

Employee Morale

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The news was crushing, and it kept coming for nine weeks. The CEO and founder and the CFO of the \$10 billion high-tech corporation had covered up \$1 billion of derivative losses for 10 years through creation of phony transactions and paper companies. The facts had dribbled out drop by drop when a whistleblower went to the media. The CEO had denied it vehemently. The CFO had met with financial analysts to put down rumors. But, an independent panel supported by forensic auditors had verified the whistleblower's allegations. Both the founder-CEO and CFO had resigned, and the board of directors was considering stepping down. The company's stock had plummeted 54 percent, and investors were pulling out. The New York Stock Exchange threatened to delist the company unless it filed amended financials in two weeks. Although auditors were scrambling and the controller had stepped in as interim CFO, it wasn't clear the company could make the deadline.

The interim president held a press conference to discuss details of the independent panel's report the day it was made public and the panel's statement that the company was "rotten at the core." He made no effort to downplay the seriousness of the situation. He cited gross failures in management. He said he would resign after a special shareholder's meeting in a month's time. He did not address the company's 39,700 employees worldwide.

After the news conference, the head of human resources, Bill Shone, called an emergency meeting with the director of corporate communications, Susan Evers. Shone had been doing employee surveys, and the results were terrible. "Nobody wants to work for the company, and engineers are leaving daily," Shone said. "Our only advantage is the bad economy. There aren't many places for them to go." Shone said there was an urgent need to counter rumors and to bolster employee morale. The company needed a communications program immediately.

Evers, a close friend of the founder-CEO, was as devastated as anyone and was considering submitting her resignation. She was depressed that the founder-CEO had lied to her for years. She wasn't sure she was up to designing and implementing a program, especially if it meant dragging the former CEO and CFO through the mud.

"We're not talking about the past," Shone said. "We have to get employees focused on the future."

"We can't sweep away the present," Evers countered. "We have to deal with it, or we will never regain the credibility of employees."

Shone agreed reluctantly.

They settled on a strategy of transparency. Nothing would be held back from employees who should hear it from the company first, but they would plea for employees to look to the future. “This too shall pass,” was the way Evers summarized it. They asked to see the interim president to discuss employee morale. The interim president put them off for two days. He was meeting with the board, the controller and auditors and sorting through shell companies.

When they met, the interim president was blunt. He had no time to talk to employees. He told Shone and Evers to do what they had to do. Shone and Evers said they would begin by posting daily reports on the company’s intranet but this required communication from the interim president and the board. The interim president balked. “Talk to the general counsel. There are going to be charges out of this.”

Shone and Evers walked to the general counsel’s office. The general counsel turned them down. “We’re building a case. We can’t be talking. There is too much we don’t know. All you’re going to do is create more rumors. We’ll tell everyone when we know what happened.”

“But that could be weeks away,” Shone said. “We can’t leave employees in the dark that long.”

The general counsel was unmoved. Any news would come out in the form of carefully crafted press releases that would go to everyone. He reminded them that Regulation FD (Fair Disclosure) had been in effect since 2000.

“Can’t we at least rebut rumors?” Evers asked.

The general counsel said they could and should. He had heard wild allegations himself without basis in facts. However, he insisted that he vet each answer.

Evers quickly constructed an FAQ of events of the last nine weeks. In 25 questions and answers, she presented the publicly known facts of the case. She posted this to the intranet and company web site. She then opened a blog on the intranet titled, “Rumor Central.” She solicited questions from employees and promised answers within 24 hours.

Evers received 97 questions the first day. Forty of them were about the progress of the investigation and whether the founder-CEO was going to jail. The remaining questions were about a number of suspicions. The founder-CEO and CFO had concealed hundreds of millions in offshore accounts. Other executives knew or should have known about the cover-up. Auditors were complicit in the fraud. Directors knew and said nothing.

The general counsel approved 10 answers, most of which were not specific “due to the ongoing investigation.” Shone was not satisfied. He argued with the general counsel but got nowhere. The second day Rumor Central received 63 questions, many of them duplicating questions from the first day. The general counsel approved eight responses for “Rumor Central.” Shone was disgusted. He called Evers to his office.

“What else can we do?” he asked. “We’ve got to get employees looking forward.”

“There is so much we don’t know,” Evers said. “We have no idea who the new CEO will be, the new board or what the new strategy might be, if any. If we make promises we can’t keep, it will only be worse.”

“We must say something,” said Shone.

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Questions to discuss:

1. What might the company communicate to employees?
2. Was Shone too concerned about employees? Are they more resilient than he thinks?
3. Was the general counsel in the wrong? If so, how would you argue with him?
4. Was the interim CEO in the wrong? If so, how would you argue with him?
5. What would you do in Evers’ place?