AN ETHICAL ANALYSIS OF ORGANIZATIONAL POWER AT SALOMON BROTHERS

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Liar's Poker
Michael Lewis
(New York: W.W. Norton & Company, Inc., 1989)

Michael Lewis' book, *Liar's Poker*, presents a scary picture of behavior within the investment community. While this portrayal is interesting in its own right, it presents us with an opportunity to subject real business behavior to analysis and suggestions for reform. As such, the issues raised here transcend a mere review of the book's plot and prose. Real business behavior, described in gory detail by Lewis, will provide the basis for a moral analysis. Machiavelli's *The Prince* will provide the framework for most of this analysis.

If business ethicists are going to reform business organizations, they should undertake three activities: (1) a systematic description of the existing situation, (2) a judgement as to the rightness and wrongness of company activities and (3) recommendations for changes in organizational structure, operating policies and reward systems. Clearly, the first two functions are within the primary domain of the philosophy branch of business ethics, while the third function is within the primary domain of the management branch of business ethics. The latter depends upon the former. I will subject Salomon Brothers to this tripartite program. But first, a brief digression about the book itself, and its author.

During the 1980s, Salomon Brothers was considered the most profitable firm on Wall Street. Michael Lewis was one of the one hundred and twenty-seven members of Salomon Brothers' training class of 1985, and was employed by the firm for two-and-a-half years. His narrative of the organization will be used to develop an ethical analysis and plan for change.

A system of analysis developed in Machiavelli's *The Prince* will be used to describe organizational life, while the principles of common morality will be used to cast judgement. This type of organizational analysis can be used to reveal the ethical standards of any organization and highlight salient issues for reform-minded management scholars to explore and change.

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A Machiavellian Organizational Analysis

Niccolo Machiavelli, citizen of Florence, Italy, was a lover of democracy. Nonetheless, he did not let his prescriptive desires interfere with his description of how princes obtained political power. Machiavelli's approach significantly differed from Aristotle and Aquinas in that he was not concerned with the pursuit of just or godly actions that would generate just or godly political communities. Rather, like most modern organizational theorists, Machiavelli maintained that the ultimate concerns of leaders are power and control. Also like most modern organizational theorists, Machiavelli proposes a contingency theory devoid of moral considerations as the most useful theory for understanding how to achieve these goals. The concept of "right" is assigned to any technique that generates the desired goal. The concept of "wrong" is assigned to any technique that falls short of accomplishing the desired goal. After the fact, any of the many paths that lead to the top of the mountain is admirable regardless of the trials and tribulations experienced along the way. However, prior to taking on this adventure, common sense dictates that one should choose the path already forged by those who achieved the ultimate goals of obtaining and maintaining power and control over others.

Machiavelli offered "the Magnificent Lorenzo de Medici" a sequential three-step power teleology derived from his study of history and his own personal experiences as a government official in Florence: first, one must obtain power; second, one must maintain temporary power; and lastly, one must maintain permanent power. The manner in which one obtains power depends upon one's starting position and environmental characteristics. That is, power could be obtained through heredity, virtue, military force, fortune, crime, support from fellow citizens or support from the current ruler. Each method has its own strengths and weaknesses. The weaknesses should be recognized and amended. Certainly, some paths are easier to follow. For instance, it is easiest to conquer people who support the prince, share the same language and customs, have never experienced liberty and are dissatisfied with their present rulers. Most importantly, the prince must be able to successfully manage other ambitious people who want to do unto others that which they don't want done to them, namely, be the oppressor rather than the oppressed.

Once power has been obtained, the prince must manage the maintenance of temporary power. He should live amongst the people, establish colonies of loyal citizens, have a strong and supportive standing army, protect lesser powers, weaken the existing powerful, attack foreign threats before they attack and form alliances with friends. The prince should masterfully create disorder if none exists and then resolve it. This turns people's affections to the new prince. If certain inhumane acts must be performed, particularly in societies accustomed to liberty, then the prince should initially put in power someone who is cruel to perform the necessary evil deeds. The prince should let this person become the object of people's scorn. If need be, the prince could then earn the respect and admiration of the people by either replacing the cruel ruler or killing him.

