THE CORPORATION IN MODERN AMERICAN SOCIETY

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with

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TABLE OF CONTENTS

Acknowledgements ....pg 3

Introduction ....pg 4

PART ONE ....pg 7
- **What Role Does the Corporation Occupy Today in the American Society?** ....pg 8

- **How Did the Corporation's Role Develop?**..pg 9

- **What is the Appropriate Role of the Corporation in the Quadripartite World of Business, Government, the Nonprofit Community, and the Individual?**.......................pg 17

PART TWO ....pg 22
- **What Drives Corporate Behaviors?** ....pg 23

- **What is Responsible Corporate Conduct?** ....pg 25

- **How Well do U.S. Corporations Meet These Standards?** .... pg 30

- **Concluding Thoughts** .... …............…pg 32

LIST OF FIGURES

Table 1. Employment Size and Payroll of U.S. Firms in 2000 ....pg 9

Table 2. The Transformation of the American Nation in the 20th Century ....pg 11

Table 3. The Transformation of the American Family in the 20th Century ....pg 11

Table 4.Government Spending in the 20th Century ....pg 13

Table 5. Employment Costs per Hour for Employee Compensation and Costs as a Percent of Total Compensation in 2007..pg 15

Table 6. Establishments Offering Retirement and Healthcare Benefits in 2007...............pg 17

Table 7. Participation rates of private industry workers in various benefits in 2006.......pg 18

Figure 1. Fulfillment of Society's Needs ....pg 10

Figure 2. U.S. Unemployment Rate ....pg 12

Figure 3. Corporations in Society ....pg 23

ACKNOWLEDGEMENTS

I express my gratitude to the Grotto Foundation, its chairman Louis F. Hill, its executive director Ellis F. Bullock, and its board for the honor and pleasure of serving as the 2007 Hill Fellow. I am indebted to my wonderful mentors, professors Melissa Stone and Marsha Freeman, for their support and guidance, without which I could not have fashioned this paper. I owe special and heartfelt thanks to Paige Evans, a Humphrey Institute graduate student and my superb research assistant and loyal friend. Her research, patience, and attention to detail enabled this project. And, finally, I express my appreciation and affection to the faculty of the Humphrey Institute and its dean, Brian Atwood, for their gracious reception, support, and friendship. It has been a richly rewarding year of study and reflection.

The views expressed in this paper are those of the author. Errors of commission or omission are the responsibility solely of the author.

INTRODUCTION

WHY THIS REFLECTION?

Thirty-four years of my life were spent in a variety of corporations, ranging from a small, 250-person private company to a mid-size public company of 3,500 associates to a Fortune 100 trans-global corporation. For 21 of these years, I served as a CEO of a public corporation and as a director of five other public companies. When managing a company in Europe, I experienced a set of different relationships between business, government, and society than those I knew in the United States. As an executive director of a major city agency and as an executive co-director of a nonprofit organization, I came to better understand the roles of government and the nonprofit community in our society.

From these varied experiences I learned that society's expectations of a corporation are multi-faceted and a subject of vigorous debate. The debate is shaped by society's judgments as to the roles that individuals, business, government, and the nonprofit community should play in meeting society's needs, opinions that flow from the cultures in which the corporation lives and works. Because of its centrality in democratic capitalism, understanding the role of corporations in our society is critical to an understanding of our society itself. The first section of the paper, then, is an account of how the political, cultural, and economic forces of the twentieth century shaped the corporation's role in society as we know it today.

The second section of the paper examines the forces that drive corporate behaviors. The events of the past two decades such as the savings and loan crisis of the 1980s, the Enron and WorldCom scandals, run-away executive compensation, and the housing and credit crisis of 2008, have brought the harsh glare of public scrutiny to the conduct of American business. It seems, therefore, timely and appropriate to examine the forces that drive the behaviors of corporations, in order to better understand their conduct within the context of the roles assigned by society.

I bring to this study a set of beliefs formed by my experience as a CEO and as a citizen acutely concerned about the continuing viability of democratic capitalism. The term *democratic capitalism* implies a synthesis of the rewards of entrepreneurial vitality with the promise of equal opportunity for all citizens. The legitimacy of the system is jeopardized when a severe imbalance prevails.

