

THE CRISIS AT WIND

You don't need a weatherman to know which way the wind blows.

—Bob Dylan

Over the years I have seen a good number of global companies cope with ethics scandals, which have originated from allegations of breaches of laws and regulations. These come to the attention of regulators and prosecutors, who then proceed with their investigations. The details are unique to any given

company, but the overarching patterns and trends are generally the same. Ultimately, the companies are found to have had similar, flawed business models and their leaders made similar bad decisions; those leaders appeared to be afflicted with a blindness (often wilful) to issues they should have seen coming.

Before diving into the seven-step process of Empowering Integrity, it is enlightening to start with a salutary tale. What follows is a fictionalized account of a company that has come off the rails and doesn't even know it until it is too late. The reasons for using fiction are twofold. First, for confidentiality reasons, I cannot reveal the names and details of companies that I have worked with. Second, the essence of a fable is to be illustrative. While the company and characters are invented, they are archetypes very much based in truth and reality. The problems they have, and the poor decisions they make, are an amalgamation of issues I have seen again and again.

The story I present here looks at the experience of Wind International, a large global manufacturer of wind turbines headquartered in Northern Europe. The company is one of the largest providers of wind power equipment in the world and it is widely recognized as an industry leader in technological innovation.

Northern Europe may seem like a counter-intuitive choice to use as a location for a troubled company. That region, after all,

generally ranks very high on indices of transparency, business integrity, and corporate responsibility. But that is all the more reason to choose it and, in fact, a number of significant ethical crises in the past few years have shattered the illusion of that region being somehow immune to the challenges that affect companies operating globally. The recent experience of Northern Europe serves to remind us that corporate misconduct exists everywhere. Nobody is immune.

The company in our fictional case study happens to be in the business of manufacturing, installing, and operating wind turbines. This was purely a creative choice – I have never directly worked with a wind power company and I have no awareness of misdeeds or corruption within that particular industry. The company in the case study had to operate on a global stage, and its business needed to be complex. Wind power fits the bill, and was as good an industry as any to use as a backdrop.

After the case study, we will take a more in-depth look at the myriad things that went wrong for Wind International, and we will look at why these sorts of stories play out time and time again. We all know the expression about one bad apple spoiling the barrel; while reading the story of Wind International, think about how a rotten barrel can also play a big part in tainting the fruit within it. And take note of the mistakes, both glaring and subtle, that the CEO makes with regard to the company's culture and strategy. The case of Wind International is meant to

illustrate how, all too frequently, good intentions and bad decisions can produce disastrous results.

THE STORY OF WIND INTERNATIONAL

One day in June. . .

John Peter is the CEO of Wind International, a century-old company known for its pioneering role in the development of windmills as generators of electricity. From humble origins in Northern Europe, Wind has become known as a global leader in renewable energy. The company has offices on five continents, and sells its cutting-edge products in more than 50 countries worldwide. And on this sunny morning in June, John reflects with a combination of pride and gratitude on the company's success.

John is especially proud to work for a company that not only delivers strong profits for its shareholders, but also does so while giving something valuable to the planet in the form of clean energy.

The company grew slowly but steadily during the twentieth century, but it wasn't until the dawn of the new millennium that it really became a powerhouse. Capitalizing on the surge of interest in alternative energy sources, the company went public in 2001 and began a period of intense growth and expansion that continues to this day.

John was a driving force in that growth, even before becoming CEO. John has worked nearly his whole career at Wind International, starting out in the Southern European operation, where he was identified as a rising star almost immediately. Although the whole company was booming, no regional operation could match the growth achieved by the one John led. He got along well with his colleagues, but is also competitive, and took great satisfaction in trouncing them time and again in sales and growth.

John wrote the book on what has now become the company's primary strategy of purchasing local windmill engineering and manufacturing companies in country after country, and allowing them to operate largely as they were. It is a win-win-win formula: the subsidiaries benefit from the strong Wind International brand, the group gets the benefit of their local expertise and technological know-how, and communities all around the world get good, clean energy. As a result, shareholders can look forward to substantial earnings and double-digit growth every quarter.

John helped break the mould on the old way of doing things, and ushered in a more modern approach to leadership and growth. Five years ago, he was rewarded for innovation and hard work. The Board appointed him CEO of Wind.

