It Takes a CEO

An Interview with Leo Hindery Jr., Managing Partner and Chairman, InterMedia Partners, New York

Leo Hindery Jr.

EDITORS' NOTE *Until October 2004 Leo Hindery was chairman (and until May 2004, CEO) of the YES Network, the United States' premier regional sports network, which he formed in the summer of 2001 as the television home of the New York Yankees. In 1997, Hindery was appointed president of Tele-Communications, Inc. (TCI), then the world's largest cable-television distribution and programming entity, and in 1999 he became CEO of AT&T Broadband, formed by the merger of TCI into AT&T. An active board member for a wide range of philanthropic and political organizations, Hindery is a graduate of Stanford Business School and of Seattle University.*

COMPANY BRIEF *Based in New York, InterMedia Partners is a private investment firm specializing in the media industry. Operating primarily in the United States, the firm makes private equity investments in a variety of sectors within the media and communications industries.*

You recently published a book, *It Takes a CEO*, which has caused much discussion among corporate leaders. What made you feel it was the right time for this type of book?

I thought the book was timely because, despite the alarm and outcry which followed the recent reports of corporate malfeasance, that type of behavior is still continuing. If lessons had been learned, this book might not have been necessary. However, clearly lessons still need to be learned.

With this in mind, I've identified three potential audiences for this book. First, I believe that CEOs themselves might learn something from it. I hope they do. Second, I think it's important for students and younger people to look at the book, because they may well read something that they can usefully apply to their own careers. And finally, I think some members of the general public might be interested in this analysis of the behavior and activities of CEOs and their companies.

Are you saying that corporate behavior has not improved, despite measures like Sarbanes-Oxley?

Sadly, that's right. Like any codified action, Sarbanes-Oxley says, "Don't do these things." But no piece of legislation can change people's behavior by itself. I'm a huge believer in Sarbanes-Oxley, but Congress isn't the best place to codify behavior. I think what's needed is a top-to-bottom re-examination of who companies' constituencies are. Sarbanes-Oxley is like the "do not jaywalk" law. To continue that metaphor, I would like to see more of a review of why we shouldn't jaywalk. What are the implications of it, and what harm is it doing to the country?

You're talking about people changing their fundamental behavior. Is that a realistic expectation?

Perhaps it's not, because there's only so much you can teach people. This is one of the reasons I don't see the point of teaching ethics in business schools: If you don't know good ethics prior to getting to business school, you're never going to learn them. People can teach you the rules, but they can't give you an ethical foundation. Ethics are formed over a lifetime, starting at a very young age. So, if you're a misbehaving CEO, my book is not going to shake you up and cause you to stop behaving badly. It should, however, give all the rest of us some food for thought.

Two main points of interest for me are whether or not senior management should consider constituencies other than their shareholders, and whether or not management itself should be considered a constituency. My answer to the second question is absolutely not. Regarding the first question, I still find it surprising that more than 20 years ago, in 1982, very thoughtful people said that chief executives have responsibilities beyond their shareholders. They said, for instance, that chief executives should also address the needs of employees, customers, and their communities. Then, following Enron, WorldCom, and Sarbanes-Oxley, another group of no-less-thoughtful people started saying, "No, we should only consider the shareholders." To be sure, insensitivity to the needs of employees is not a crime, but it's something that needs to be addressed. Specifically, I'm worried about jobs going offshore unnecessarily, benefits being cut, rewards not being shared equitably, and CEO compensation being hundreds of times the compensation of the average employee. Those are the kinds of things that concern me.

You mentioned the gap between the compensation of CEOs and that of regular employees. Do you see that gap shrinking any time soon?

Many people consider the post-war chief executives to be among last century's greatest CEOs. When the United States redefined itself in the wake of World War II, the CEOs who ran General Electric, General Motors, and what was then called First National City Bank – now Citibank – were great individuals. They typically made about 15 times the compensation of their average employee. If that ratio was fair in 1971, when I left business school, why isn't that ratio still fair in 2005? Look at it this way: If a real estate broker got 5 or 6 percent commission for selling a house in 1971, you would expect him or her to get a similar percentage commission some years later. Something went drastically wrong when a ratio of 15 times the average salary becomes 300 times. Is 15:1 the perfect ratio? I don't know. But I do know that it can't be so wrong that 300:1 is the appropriate alternative.

This kind of compensation gap has a number of effects, none of which are very positive. First, it sets up a class system within a company, which is inappropriate by anybody's measure. It also so exalts the individuals receiving the highest compensation that, in a very short time, they think of themselves as royalty. And third, it belies the premises of America being a meritocracy and of American entrepreneurship. It was never supposed to be the deal that the top guy would make 300 times what the average employee makes. These top people are, at the end of the day, themselves salaried employees. They didn't invent anything. They didn't build a business from scratch. They didn't find a cure for cancer. If these women and men would simply acknowledge that serendipity played a large part in their rises to the top, they might be a bit more sympathetic about this inequity.

