

ethikos Volume 34, Number 12. December 01, 2020 CEOs and 'I don't do that!'

By Marianne Jennings

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In an episode of the 1970s television series, *The Mary Tyler Moore Show*, Mary's neighbor, Phyllis Lindstrom, over-planner, worrier, and meddler, was poised, once again, to wreak havoc. Mary tries to explain to Phyllis that she is exaggerating things as she always does. Phyllis, shocked, responds, "I don't do that. My mother did that." There are several other times in the episode that Phyllis, when warned about her pattern of inappropriate behaviors, repeats, "I don't do that. My mother did that." With Mary's final warning, Phyllis repeats, "I don't do that. You just do not know me, but it is amazing how well you know my mother."

Introspection of our own behavior is a tall order. Our self-evaluations always come out higher than those done by others. As individuals become leaders, increasing self-confidence suppresses introspection. When yet another leader's often bizarre behavior emerges in the news, déjà vu abounds. It feels as if we are living through a form of CEO Groundhog Day, in which the behavior patterns repeat, but the lessons from others, whose hubris felled them, are not studied or learned. The patterns, as well as the consequences to organizations, repeat and repeat. Breaking those patterns is also a tall order. Too many leaders fail to see the dangers of the road too often taken and upon which they have chosen, blindly, to tread.

Pattern one: The entrepreneurial CEO charmer

The latest leader to crash is the now-former CEO at Nikola Motor Company. Nikola, a manufacturer of electric and hydrogen-powered semitrucks, takes its name from Nikola Tesla, an inventor in the 1800s who advanced electric motor technology. Like its car-manufacturing counterpart Tesla Inc., Nikola was embraced by the markets and even had General Motors (GM) along for the ride, as it were, as a \$2 billion investor (11% stake)^[1] in a company that has yet to produce either revenue or even a truck.

Example one: Nikola

Nikola had just gone public in June 2020, and it had (until the fraud investigation began) a charming founder and CEO, able to bring underwriters, investors, and GM along for the ride. At one point, Nikola's value was greater than that of Ford.^[2] Now, with two analyst^[3] reports^[4] questioning the legitimacy of the company, a U.S. Securities and Exchange Commission fraud investigation,^[5] a stock price down 50%,^[6] and a market value drop from \$30 billion to \$11 billion, we have a CEO who has stepped down and a GM executive tapped to step in as CEO. No one knows if and when the trucks will roll. A short-seller report alleges that is all the trucks can do—roll. A report by Nathan Anderson, founder and CEO of Hindenburg Research, concludes that the video of a Nikola truck is deceptive because the truck was in motion only because it was rolled down a hill. Nikola has acknowledged that the truck shown in the video was not moving on its own electric power.^[7]

Example two: Theranos

If this series of events sounds familiar, well, it is. Remember Theranos and its former CEO, Elizabeth Holmes? An entrepreneur who dressed like Steve Jobs was able to sell a promising instantaneous blood test that you could get at your nearby Walgreens.^[8] Holmes, awaiting her fraud trial, snookered Wall Street, investors, and a good portion of Silicon Valley. The technology never really existed. Worse, those involved as investors never really pushed to see the technology. The investors lost \$700 million.

Example three: Martin Shkreli

There are more examples. Martin Shkreli was yet another young entrepreneur who left after four years as a hedge fund employee to start two companies before founding Turing (a pharmaceutical company). His rising star and charismatic promises of a new way of doing business attracted attention from both the markets and regulators. He was eventually charged with securities fraud at his first two companies and, following a conviction and forfeiture of over \$7 million in assets, is now serving seven years in prison.^[9] He was described by those who worked with him as “brilliant”^[10] and a “visionary,” but lacking CEO skills.^[11] Prosecutors convinced a jury that he did, however, have the skills for a Ponzi scheme.

Example four: Adam Neumann and WeWork

When Adam Neumann, cofounder of WeWork, was being courted by the best-of-the-best investment bankers for its forthcoming initial public offering, no one spotted the pattern. During the time of scrambling by bankers to win this business, this author found herself saying, “Don’t do it! Don’t fall for it again!” Sure enough, the company’s books raised flags at the U.S. Securities and Exchange Commission, including possible rule violation in the run-up to the company’s failed initial public offering.^[12] The problem of governance issues at the company, including conflicts of interest, also arose in the time leading up to the initial public offering.^[13] When investors learned in the lead-up to the initial public offering that the company was worth \$15 billion, not \$47 billion, Neumann was soon gone as the company’s CEO.^[14] However, the pattern was clear long before that—another charming entrepreneur with a new idea, high company value, and the promise of more, more, more. In fact, market analysts have referred to these types of CEOs as those who specialize in “yoga babble.” They promise a great deal but rarely deliver earnings. Just a look at the company’s cash burn rate should have raised a flag or two. WeWork is now selling off properties to survive.^[15] The alleged billions in value did not exist.

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