As John gets off the elevator and strides through the reception area, greeting the receptionist as he goes by, he passes a

prominently displayed plaque on the wall that outlines for all to see the company's core values: *Innovation, Excellence, Leadership, Teamwork, Giving Back*, and, most important of all, *Integrity*. At John's direction, these values are on display in every Wind International office in the world. He also had them framed on his own office wall.

John is especially buoyant today because he is proud of the speech he delivered yesterday to a luncheon crowd at the local Chamber of Commerce. Integrity was the subject. In a world where corporate scandals have become seemingly daily occurrences, John said, it is more important than ever for business leaders to not just preach ethics and integrity, but to practise what they preach. It's all about tone from the top. John has worked hard to make sure that Wind International is a beacon of ethical standards.

Of course, Wind has always had its share of ongoing legal and compliance issues. A company can't operate in over 50 countries, with annual revenues of \$10 billion, and staff of 25 000, and not hit the occasional bump in the road. But the company deals with each one as it comes. 'Get it done, and keep us out of trouble' is one of John's stock phrases.

John's speech was well received by the assembled crowd of business leaders. Wind's VP of Communications enthusiastically related a few of the more glowing comments.

John walks into the executive suite. His assistant greets him and hands him the files for the day.

Almost as an afterthought, she lets John know that the company's VP of Internal Audit wants him to read an article that appeared this morning in a Spanish-language newspaper in South America. Apparently, it's an unflattering piece that mentions Wind International tangentially.

John fires up his computer, clicks on the link and reads the article. At first, he is not sure why he is reading it. It's an exposé on a South American consulting firm called Coniferra Associates and its questionable practices and connections to several governments on that continent. Apparently, the firm specializes in funnelling bribe money to powerful government officials and their family members. Their name appears in the Panama papers.

The kicker is that several well-known global companies are named and accused of being clients of Coniferra, including Wind. The article explains that the business of getting a wind farm built is extraordinarily complex and fraught with hurdles: environmental assessments, licences and permits, public consultation, unhappy landowners, wind power detractors, etc. With Coniferra in its pocket, the article alleges, Wind International can grease the right hands, sidestep the rules, and steamroll over opponents and obstacles.

The accusations against Wind are based purely on one anonymous source, someone who allegedly used to work at the company. Wind's VP of Communications is quoted, saying the company doesn't comment on unsubstantiated rumours. When asked about whether Wind works with Coniferra, he said the company works with thousands of suppliers and agents, and there are confidentiality agreements in place.

All in all, it seems to John that the article is low on credibility and therefore not a great threat to the company's reputation. He has not even heard of the newspaper before, but at a glance it appears to be a small-time regional publication with a clear political bent against the ruling party. And even with John's limited grasp on Spanish, he can tell the author isn't exactly unbiased; he clicks his byline to reveal a handful of other 'investigative' articles making allegations against other large, foreign companies, none of which has got into legal trouble, to the best of John's knowledge. Nevertheless, John decides to look into the matter. He clears his morning schedule so he can conduct a few meetings and make a couple of phone calls.

First, John summons the VP of Communications, who bounces in waving a local newspaper, which ran a positive piece about his speech yesterday. That's great, John tells him, but what about the article out of South America? How come he didn't know that was coming?

He tells John that he didn't want to bother him with it. It's a petty and local issue in a South American operation that is not significant to the company's overall revenues. It doesn't warrant any more attention than he already gave it. The two are soon joined by Wind's General Counsel. John asks the pair what further response the company should take. Nothing, they agree, other than give the matter to Internal Audit. The article should not be dignified with a response, and any overtures about looking into the accusations would just legitimize them. Best to just keep quiet, stay above the fray, and wait for this to blow over. The VP of Communications promises to keep close watch on the news to see if the article sparks any more coverage. He doubts it will.

Next, John sits down with the VP of Internal Audit, who is a little more concerned than her colleagues, but not much. She reassures John that the company has a very strict system of controls and procedures in place, including around third-party agents, and that there is a zero-tolerance policy against misconduct. John asks whether anything noteworthy has come in recently via the whistle-blower line about South America. She tells John that there's a backlog of complaints, but mostly just nutty and paranoid accusations from disgruntled employees. There are the usual issues about theft of company resources, working hours, bullying, and harassment, and a few other vague allegations that appear to lack substance.

