THE BUFFETT NEWSPAPER TEST: WHAT IT MEANS AND WHY IT'S IMPORTANT

Transparency and consequences can be powerful leadership deterrents. For the board and CEO and their personal brands, the critical question is, what will key decision-makers in their organisation do in situations when no one is watching?

When the subject of ethical and responsible business behaviour arises, Warren Buffett advises managers to evaluate every action they take — and not just by legal standards, but also by what he calls the "newspaper test."

When managers have any doubt about whether a decision or action is right or wrong, they should imagine how they would feel if it were reported the following day in the local newspaper, with the assumption that the write-up is authored by a smart but unfriendly reporter and read by the manager's family, friends and neighbours. Buffett's bottom line: If your decision or action passes this test, it's OK; if it doesn't, it's not.[1]

This test isn't just about transparency. It's also about consequences, as illustrated by another well-known Buffett quote:

> It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently.

The test itself is not a morality play. It's more about the reality of losing one's legacy and the spectre of permanent damage to one's personal brand. That reality alone makes the Buffett test one of preserving and sustaining reputation and the right to play.

[1] "Billionaire Warren Buffett Has a 'Simple' Test for Making Tough Decisions — Here's How It Works," by Tom Popomaronis, CNBC, May 11, 2019: www.cnbc.com/2019/05/10/billionaire-warren-buffett-use-this-simple-test-when-making-tough-decisions.html.

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One CEO describes the test to his direct reports this way: Be aggressive, but if you end up on the front page of *The Wall Street Journal*, think about how you would explain the situation to your kids, grandkids and mother. To a certain extent, this is about enlightened self-interest — that is, the recognition that behaviour in the interest of the group to which one belongs ultimately serves one's self-interest.

We frequently see examples of individuals failing the Buffett test, such as using sales practices that deviate from a company's core values; cutting corners on safety to reduce costs, accelerate speed to market or generate more revenue; installing software to defeat environmental emissions tests; leveraging one's professional stature to sexually harass a subordinate; circumventing established internal controls to engage in fraud; and using offensive, racist language for years in personal emails. These are but a few examples and, whether those involved are C-level executives, rainmakers, industry luminaries or rank-and-file employees, eventually, the chickens come home to roost. Exposure is inevitable. Even if one doesn't know how it will happen or when it will happen, one thing is certain: When the story breaks, the societal response will be swift.

Given discovery is just a matter of time, why is it that smart people fail the test? Psychologists point out that motivations vary. They span a continuum that includes narcissism, sociopathic tendencies, lack of empathy, and falling prey to the slippery slope of starting with small acts and progressing to larger, more noticeable ones. These motivations present a challenge, particularly for those who fall into the "rules don't apply to me" category.[2] Greed can also be a driver, as there is a fine line between that and acting aggressively in a business environment.

For those who aspire to act ethically and responsibly, decision-making processes are the ultimate reflection of how corporate values manifest themselves into action. When reviewing the reputation-damaging outcomes of flawed decisions, one wonders if a different decision might have been reached had this simple rule been applied: *Conduct the decision-making process as if the company's stakeholders were observing.*

There are a few corollaries to this rule:

- Make sure the decisions reached reflect corporate values and are defensible once the organisation's stakeholders know what's been decided.
- Never assume the decision and its attendant consequences won't ever be displayed for all to see.
- When you write a letter, send an email or post on social media, assume the entire world is reading.
- When you're acting out in public, assume you're being recorded.

In essence, make decisions as if stakeholders are in the room. If a decision is likely to drive consequences that will lead the C-suite and board to "stop the show," circle the wagons, end careers and engage in damage control once the sunlight shines on it — meaning the public, customers, suppliers, regulators, investors and legislators learn about it — then someone has to ask, "Why do it?"

For boards and their CEOs, this conversation is about preserving their personal brands and recognising that their respective legacies are inextricably tied to the corporate brand itself. Thus, for the company's leaders, incorporating the Buffett test into the thinking of decision-makers is a reputation play.

[2] "Why Do Some People Commit Fraud? Psychologists Say It's Complicated," by Sarah Watts, *Forbes*, March 21, 2019: www.forbes.com/sites/sarahwatts/2019/03/21/the-psychology-behind-scamming/?sh=ee05e2d34470.