<u>As a CEO, I believe:</u>

- *A corporation's primary role is the production and/or delivery of goods and services. In a nation committed to democratic capitalism, the business sector primarily fulfills this purpose. In the process of fulfilling their mission, corporations create the nation's wealth through payment of salaries and wages, purchases from suppliers, and financial rewards to shareholders.*

- *To sustain the public's support of democratic capitalism, it is mandatory that there be fairness in the distribution of the fruits of the enterprise among its* *constituencies: employees, shareholders, and the communities in which it lives and works. The public's perception of the fairness of the distribution acts upon the social cohesion vital to the workings of democratic capitalism.*

- *As a business's long-term success is dependent on the health of the society in which it works and lives, a business should conduct its affairs with regard to its impact on society and the environment. In support of a healthy society, a business pays its fair share of taxes to local, state, and federal governments.*

- *No individual, firm, or industry can be permitted to put the nation's economy at risk. The public good transcends the rights of individuals and firms to seek profit without regard to societal consequences. Democratic capitalism is based upon a balance of the rights of society with sufficient, but not unlimited, freedom for market capitalism to flourish.*

- *A CEO's responsibility is to manage the human, financial, and physical resources of his organization to the end of increasing the wealth of his*[1] *shareholders, employees, and the larger community, doing so in a manner that improves the general welfare and preserves the world's resources and environment for future generations. The CEO's focus is upon building and leading his firm to become the best in its industry—not necessarily the largest, but the leader in the quality of its product and services, the quality of its operations, and the quality of its people. The CEO's mission is not about building one's personal wealth. It is about building the wealth of others, and, through them, the nation.* [LXVII]

- *The responsibility of corporate leaders—CEOs and board members—is to conduct their companies' affairs in a reputable and responsible manner, as defined by culture in which they live and work. This responsibility transcends the boundaries of the corporation and its immediate constituents. Corporate leaders must earn the public's trust, for their corporation's privileges and powers are derived from the public through the agency of the federal and state governments.*

<u>As a citizen, I believe:</u>

- *Democratic capitalism can afford unimaginable opportunities to my children and grandchildren and to today's immigrants who, like our forbearers, seek a new, safer, and better life. However, this can only occur in the context of a healthy and open society wherein all citizens are afforded an equal opportunity to participate in the possibilities of democratic capitalism.*

- *Certain basic employment rights of the individual are fundamental to creating the social cohesion necessary for the functioning of democratic capitalism. Basic human rights such as income security, access to quality health care, and access to education sufficient to secure gainful employment in today's job market must be universally and uniformly available.*

[1] *His* is intended as a multiple gender term.

- *As a citizen, I am concerned with the ever widening income disparities in our nation. In 2005, the top 10% of Americans received 48.5% of all reported income, while the top 1% collected 21.8%.*[2] *Our nation's great wealth has been the product of free market capitalism operating within, and ultimately governed by, the political construct of democracy. America's social equilibrium has been achieved through an unwritten contract that tolerates the accumulation of great wealth by some, so long as those at the bottom see a steady improvement in their incomes. Since 2000, the incomes of average worker in the non-farm sector have stagnated, rising 1% between 2000 and 2006.*[a] *At the same time, CEO compensation soared. Median CEO pay rose 84% between 2000 and 2005.*[b] *Our social contract is dangerously close to being broken.*

~

Informed by five decades as a participant and fervent observer of the corporate world, I want to answer the following questions:

- *What role does the corporation occupy today in American society?*
  - How did this role develop?
  - What is the appropriate role of the corporation in the quadripartite world of business, government, the nonprofit community, and the individual in meeting the needs of society?

- *Within its role, what is responsible corporate conduct?*

[2] "Income Gap Is Widening, Data Shows," *NewYork Times*, March 29, 2007

PART ONE

- WHAT ROLE DOES THE CORPORATION OCCUPY TODAY IN AMERICAN SOCIETY?
- HOW DID THE CORPORATION'S ROLE DEVELOP?
- WHAT IS THE APPROPRIATE ROLE OF THE CORPORATION IN MEETING SOCIETY'S NEEDS

The Corporation's Role in Modern American Society

The Corporation

Contrary to a belief widely held by Wall Street and numerous CEOs, corporations were not created on the eighth day. Nor did they arise from or gain authenticity under the natural law teachings of St. Thomas Aquinas or the natural rights arguments of John Locke. They are simply creatures of the state.