She tells John that because of limited resources she has only two investigators dedicated to whistle-blower complaints, and they are pretty far behind in tackling them. The audit team is currently focused on a complaint from the Eastern European operation where it's looking like the complainant himself is partly culpable for the reported wrongdoing. If that's true, he will of course need to be fired. As John has said many times, zero tolerance. The VP of Internal Audit promises to look through the complaint log herself to see if there is anything especially noteworthy out of South America.

Next, John places a call to the President of the South American operation, Joseph Varga, who puts the CEO on hold for five minutes while he finishes up with a client.

Eventually, back on line, he chirps: 'What can I do for you, boss?'

Varga is widely considered the heir apparent to John's position. A shooting star, he has grown the South American business by nearly 1000% in the last five years. Varga is a rare talent; an engineer by training, his deep understanding of complex turbine technology is only matched by his gifts as a relationship-builder and ambassador for the company. He is brilliant, creative, charismatic, and driven. He speaks four languages fluently. Needless to say, the Board is smitten with him. When he is invited to Board meetings to present on his regional business, he owns the room.

He has taken John's 'growth through acquisition' philosophy to new heights. He has a gift for knowing the right moment to expand into new territories, and seems to always know exactly which operations to buy. When bidding on new projects, his team is very successful in winning contracts. Overall, the company successfully secures 25% of the projects that it bids on (an excellent rate, well above the industry average). Varga is the go-to person for very large bids and tenders, winning one in every two of them. While John has never actually told the other regional presidents to be more like Joseph, it's widely understood that he's the current benchmark against which all others are measured.

He's known to push the rules a little bit but always knows when to rein things in. Also, as he regularly reminds John: 'business works differently down here – we need to be sensitive to cultural differences'. This is generally his explanation for why the company's rules pertaining to gifts and entertainment, while perfectly appropriate in some countries, are simply too stringent in some of the locales where he operates.

Turnover in his operation is significantly higher than the rest of the organization, but that's because he drives his people very hard, and many just aren't up for the task. Also, poaching from Wind International is common in that part of the world. John likes to think it's because everyone knows the company produces top-notch people. The employees who do survive under Joseph's command are said to be deeply loyal to him.

John asks Varga to shed some light on the allegations in the newspaper article. He asserts that the reporter who authored the story is a known 'bottom-feeder' in the country and speculates that his anonymous source is just a failed former employee with an axe to grind. He reminds John of the former employee who showed up at a recent AGM wearing a chicken suit. It's always the crazies who turn whistle-blower, he says. While John would not say it, he is inclined to agree.

Although he admits that Wind has, in fact, worked with Coniferra in the past, he assures John that the contract was 'small potatoes' and certainly nothing of the scale implied in the article. Furthermore, Coniferra provided all the necessary contractual representations and warranties committing them to anti-corruption compliance. He reminds John that Wind International had some issues with another agent in the region two years ago. At the time, Varga committed to personally overseeing an investigation. The investigation proved fruitful. Various questionable payments and issues of non-compliance were discovered. The third party in question was immediately cut loose, and several employees were fired. In addition, new controls were put into place, including that all payments over \$10 000 in value now require his explicit approval.

Varga tells John that he has serious doubts that anything problematic occurred except in the whistle-blower's imagination but that, just to be safe, he will sever the contract with

Coniferra immediately and conduct a detailed investigation of the matter. Knowing Varga's reputation for getting results, and his innate ability to compel employees in his region to cooperate with his direction, John thinks his suggested approach is satisfactory.

John's last call of the morning is to the Chair of the Board. He lets her know about the article and that there is nothing to worry about. John and the team are handling it. She thanks John for the notice and agrees that it is an operational matter that doesn't need any input from the Board at this time. They agree that the item should be addressed by the Head of Internal Audit at the next Audit Committee.

With the South American issue settled, John returns to regular business for the day. The afternoon is taken up with three meetings.