Below are three actionable steps for boards to consider:

1. **Focus on aligning the organisation around core values and supporting the brand promise.** Given the mobility in the workplace, winning hearts and minds is an imperative that never ceases. To that end, the CEO's message from the top around core values and what the company stands for has never been more important. The board should understand the message — and encourage the CEO to implement processes to ensure that it makes an impact.

   For example, confidential employee surveys conducted by an independent third party can provide feedback on the "mood in the middle" and the "buzz at the bottom" of the organisation. These surveys can be quite effective if the CEO really wants to know the unvarnished truth about organisational alignment, is committed to implementing necessary improvements, and supports making the survey results and subsequent improvement efforts transparent to employees.

2. **Set appropriate boundaries to reduce risk.** Ultimately, the CEO and board own the responsibility to protect the enterprise's reputation. Their task: Encourage key decision-makers across the company to engage in ethical and responsible business behaviour consistent with the organisation's core values. That task revolves around laying out the "sandbox" within which decision-makers function based on applicable laws and regulations, and internal policies. That entails articulating boundaries, which include:

   - The risks the organisation is willing to accept (e.g., risks inherent in the strategy).
   - The risks the organisation intends to avoid at all costs (e.g., operating in countries with high corruption risk, making extreme market bets, and exposing the public to health and safety risks).
   - The strategic, operational and financial parameters (many of which are often included in the CEO's "road show" for investors) expressed as targets, ranges, floors or ceilings, which provide a context for establishing risk tolerances and limit structures.

   Yes, it's important to be aggressive in pursuing entrepreneurial opportunities, but it's also crucial to clarify the parameters around those pursuits. Performance incentives are a critical component of creating this clarity. Extreme financial incentives should be avoided.

3. **Foster diversity and a participatory culture.** Building a trust-based, resilient corporate culture founded on mutual respect starts with valuing the differences in thought, experience, gender, sexual orientation, ethnic background and more. When diversity and inclusion are embraced as core values, and open dialogue is encouraged and expected, it's easier to avoid the groupthink and unconscious bias that contribute to missing long-term growth opportunities and creating new threats to the business model.

   Building trust also begins with a passionate focus on improving the customer experience and interactions with other key stakeholders. It's supported by data-driven systems that inform and underpin decision-making with a "single version of the truth." A participatory, speak-up culture also requires effective escalation processes.

This discussion is not about morality. It's about focusing employees on what the company stands for and having the necessary plumbing in place to reinforce expected behaviours.

Periodic training can be helpful, but it only builds awareness of the importance of ethical and responsible business behaviour. The above suggestions can help instil buy-in and ultimately lead to ownership. A commitment to do what is right strengthens the commitment to the company and its brand promise.

Questions for Boards

Following are some suggested questions that boards of directors may want to consider, based on the risks inherent in the company's operations:

- Do leaders within our organisation want everyone with a relevant point of view to have a voice in the decision-making process? How well do our key decision-makers handle contrarian views? Do our employees believe they have an opportunity to speak up when they have concerns? How do we know?
- Do we screen board member, CEO and other senior executive candidates with a values-based interviewing process to ascertain alignment of personal and corporate values?
- Do we have a sufficient mix of genders, ethnicities, career experiences, and ways of thinking in the boardroom and C-suite and across our organisation that contribute to a more diverse dialogue and aware mindset in our decision-making processes?
- Are we satisfied that our company's culture sufficiently emphasises treating people with respect and supporting individuals challenging something wrong or unsafe? Do we have processes for soliciting ideas for improving or reimagining processes and functions, and do we give the ideas submitted appropriate consideration? Are we seeking advice from outsiders who can bring fresh viewpoints to the table?

How Protiviti Can Help

Protiviti assists boards and executive management with assessing the risks inherent in the enterprise's strategy and business plans — across the entity or at various operating units — and the capabilities for managing those risks.

We help organisations identify and prioritise the risks that can impair their reputation and brand image and lead to failure to execute the corporate strategy successfully. By focusing on ensuring the opportunities and risks that matter are addressed appropriately on a timely basis, organisations are better positioned to face the future confidently.

Protiviti partners with the National Association of Corporate Directors (NACD) to publish articles of interest to boardroom executives related to effective or emerging practices on the many aspects of risk oversight. As of January 2013, NACD has been publishing online contributed articles from Protiviti, with the content featured on https://blog.nacdonline.org/authors/42/. Twice per year, the six most recent issues of *Board Perspectives* are consolidated into a printed booklet that is co-branded with NACD. Protiviti also posts these articles at protiviti.com.

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