Lastly, the ultimate goal for the prince is to maintain permanent power. This can be achieved by keeping the people inspired, developing a strong army that is feared but not hated, and being held in high esteem. Manners in which the prince could be held in high esteem include carrying on great enterprises, being a true friend to friends and a true enemy to enemies, disassociating oneself from powerful people who attack others and giving recognition to virtuous people. Importantly, the prince should achieve some Aristotelian mean states in governing people. The prince should obtain a mean between the art of war and art of amenities, liberality and parsimony, and cruelty and mercy. The prince should be feared but not hated. The easiest way to become hated by male citizens is to treat them violently, steal their property and take their women. Other recommendations for maintaining permanent power include: surround oneself with capable and faithful ministers, listen to the wise men and not the flatterers, take counsel when one wants to and not when others want it, be a very broad questioner, be a good listener, become angry at people who are hesitant to talk about important issues, be wise as an individual and try to control one's luck.

Using the Machiavellian power teleology, I will perform a "power analysis" of Salomon Brothers based upon data provided by Michael Lewis in *Liar's Poker*. It is important to realize that this analysis is simply descriptive. At this point in the analysis no effort is taken to judge these activities as right or wrong. Simply put, how did people at Salomon Brothers obtain power, maintain temporary power and maintain permanent power?

Obtaining Power. A good portion of *Liar's Poker* tells the story of management trainees entering the managerial ranks of Salomon Brothers. Over six thousand people had applied for the one hundred and twenty-seven available positions in the training program. Lewis describes two unique groups of management trainees: front row people and back row people. Those sitting in the front row of the training session attempted to obtain power by kow-towing to managing directors. For instance, a favorite front row question of guest speakers, particularly if the guest speaker was a managing director, was: "I was just wondering if you could tell us what you think has been the key to your success?" (p. 46).

Those sitting in the back row of the training session applied a reverse logic. They would humiliate and ridicule guest speakers and other trainees rather than show them reverence. This demonstrated to those willing to notice that those sitting in the back row had the makings of good jungle fighters, the assumed personality traits of a successful bond trader. They thought it essential to shed "whatever refinements of personality and intellect they had brought with them to Salomon Brothers" (p. 41). This group modeled their behavior based on a "postgame shower," displaying their rowdiness by throwing spitballs at speakers and attentive listeners, reading newspapers during presentations, putting down speakers through complex and sometimes nonsensical questions, connecting a porno recording to the speaker's microphone, betting with bookmakers and taking bets amongst themselves on how long it would take a Japanese trainee to fall asleep after a presentation began. It was their understanding of the corporate culture that this was the type of behavior that led to advancement.

Other methods used to obtain power by the management trainees, almost all of whom were recruited from top tier universities, included: (1) attachment to a mentor — typically referred to as a "rabbi" or "jungle guide"; (2) attachment to money—become a bond trader rather than a salesman; (3) manipulation—become desirable to a manager early during the training session and then make it clear to other trainees and managers that you are being pursued; (4) humiliate a hierarchical superior—in particular the female training director; (5) heredity; and (6) nationality—the Japanese were a protected species.

Three management trainees were fired from the program, thus demonstrating methods that did not result in power attainment. One person refused an assignment in Dallas, one person invited a senior female executive into a "menage a trois" (according to Lewis, "the firm tolerated sexual harassment but not sexual deviance", p. 50), and one person was so stricken by fear of entering the bond trader's pit that he was unable to get off the elevator and onto the trading floor.

Women, for the most part, were unable to obtain power. The heroes at Salomon Brothers were the bond traders. In the tradition of resource dependency theory, it was their successful determination of when to buy and sell bonds that fueled their organization-wide power base. Salomon's glass ceiling was its policy of excluding women from this power base. Lewis notes that (p. 67):

> At Salomon Brothers men traded. Women sold. No one ever questioned the Salomon ordering of the sexes. But the immediate consequence of the prohibition of women in trading was clear to all: It kept women farther from power.