First, John meets with the CFO to review the latest financials. It's nothing but great news, almost too good to be true. The share price is way up and all sales targets have been met for the eighth straight quarter. Together, they decide to raise the targets yet again. It's ambitious, John knows, but he is confident the team is up for it. Also, raising the targets is a great way to generate some healthy competition among the regional operations. Varga's been leading the pack quarter over quarter – hopefully one of his fellow regional presidents can give him a run for this

money this time, especially in the Asia-Pacific Region, where growth has been comparatively stagnant.

Next John meets with the VP of New Business and Technology, who updates him on the new high-tech subsidiary that specializes in the manufacture of floating turbines, allowing for wind farms to be placed even further out to sea. It's a great innovation. That subsidiary has identified three smaller, local operations that it wants to purchase through one of its holding companies. One is located in Asia, one in Australia, and one in Southern Europe. John remembers the small Southern European firm from his days working in that office. It had some compliance issues then but John has not heard anything negative about them since, and they would complement the other purchases to give Wind a leading position in this emerging part of the industry.

John authorizes the purchase of all three.

Finally, John meets with the head of HR, who presents the results of the latest employee satisfaction survey. The participation rate was low and the survey shows that stress levels are rising. She has also calculated a 25% increase in calls to the HR department, and a 20% increase in stress leaves. The two of them discuss how to address the issue and decide to add a few notes on the importance of work/life balance to John's next 'Update from the CEO', a 10-minute video John records every

quarter and which all employees are required to watch. John agrees that he should probably take other actions as well, but he will figure it out later. The video is a good start for now, and there are bigger fish to fry.

With the day's work done, John heads out for a dinner function. John plans to leave early to get a good night's sleep. It's unfortunate his morning was derailed by a sensationalistic article in an obscure third-world publication, but he is content that it will prove to be a non-issue.

TWELVE MONTHS LATER. . .

John trudges into the office, exhausted. He has been working pretty much around the clock since the South America story broke open. Wide open.

It may have started with a smallish regional paper, but it was soon picked up by European and global newspapers. The *Frankfurter Allgemeine Zeitung* dug a little deeper. Next came *The Guardian*, *The Wall Street Journal*, the *Financial Times*, the *South China Morning Post*, *The Globe and Mail*. . .

After a while, the articles stopped being about Coniferra and were focused on Wind International. Reporters were finding out that Wind had done considerably more work with Coniferra than had been initially believed, as well as with numerous

other shady agents in South America. One paper published a damning infographic showing connections to disreputable shell companies incorporated in various tax havens such as the BVI, Belize, Cyprus, and the Seychelles. The anonymous whistle-blower in the first article had opened a floodgate, and numerous additional sources and whistle-blowers had come forward. More and more connections to corrupt officials in various countries were being alleged. One magazine headline declared: *Not-so-clean energy: Inside the dirty business of Wind International*.

Things got even more challenging when US regulators began investigating the company. When John first heard rumours of an American investigation, he shrugged it off as ridiculous. It made no sense. Even if the company had done something wrong – an idea John was still resisting at the time – Wind International does not have any shares traded on US exchanges. Why would they commit resources to investigating Wind?

‘You miss the point,’ the VP of Internal Audit told John. ‘US regulators take an expansive view of their jurisdiction. They are thorough and relentless. We have business in the US, and so does Coniferra, so we are on their radar.’

It turns out that the ‘little’ consulting firm in South America is significantly bigger than it appeared to be. It has also been revealed that several employees at Coniferra are former

employees of Wind International, including two who'd been fired from the company for misconduct. 'The folks at Wind International thought they could keep their noses clean if they outsourced their corruption,' declared one editorial. 'They were wrong.'

Some of the media reports also mention John personally. He is described as an intelligent and respected leader, but one who is aloof and out of touch. 'He doesn't really know what's going on with the employees on the ground,' said one source. 'We see him on videos from time to time, but never in person. He never visits the regional offices to see how the operations run on a daily basis.'

When US authorities began pulling threads, a number of other things started to unravel as well. They now claim to have found indications of irregularities in Wind's financial reports. Inflated numbers. Creative accounting. They scrutinized the structure of the company and observed that its complexity – a veritable spider's web of subsidiaries and holding companies – created an environment impervious to central oversight and conducive to hiding illegal transactions.

