



ETHICS IN THE ENERGY INDUSTRY REVISITED

The power industry has changed. In the last three years, many failures and changes have transpired in the energy, financial and other old guard industries since my commentary entitled, “Ethics and Leadership Should Be a Cornerstone in the Power Business” appeared in *Electric Light & Power* in the spring of 2003. To quote Coach John Wooden, “Failure is not fatal, but failure to change might be.” The power industry has taken heed.

Post-Enron changes, albeit questionable about the effectiveness of some, include positive changes. Firms are getting back to basics and shedding non-performing assets and business areas. Rather than pushing the Wall Street mentality of “revenue and profit at all costs”, which fostered off balance sheet transactions and questionable sales practices, more than one energy company leader has achieved a major turn-around by focusing on the rock-solid commitment of their valued employees. Today, given stockholder pressures, a trend in the power industry indicates that a privately owned utility company may have an advantage over a publicly owned firm. Quoting David Sokol, Chairman of MidAmerican Energy Holdings Company, from an interview that appeared in the November, 2006 issue of *Electric Light & Power*:

It is definitely a positive in our case. It's been a positive for us and it can be a positive for others, if their intention by going private is to create a long-term investment horizon for that regulated body.

We did it back in 1999 because it was our view that the markets were trying to pressure, and continue to try to pressure, regulated utilities to make short-term decisions for quarterly earnings, when the utility industry planning horizon is by nature long term. We felt that the short-term mentality of the stock market was the wrong place to be.

This has proven true for us in the last seven years, and my only criticism is that we didn't go private sooner.

Putting the public vs. private ownership issue aside, it is evident that some of the underlying errors in thinking, responsibility and judgment still remain from the “new economy” mentality that tarnished the reputation of solid, old guard industries, or the resignations, indictments and guilty verdicts of corporate leaders would have slowed down by now.

The Sarbanes-Oxley legislation that sought to improve corporate governance standards has brought about compliance, but at a considerable price. The cost of Sarbanes-Oxley has not gone unnoticed by congress. According to Senator Elizabeth Dole, R-NC, a member of the Senate Banking Committee, “We must ensure that businesses and shareholders receive a benefit from this law that is commensurate with the burden it creates ... this balance does not currently exist, and the cost of section 404 of Sarbanes-Oxley outweighs the benefits, placing American companies at a disadvantage in the global marketplace.”

In addition to the global business disadvantage, Sarbanes-Oxley has not fostered long-term ethical choices either. The ethics issue goes much deeper into the character of a professional and integrity cannot be legislated into adherence at any price. The energy industry requires well-qualified technical professionals with the knowledge base to solve current and future global energy challenges. However, not everyone qualifies. To quote Samuel Johnson, the eighteenth century English writer and thought leader, "Integrity without knowledge is weak and useless, and knowledge without integrity is dangerous and dreadful."

The power industry, in its turn-around, took a major step forward by looking internally to its people, largely engineers and technical professionals with a higher set of standards for their actions. It is from our experience that the more highly technical an industry, the better to encourage the technical professionals on staff to be at the forefront of developing business and growing the bottom line. This is true in our opinion, because above all, technical professionals know what problems and issues need to be addressed for clients.

After nearly three decades working in cutting-edge industries, we've discovered it is more efficient and effective to teach technical professionals to think like business persons, than to expect sales people with traditional sales thinking to really understand clients' perspectives and act accordingly for their clients' benefit. Engineers and scientists look externally to solving client problems; sales people look internally at making quotas. In learning to think like a business person, an engineer can look at the business ramifications of a technical issue and think in an externally focused way from the client's point of view to find a solution to the problem. It's the notion that serving the client should be placed above profit that is inherent in the engineering profession and believing that in the long run, these are not two mutually exclusive concepts.

With MidAmerican named the 2006 *Utility of the Year* by ***Electric Light and Power***, it seems that Sokol adheres to some of the same principles:

The key to running our business is quality, dedicated people, and consistent expectations that people live within our core priorities and core principles.

When we hire people, our philosophy is we want three things in people: We want absolute integrity, we want high intellect and we want a passion about what they do. If you surround yourself with those kinds of people, and I think we've done a very good job of doing that, you end up with a great organization.

The one caution is, it's absolutely critical that you have all three of those things. If you can't have integrity, you definitely don't want the other two, because as we've seen in our industry, people with high intellects and passion but with low integrity can make a real mess.

Again, the ***Engineers Creed*** states this same philosophy for the power industry better than any legislation ever could: "to place service before profit, the honor and standing of the profession before personal advantage, and the public welfare above all other considerations."

By remaining true to the Creed, this renewed focus on trust and integrity can *and is* rebuilding the power industry from the ground up, instead of running it to ground. Perhaps other industries in need of positive post-Enron change should consider adopting it as well.

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