Although women were perceived as lacking the virility necessary to become successful jungle fighters, nature endowed them with a competitive advantage over men in sales, particularly if sales entailed wining and dining clients. They were able to appeal to the sexual fantasies of the many male customers.

Salomon Brothers also had glass walls that tended to isolate women from managerial activities. One of the biggest barricades was overcoming or neglecting the gutter language that accompanied every other word spoken by the traders. Sexist jokes and analogies were common. For instance, a speaker from equities was fond of comparing a ticker tape to a woman: "nothing that promises, hour after hour, day after day, such sudden developments; nothing that disappoints so often or that occasionally fulfills with such unbelievable, passionate magnificence" (p. 64). Some men were asked in job interviews how often they had sexual intercourse. The following extensive explanation of success at Salomon Brothers demonstrates the pervasiveness of the sexual analogies (p. 46):

> A new employee, once he reached the trading floor, was handed a pair of telephones. He went on-line almost immediately. If he could make millions of dollars come out of those phones, he became that most revered of all species: a Big Swinging Dick. After the sale of a big block of bonds and the deposit of a few hundred thousand dollars in the Salomon till, a managing director called whoever was responsible to confirm his identity: "Hey, you Big Swinging Dick, way to be." To this day the phrase brings to my mind the image of an elephant's trunk swaying from side to side. Swish. Swash. Nothing in the jungle got in the way of a Big Swinging Dick.

For a woman to break through the glass ceiling and walls, besides making money, she had to either ignore the language and macho behaviors, adopt the language and macho behaviors, or succumb to the seduction of a male superior. Although a mistress could never achieve a position of equality to her seducer, she could advance through the organization on his coattails.

Maintaining Temporary Power. In addition to making profitable trades, three frequently invoked methods undertaken by Salomon Brothers employees to maintain temporary power over other people were work-related myths, humiliating subordinates and humiliating peers and superiors. A common myth fostered among the bond traders was that the trading floor was like a jungle and that "a trader is a savage, and a great trader a great savage" (p. 41). To survive, and only the fittest survived, one had to act as a "he-man." Typically, the stories overplayed the importance of skill and underplayed the importance of luck. By listening to these war stories and oral traditions, one quickly learned who was deserving of respect and who was fair game for humiliation.

Second, managers maintained their power over the trainees by making them "wriggle and squirm." The squirming began immediately. Before beginning the program, management had allowed the trainees to falsely assume that they were assured employment after completing the training program, a misperception that was clarified once the program began. Generally, trainees were "made to understand, first, that inside Salomon Brothers he was ... lower than whale s _ _ _ on the bottom of the ocean floor and, second, that lying under whale s _ _ _ at Salomon Brothers was like rolling in clover compared with not being at Salomon at all" (pp. 48-49). The trainees were verbally abused and viewed as idiots, freeloaders and cost-centers. In order to establish their superiority, speakers would purposefully ask questions that trainees couldn't answer. Being ignored by a trader meant that the trader was polite.

Third, a person's power over others was cemented by demonstrating that one could publicly humiliate peers and superiors. The bond traders, the most powerful group of people in the firm, exercised their right to ridicule everyone else in the company. The organizational message was "join equities and kiss ass like Willy Loman; join bonds and kick ass like Rambo" (p. 63). The bond salesmen were fair game for ridicule because their bonus was dependent upon trading floor profits. The finance and accounting people were fair game for ridicule because they were cost-centers far removed from where the money was generated. Some of the abuse was physical, such as hitting people walking by in the head with a telephone receiver connected to a very long chord. Only one bond salesman humiliated the traders. Nicknamed "the human piranha," he was extremely knowledgeable about trading and would denigrate traders over the loudspeaker for misquoting a price to him. This won him worship among the other bond salesmen.