It is starting to appear that Varga's operation, as well as a few other regional operations, had been manipulating things to make their results look better than they were. Former employees in several articles talk about the pressure to meet unrealistic

targets. ‘Competition was so fierce across the regional operations, it became toxic and unhealthy,’ said one individual. ‘Honestly, I’m not surprised people started fudging things.’

The scathing media reports often cited Wind International’s much-heralded policy of zero tolerance for misconduct. ‘I think at some level, they meant it,’ said one former employee. ‘Unfortunately, in practice, zero tolerance meant hide it and don’t talk about it.’

The creative accounting got the attention of regulators and prosecutors in numerous countries besides the US, and multiple investigations are now underway. Head office feels like it is under siege, with auditors and investigators moving in and out on a daily basis.

The stock price, now understood to have blossomed under false information, has taken a severe nose dive and is down 50% from its pre-scandal trading levels. Likewise, Wind’s quoted bonds have collapsed, with Moody’s and S&P having cut the debt rating two notches from BBB+ to BBB– and with a negative outlook. One more notch would reduce the bonds to junk status. Such a downgrade would not only result in a higher interest rate but trigger an early repayment option for the bondholders. The refinancing of \$2 billion of debt would be virtually impossible. Pressure from banks, bondholders, and rating agencies increases. They all want transparency on ‘real’

earnings and cash flow generation to ascertain their assessments of the company.

The original whistle-blower has become overwhelmed by the media. There are journalists at his door and he is reluctant to speak. Wind claimed that he was a low-level accountant in Varga's division who had been fired after years of poor performance ratings. On the other side, the whistle-blower's lawsuit for wrongful termination contains a lot of juicy details about what may have been going on at Wind. His version of events suggests that there was a culture of fear at Wind International. His complaint notes that, on several occasions, he had expressed concern about the things he had seen at the company, and about the things he'd been instructed to do, such as re-classifying certain payments as something they clearly were not. But he was told to keep quiet, that these matters were corrected at headquarters, and that complaining would get him nowhere. What Wind did not know is that this whistle-blower had agreed to become a cooperating witness in a criminal proceeding of US prosecutors against Wind.

The whistle-blower knew Varga but was not considered part of his coveted inner circle. He noted in his lawsuit that he feared Varga and those around him. He noted that anonymous messages to the whistle-blower line seemed to fall into the abyss.

As for Varga himself, the allegations continued to pile up. Pictures of him at social events hobnobbing with corrupt officials

and the family members of dictators surfaced and have been shared around the wire services. It turned out that Coniferra had opened many doors for him, and he had gladly stepped across the thresholds and taken matters into his own hands from there.

The Audit Committee had been briefed eight times on the ongoing internal audits. They were becoming frustrated with the ever more troubling revelations and the lack of clarity on what needed to happen next. The Head of Internal Audit seemed overwhelmed by the fact-finding effort and John was short of answers. It all smelled but there were no conclusions or concrete remedial measures to discuss.

The tension at the Board had reached a boiling point. Board meetings had moved from being collegial gatherings to frequent and painful meetings filled with tension. The relationship between John and the Chair (and the rest of the Board members) had become very strained. The support from the non-executive directors dissipated as each became increasingly concerned about their own personal reputations and liability. Every one of John's decisions was being challenged by the Board, asking for more information, analysis, and justification. Doing business had become hard or nearly impossible.

Eventually it got to the point that John had no choice but to fire Varga, which he did a month ago. He has threatened to retaliate

by suing the company and Wind expects the cost of making him go away will be exorbitant. Regardless, his legacy will continue to burn its way through the company. This morning, John received a call letting him know that Varga has been arrested at JFK Airport, and charged with various crimes. The fact that Wind can now say he is an ex-employee hardly helps at this stage, especially since he appears to be a cooperating witness. Whatever will be revealed during his trial will be all about the things he did while working for Wind. The company's name will be dragged through the muck just as much as his.

The phone rings.

John learns that the Chair of the Board is on a plane and is coming in to see him this afternoon. John has no illusions about what she wants to talk about and already has his letter of resignation written.

John looks at the plaque on his office wall espousing the company's values. *Innovation, Excellence, Leadership, Teamwork, Giving Back, Integrity*. John lived them, or so he thought. Without a doubt, he believed in them. So how could the company have been riddled with so many problems? How could so many people have known about them, but not John?

How could John have been so blind?