You also mentioned unnecessary offshoring. Do you think the advantages of offshoring and outsourcing outweigh the disadvantages?

I draw a keen distinction between offshoring and outsourcing, because outsourcing is largely a domestic phenomenon. With regard to offshoring, I think there's nothing wrong with it in principle, as long as it is honestly arrived at. By that, I mean that you have to look rigorously at your situation, and only when you know that your own business's survival demands that you do it should you even begin to consider it. My problem with offshoring is that, in many cases, the decision to offshore is reached too quickly, without consideration for what it will do to the macro-economy, to the local communities, and especially to employees.

I also think we do everyone a disservice by tolerating offshoring in environments where there are unfair labor practices. Not just cheaper labor, but unfair labor practices – such as using children in unhealthy circumstances at pitifully low wage levels. We also know that many offshore facilities have adopted environmental practices that pollute their surroundings and our world just to give themselves a competitive advantage. We also know that many offshore activities and facilities are heavily subsidized by their governments. Fair trade is supposed to be fair trade. Right now it's just free; it's not fair. However, provided that all those issues are addressed, offshoring can be a positive phenomenon.

The media always mentions the same examples when discussing well-run companies. One of them is Wal-Mart. Do you agree?

From the point of view of the shareholders, I think Wal-Mart is well managed in the short-term. However, from the points of view of its employees and the communities in which it operates, it is abysmally managed. I also think that a more sensitive chief executive would realize that if you continue to eviscerate the middle class, while you may have short-term profit gains, down the road there will be no customers to come into your Wal-Mart stores. I think it's unconscionable that Wal-Mart, the largest employer in the history of the United States and one of the most profitable ever, pays its employees – by its own admission – $9.68 an hour on average. Then it tries to minimize the benefits it gives those employees. For instance, it tries to keep employees working less than full time so that they don't qualify for what sparse benefits there are. If Wal-Mart felt obligations to the country, to its communities, and to its employees that were commensurate with its obligation to shareholders, it would be a much different and, in my opinion, much better company.

In my view, good chief executives should be more vocal about those who misbehave.

After the high-profile corporate governance scandals of a few years ago, there was a feeling that corruption was everywhere. Positive messages weren't getting out. Do you think CEOs should speak out more about their good behavior?

I think one of the great tragedies of these scandals is that very good executives are being painted with the brush of malfeasance and sometimes corruption. In my view, good chief executives should be more vocal about those who misbehave. I want people who have impeccable reputations to stand on their bully pulpits when one of these fellows does something wrong and say, "No more!" Don't put your hands over your ears, or try to cover your eyes, or hope that it will go away. Call it what it is. If you are not one of them, say so. If you don't believe in that kind of misbehavior, say so.

How much has Sarbanes-Oxley increased or transformed the workload of CEOs?

Unfortunately, Sarbanes-Oxley has given chief executives a heavy burden, and I wish that was not the case. However, taking that burden away would imply that all the misbehavior has been found and will never occur again, and that's craziness. In fact, some of the greatest misbehaviors have appeared since Sarbanes-Oxley came into effect.

It often seems as if the same few people are doing the top corporate jobs. Is the "old boy network" still alive and well? If so, what can be done to bring in fresh new talent?

I think the old boy network is alive and well. It's the same thing that oppresses professional and college sports, with the same coaches and managers showing up over and over again. The easy solution to this problem is to reform boards. The old boy network is emboldened and continues because boards are part of the network. If board members really believed that they were objective observers and managers of management, on behalf of multiple constituencies, they would break down this cycle. And they must do that.

What is the role of today's boards of directors?

There are examples of great boards that do, in fact, oversee management. There just aren't very many of them. In my opinion, boards primarily represent the interests of shareholders and employees. They're not the greatest tools for representing communities and customers, which tends to be much more the responsibility of management. I have no doubt that good boards protect the interests of employees and shareholders, which is why I say that self-regulation is always the best way to go. I think it's a shame that New York Attorney General Eliot Spitzer has had to be so active in policing corporate governance. Thank God he was there to do it, but it's a shame that the self-regulation model made his role so necessary and in turn so demanding.

Does it ever surprise you that some leaders who are pretty smart seem disconnected from the reality of other people's lives?

It surprises and saddens me, because every person I've ever known who has been successful will tell you honestly that they got there through the grace of God and somebody else's help. We were not born into these jobs. We certainly earned them, but we earned them with the grace, support, and sensitivity of people around us – plus a whole lot of good luck. Later in your career, you tend to forget the luck, the mentors, and the fact that the women and men to your left and to your right are probably just as talented as you. The world of the arts offers an excellent illustration of this process. All of us have come across great but unknown artists and wondered: Why has he or she not made the big time? In their cases, it's often all about luck. Yet in many cases, when managers reach exalted positions, they immediately forget about the luck and support which helped get them there. They forget the mentors who pushed them up that hill, they forget the men and women who work long, hard hours to make them and their companies succeed, and then they happily take the rewards. It's pitiful. ●