Other techniques used by employees to maintain temporary power over others included the job selection process (threaten people with the job of selling equities in Dallas), wages (the wider the gap the greater the power), separate and not equal activities (the greater the perks and isolation of a particular group the greater the power), external appearances (only those who made it could smoke cigars and wear red suspenders with gold money signs on the suspender holders), restrict access to public outlets (only upper level managers could brag in public about his or the company's good fortune), building structure (the bond trading floor was one flight above equities and had its own separate elevators) and exploit the customer (employees were rewarded for dumping bonds owned by Salomon Brothers that were due to decline in price on unsuspecting customers; Salomon Brothers employees purposely lost a softball game to them).

Permanent Power. Only one method for maintaining permanent power is discussed in the book—keep the money coming out of the phones. For the most part, the managers at Salomon Brothers were not engaged in permanent power games. Rather, the goal was to maintain temporary power until a more lucrative job became available.

The beauty of Machiavellian analysis is that it systematically directs one to the heart of organizational relationships. The beast of it is that the rightness or wrongness of activities is defined in terms of whether or not they result in obtaining the desired goal—power. Machiavelli's infamous reputation lies in his failure to categorize some techniques as possessing greater moral status than other techniques. He lacked deontological boundaries. Machiavelli is correct in that power is a value-neutral concept. However, the concept loses its morally neutral status in terms of the answers given to two important questions: (1) what was the nature of social relationships in the accumulation of power and (2) how was power exercised.

One method of evaluating power is to use the principles of "common morality." In *Corporate Strategy and the Search for Ethics*, R. Edward Freeman and Daniel R. Gilbert reformulate Immanuel Kant's two categorical imperatives in terms of general principles of common morality. These are common sense duties that, for the most part, morality demands of us. The five principles of common morality are: promise keeping, nonmalevolence, mutual aid, respect for persons and respect for property. It is based upon these principles that morally questionable activities will be highlighted for consideration in changing a company's structure, operating policies and reward system. In this sense, business ethicists serve as gadflies, stinging the established organizational network in areas needing reform. Once the ethical weaknesses are revealed, changes are required in organizational structure, operating policies and reward systems to address these issues.

Promise Keeping. Promises were not kept in two areas of company operations. First, trainees were lied to about the nature of their relationship with Salomon Brothers upon accepting a position in the training program. Second, the bond salesmen did not always tell the customer the truth about the actual and anticipated value of the bond. According to Lewis, when the company had to sell bonds for the soon to be bankrupt Revco drugstore chain someone announced over the loudspeaker: "C'mon, people, we're not selling truth!" (p. 62).

Nonmalevolence. There was only one instance of physical harm reported in *Liar's Poker*, the throwing of telephone receivers at people. If the concept of nonmalevolence is extended to include economic and psychological harm, many more issues rise to the surface. From an economic perspective, the salesmen were not necessarily looking after the best interests of their customers. From a psychological perspective, there existed a pecking order for ridiculing employees, particularly women. These issues, however, fall more neatly under the principle of respect for persons.

Mutual Aid. Mutual aid, for the most part, was nonexistent. The myth of being a savage dominated working relationships. The savage's enemies included one's organizational superiors, peers and subordinates, as well as competitors from other firms. The following paragraph is Lewis' description of life in general on the trading floor (pp. 69-70):

> Because the forty-first floor was the chosen home of the firm's most ambitious people, and because there were no rules governing the pursuit of profit and glory, the men who worked there, including the more bloodthirsty, had a hunted look about them. The place was governed by the simple understanding that the unbridled pursuit of perceived self-interest was healthy. Eat or be eaten. The men of 41 worked with one eye cast over their shoulders to see whether someone was trying to do them in, for there was no telling what manner of man had levered himself to the rung below you and was now hungry for your job. The range of acceptable conduct with Salomon Brothers was wide indeed. It said something about the ability of the free marketplace to mold people's behavior into a socially acceptable pattern. For this was capitalism at its most raw, and it was self-destructive.

Respect for Persons. People were respected, for the most part, based on one criterion—their ability to generate money. The trainees and company staff were either verbally abused or ignored. Customers were exploited. The worst victims were women.

Respect for Property. The only violation of respect for property pertained to the misuse of the WATS line by trainees sitting in the back row.

