A Dangerous Pattern: Rewarding Failure

Over the past few months there has been growing anger and frustration about outsized Wall Street bonuses awarded by institutions that were rescued by taxpayer funds. At the core of this anger is the feeling that the pursuit of big payoffs caused bankers to develop complex products and take big risks which ultimately caused the financial system to crash — and if this dynamic is not curbed, it will happen again. At the same time, there is also a feeling, reinforced by President Obama, that Wall Street bankers have not really been held accountable for their risky actions and, in fact, are being unduly rewarded while everyone else continues to suffer.

Unfortunately, the focus on Wall Street masks a more dangerous pattern of rewarding failure that is deeply embedded in the highest levels of corporate and governmental culture. For example, President Obama's point person for reforming Wall Street is Treasury Secretary Timothy Geithner. But somehow Geithner himself has not been held accountable for the financial crisis. This is despite the fact that as president of the Federal Reserve Bank of New York Geithner was responsible for the supervision of Wall Street banks. His reward for allowing these banks to create unsustainable balance sheets: He was made Treasury Secretary.

Similarly Geithner's boss in the Federal Reserve, Ben Bernanke, was not held accountable for the interest rate and regulatory policies that some say caused the crisis. Instead, he was confirmed for a second term by a wide margin in the Senate. And to complete the failure trifecta, Lawrence Summers, who supported many of the policies that caused the financial crisis and resigned from his position as President of Harvard after making unfortunate statements about the capabilities of women, was given a senior role as a White House economic policy advisor.

But this culture of rewarding failure is not limited to the highest levels of government. Virtually every senior corporate leader of a failed institution walks away with millions of dollars. Many move on to other senior corporate jobs or board positions. Take Robert Nardelli as an example. After not getting the top job at GE in 2001, Nardelli became the CEO of Home Depot where he made a series
of strategic missteps and displayed an arrogance that alienated employees and customers. After being ousted from that job (with millions of dollars) he was hired by Cerberus to turn around Chrysler — another failure which ultimately resulted in its acquisition by Fiat. And while thousands of Chrysler employees and dealers lost their jobs and their incomes, again Nardelli walked away with his fortune intact and enhanced.

None of this is to blame Geithner, Bernanke, Summers or Nardelli. The point of this argument is that at the highest levels of government and corporations, we have accepted a culture of rewarding failure. That is why perhaps the best job in America is to be a failed CEO. You receive millions in severance and are once more given opportunities to either try it again, or serve on a board of directors where you can again escape accountability for failure. In fact, while President Obama calls for "clawbacks" of banker's bonuses, nobody seems to be calling for directors to return the compensation that they received for poorly "supervising" financial institutions and other corporations that struggle or fail.

Steve Kerr, former chief learning officer of GE and Goldman Sachs, notes that the biggest problem with compensation is what he calls "asking for A while rewarding B." If we are serious about asking for excellent performance, then we have to stop rewarding failure. It's a simple equation — and until we get it right, the President's calls for greater accountability will have a hollow ring.

What do you think?

Ron Ashkenas' blog post on Harvard Business Review
http://blogs.hbr.org/ashkenas/2010/03/a-dangerous-pattern-rewarding.html