turnover was there in the management team around the event? How are management's incentives structured?
5. What is the mission of your company? Has that changed since going public?
6. What lessons would you offer to CEOs coming up after you? (Less as to your specific business; more as to tips on managing in the public company context.)
7. Looking back over the whole process, what has surprised you most? What have you changed your mind about?
8. How have your responsibilities and time allocations changed since the company went public? (If you had the proverbial "extra hour," what would you do more of?)

### III. Conditions of the Domain/Field: Aided

9. Some people have said that being a public company is an impediment to doing good work: alignment conflicts among stakeholders; short-term focus; pressure on mission. Do you believe that? How do you manage those potential conflicts?
10. Are there any tensions between serving your customers and your investors? How do you manage those?
11. If a situation ever arose where you had to choose between the best interests of your customers and of your investors, how would you choose?

### IV. Ethical Issues in the Area of Work

12. Some people say that the standards in your area of work are more ethical than they used to be, and some say they are less ethical. What has been your experience?
13. Can you tell me about an incident in your area of work where you weren't sure about the right course of action? How did it become clear to you what to do? Has it become harder to do work that you consider responsible and ethical?

## V. Formative Background, Values and Beliefs

14. What life influences do you view as most salient in the way your approach your professional work (example of parents, mentors, religion, etc.)
15. Which of your personal beliefs contribute to your achievement?
16. In your work, to whom or to what do you feel responsible or loyal?
17. What moral resources do you regularly rely on? Do religious or spiritual concerns play an important role in your life?

18. We're coming to the end of our time. Is there anything that you would like to add?

*Thank you! I'll write up this project and create an anonymized summary for participants.*