Recommendations for Change

The information provided in *Liar's Poker* is one person's perception of Salomon Brothers. Prior to making recommendations for changes in organizational structure, operating policies and reward systems, it would be essential to randomly conduct a power analysis from various perspectives. The following limited number of changes are being recommended solely based upon Lewis' narrative. All of the recommended changes, to be effective, would require public and private support from upper-level management.

Changes in Structure. The organization needs a well-functioning grievance committee. The grievance committee, which should be composed of a ratio of employees that results in an equal balance of power, should receive anonymous input from company employees regarding interactions among employees and with various stakeholders. It should be receptive to any employee grievance, particularly charges of sexism and mistreatment by superiors. The grievance committee could take the form of an ethics committee or ombudsman. Other structural changes should include problem-solving committees within and between departments to foster mutual aid and social interactions.

Changes in Operating Policies. Company policies that should be adopted include: (1) management trainees will be told that they are not guaranteed a job before they begin the program, (2) company-owned stock will not be dumped on customers, (3) sexual harassment will not be tolerated and (4) affirmative action plans will be developed and implemented. All four of these policies should be part of a code of ethics and could be monitored through employee surveys. The trainees should be surveyed about their training session experience, customers should be surveyed about their interactions with company personnel and women should be surveyed about their company experiences. Like many companies, upper level management is isolated from the daily experiences of those whom they employ. Appropriately performed survey analysis provides grass-roots information about company activities. In terms of exploiting customers, the situation should be monitored either by management or the Securities and Exchange Commission.

Changes in Reward System. Changes in structure and operating policies will not foster the desired behaviors unless the reward system is amended. Changes in the reward system should include bonuses for participating in the interdepartmental problem-solving committees and a group-based bonus system that integrates the various organizational components necessary to make a profit. The grievance committee should be assigned the ability to levy fines for violations of company policies.

A final area of concern for this particular organizational analysis is the lack of permanent power within the organization. From Machiavelli's perspective, it would almost be impossible to maintain permanent power within Salomon Brothers because the techniques used to maintain temporary power within the firm are contrary to techniques that foster permanent power. The corporate culture is devoid of Aristotelian means. Inspiration and motivation is limited to one carrot on the stick — the potential to earn ever-increasing bonuses. To be held in high esteem means only that profits are being generated. According to Lewis, this understanding eventually led to his departure from a job where, two years out of college, he was earning over $200,000 a year. There appeared to be little relationship between wages and work effort or social contribution. The only happy people he saw at Salomon Brothers were those in equities, the job assignment nobody wanted. They "had accepted their lot and, like the peasants in a Breughel pastoral scene, were content to celebrate the simple pleasures of life" (p. 63).

Rather than establishing Aristotelian means between cruelty and mercy, liberality and parsimony, and the art of amenities and the art of war, management focused its attention solely on financial rewards. This led to a corporate culture whose foundation was ethical relativism: anyone could act in any way as long as it generated money. Some were kind, many were not. According to Lewis, "the point is not that a Big Swinging Dick was intrinsically evil...it didn't matter one bit whether he was good or evil as long as he continued to swing that big bat of his" (p. 69). The more successful one was the more evil one was permitted to be.

A major problem associated with corporate cultures dominated by an economic-based ethical relativism is that ethical relativists, in their pursuit of the almighty dollar, are likely to flaunt themselves as, to use a Tom Wolfe description of the Wall Street persona, a "Master of the Universe." These masters create their own sovereign states. They are winning at the game of life because they have tapped into the meaning of existence — humanity and society are simply toys to be manipulated for their own self-centered goals. As heads of their own sovereign states, these masters of the universe create their own laws. Their activities continue unabated until they are in clear violation of national laws which, they maintain, ought not to be imposed upon their sovereignships.

