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Silverstone Industries Ltd: Whistle-blowing – A case study of actual events in a leading Australian charity

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Submission for SLAM Conference

For: Recommended for a 60- minute workshop

Facilitation: Dr Stephen Treloar

Abstract: Attached

Title: **"**Leadership of organisations'. A case study involving ethical leadership, board governance, whistle-blowing, and the use of consultants.

Author: Stephen Treloar

Aims: To enable conference participants to consider, discuss and debate on the ramifications for directors and managers of organisations, in regards to: governance, leadership, whistle-blowing, and use of external consultants.

Rationale/Objectives: The emphasis for this session is active participation, not a formal lecture.

To expose conference participants to the opportunity of reflective learning, from a real life example, as to what can happen within organisations and implications for directors, and management**.**

Process: Participants would be issued with the case study, preferably in advance to review and consider. The final case is expected to be between 2,000-2,500 words in length which means it would be manageable to be read within a short period of time.

The facilitator would introduce the case and set tasks. (10 minutes). Groups would then be formed (preformed in advance would save time).

Small groups (numbers dependant on conference numbers) would then be formed to consider, and discuss three to four set questions. The groups would then spend 30 minutes to discuss and prepare their own groups responses (blank overhead transparencies, and felt pens would be provided).

Each group would then come back and present their responses (10-15 minutes).

Case Study: Silverstone Industries Ltd[i]

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Abstract
Silverstone Industries Ltd commenced almost 50 years ago as a registered charitable organisation. Over the years it evolved into a 'best practice' 'social enterprise' that provided vocational training and employment to over 600 persons with a disability. The company demonstrated how with good training and support disabled persons could do a lot more than low-skill level tasks traditionally associated with 'sheltered workshops'.

For the financial year ending 2008, the company reported a record turnover of $M31, a trading surplus of over $M1 and a net asset value of $M12. It was a thriving successful business.

In March 2009 and at the height of the GFC, the Chief Executive Officer (CEO) of Silverstone Industries reported to the board of directors he "...no longer had any confidence in the integrity of the financial figures, information or reports emanating from the Chief Financial Officer or his department". The CEO had become a whistle-blower. The board appointed a special audit firm to investigate and report back. A 'window' of four weeks was provided.

During this time, the CFO submitted his resignation and was replaced a new CFO. The incoming CFO closely examined the historical movements through the cash flow statement and analysed past Balance Sheets.

In the third week of May 2009 the audit consultants were ready to present their findings at a specially convened extra ordinary meeting. However, one of the board members, without prior knowledge or approval of the board, invited meeting a visitor. He introduced Mr. John Hodge, a personal friend whom he had worked with previously and thought might be able to assist the company.

The CEO raised an objection to the inclusion of Mr. Hodge as he was not known to the board, nor had not been invited to attend the meeting. The CEO argued "...it was inappropriate to include a visitor at such an important closed meeting as the meeting had been especially convened to hear the audit report. Notwithstanding objections by the CEO, the board allowed Mr. Hodge to be present and to address the meeting. He explained how he could assist the organisation as a 'business turnaround' expert, and that he had substantial experience in the recovery of businesses. Mr. Hodge warned directors that if the company was found to be trading insolvent then as directors, they could be held personally responsible and "...could all lose your houses".

When questioned as to the cost of his business turnaround consulting Hodge responded: "...if the company can be saved by restructure, my fees would be minimal, however, if the company is required to enter formal administration, I would expect my fees to be around $150,000 but absolutely no more than $200,000". "The company problems appear a fairly straight forward matter". "Just give me a week to examine and report back to you as directors".

The board agreed to allow Mr. Hodge to conduct his own review and report back to the board meeting on 26th May 2009.

During the week leading up the scheduled board meeting of 26th May, the CEO developed a comprehensive Recovery Plan, that is, what would be necessary to turn the company around and avoid formal administration.

By this time, the new CFO had uncovered a large number of discrepancies in the accounting system and was alarmed at the number of so called 'adjustment accounts'. He confirmed the company had recorded a loss of around $M2 for the financial period year-to-date which equated to the value of overstatement of inventory, as previously highlighted by the CEO at the March board meeting.

At the board meeting on 26th May 2009, the Business Turnaround consultant reported his findings. There was no written report furnished, just a verbal recommendation to appoint him as Administrator.

The CEO also presented his Recovery Plan. He requested a window of 14-days to implement a recovery in order to save the company.

The board decided to appoint John Hodge as Administrator. On being questioned by a board member as to "...what will become of the existing staff? He responded "...it will be the business as usual until I have time to work out what needs to be done".

The next day, Hodge terminated the services of the CEO and ordered him from the premises. He refused to allow him to speak to any staff member or enter any of the sites of the company, nor was he permitted to say "good-bye to any staff member". Hodge instructed all staff not to have any engagement or association with the former CEO, otherwise their own employment would be in jeopardy.

During the short period from March 2009 to May 2009 the CEO had gone from a whistle-blower and highly regarded business professional to *persona non grata.*

No recovery of the company has taken place by John Hodge, however, by December, 2009 his professional fees were around $M1. As at the time of this paper (May, 2011) the company is still in the hands of the liquidator, with fees expected to reach around $M2. Thankfully all the disabled workers were found alternate employment.

[i] This is not the real name of the organisation. The organisation name and persons named have been changed to respect privacy. This case is being used for educational purposes.