Two years after the publication of *Liar's Poker* the roof finally came tumbling down on Salomon Brothers. Paul Mozer, a thirty-six year old managing director of the government bonds trading desk, wanted to corner the market on Treasury bonds. During his six years of Salomon citizenship, this former long-haired economics major with an MBA from Northwestern quickly evolved into a clean cut Wall Street hero. His trading techniques brought wealth to the company as well as scorn from the United States Treasury Department. In order to restrain Mozer's monopolistic tendencies, Treasury officials created rules that outlawed some of his common trading practices. Affronted by the gall of government officials to punish his successful methods, Mozer bent and broke the rules. Rather than limiting Salomon purchases of Treasury bonds to merely thirty-five percent of any auction, as the new rules demanded, Mozer used customer accounts without their authorization to purchase anywhere from forty-six to ninety-four percent of treasury bond issues for Salomon Brothers. His restraint in the latter case enabled the firm to control only $10.6 billion of $11.27 billion treasury notes auctioned.

At a Salomon's management training seminar Mozer might have sat in the back row, front row or somewhere between the two. Indeed, it doesn't really matter where he sat because in a corporate culture dominated by an economic-based ethical relativism the end product is the same—become a master of the universe or leave. Mozer accomplished both, but his departure, as well as the recent departures of Salomon's Chairman, Vice-Chairman, President and General Counsel, among others, was involuntary. In the tradition of a fallen master of the universe, former Chairman and CEO John H. Gutfreund refused to apologize to the company's executive committee for anything that happened under his sovereignship, including abandonment by several very large customers and legal liabilities that could be as high as $1 billion, approximately one-third of the company's net worth. Salomon Brothers is now in the process of being fined or sued by treasury investors, stockholders, competitors, state governments, the Justice Department and the Securities & Exchange Commission, among others.

In the macho world of Salomon Brothers corporate politics, business managers were all too often unsuccessfully experiencing the perceived joys of Machiavellian life. They prided themselves in being Machiavellian, but they weren't. They were enamored of the first and second stages of the Machiavellian power game and oblivious of the third stage. They obtained and maintained temporary power but never permanent power. In particular, company employees failed to understand the needed balance between cruelty and mercy. Managers tended to be overly merciful to "us" and overly cruel to "them." According to Machiavelli, people should be cruel and merciful to both "us" and "them." When this doesn't occur, "them" revolts and "us" accepts mediocrity within their own ranks. The managers at Salomon Brothers made money for themselves, but as corporate citizens and human beings they were mediocre at best.

This book, particularly the chapters titled "Learning to Love Your Corporate Culture" and "Adult Education," should be required reading in both the undergraduate and graduate business school curriculum. It is appropriate for classes in business and society, business ethics, organization behavior, principles of management, finance and accounting, among others. The book sensitizes students to potential ethical dilemmas they are likely to encounter (or have encountered) and demonstrates the ethical shallowness of working in organizations where the only behavior eliciting managerial attention is goal attainment. That graduates of the nation's most prestigious universities were attracted to, and swallowed by, this type of organization culture is a national problem likely to evoke long-term ramifications. What types of organizations will they design in the future?

In terms of a pedagogical tool, this book has generated a significant amount of intriguing discussions in my required MBA class on the political, ethical and legal environment of business. Typically, the discussion begins with a student asking: "Is the book really a true story?" This is shortly followed by the confessional statement: "The organization I worked for wasn't this bad, but the book reminded me about the situation when ..." More likely than not, other class members had similar organizational experiences. Students do not want to be overly critical about their previous managerial experiences. However, in light of Michael Lewis' narrative they are more willing to publicly articulate and address their repressed workplace experiences and observations. After all, their previous organization's culture could not have been as bad as Salomon Brothers, could it?

It would be a mistake to interpret the organizational culture of Salomon Brothers as a function of Reagan era bravura, the profit motive, or a unique combination of the two. The cultural attributes Lewis reveals can be found in for-profit and not-for-profit organizations during the 1990s as well as during the 1800s. This type of culture is a function of a management team that cares only about obtaining an end-goal, a situation where any process that obtains the end-goal is defined as being good and any process that fails to obtain the end-goal is defined as being bad. In many ways business schools have yet to solve a problem that Elton Mayo referred to in the 1920s as "the great stupidity," the development of people's technical ability to accomplish a goal at the neglect and expense of their social skills.

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