Businesses are typically of three types: 1) *Stock corporations* whose ownership is represented by shares held by one or more individuals, who elect a board of directors to appoint and oversee the management of the corporation. 2) *Limited partnerships*, with one or more general partners who mange the business and assume legal debts and obligations, and one or more limited partners, who are liable only to the extent of their investments. 3) *Sole proprietorships* in which an individual and his/her company are considered a single entity for tax and liability purposes. As the owner is inseparable from the sole proprietorship, so he/she is liable for any business debts.[c]

"A corporation is a legal entity created through the laws of its state of incorporation. Individual states have the power to promulgate laws relating to the creation, organization, and dissolution of corporations…..The law treats a corporation as a legal 'person' that has standing to sue and be sued, distinct from it stockholders. The legal independence of the corporation prevents shareholders from being personally liable for corporate debts... The legal 'person' status of corporations gives the business perpetual life; deaths of officials or stockholders do not alter the corporation's structure."[d] In summary, a corporation has three important legal characteristics: transferable shares; perpetuity; and limited liability of the shareholders.

A salient feature of the modern corporation is the separation of management from ownership. Modern corporations are often managed by individuals who own little, if any, stock, in the firms that they direct. The shareholder (owner) role is limited to voting for boards of directors, whose membership is largely proposed by management and sitting directors.

This paper is largely concerned with corporations held by multiple shareholders.

When the public thinks about corporations, its attention is largely focused on those companies whose local physical presence is noticeable, or on those companies who are in the public eye through wide use of their product or through advertising or media coverage. But, these firms represent only a small part of the constellation of business entities. Of the 25 million American firms in 2004, 19 million were sole proprietorships, where the owner was the sole employee. Of the 5,885,000 firms with employees, eighty-nine percent of all firms have less than 20 employees. Only one third of one percent of all firms have more than 500 employees.

TABLE 1. Employment Size and Payroll of US Firms with Employees in 2004[e]

Employment size	# Firms	% of All Firms	# of Employees	% of all employees
All Firms	5,885,784	100	115,074,924	100
<10	3,821,128	65	12,697,406	11
<20	5,255,844	89	21,197,087	18
<500	5,868,737	99	58,597,452	51
500+	17,047	.29	56,477,472	49

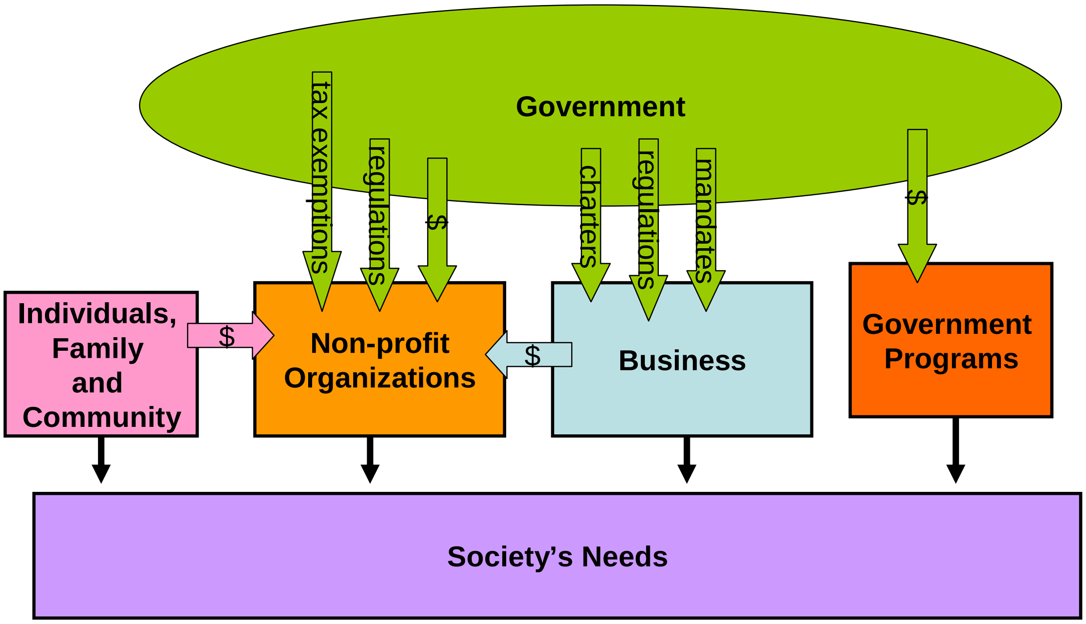
The corporation is a creation of the state for the accomplishment of a specific public purpose. Society, acting through government, authorizes, grants privileges and powers, and sets the conditions and standards within which a corporation may operate. Employment and environmental laws, financial standards, anti-trust legislation, product quality and safety regulations are examples of such standards.

How Did the Corporation's Role Develop?

I approach this subject with the premise that society's quest for increased security and a higher quality of life will be delivered, in large part, by one or more of four sectors: individual (and family) initiative, government, nonprofit organizations, and business. Society will assign a role to each sector for fulfillment of specific societal needs. Role assignments respond to economic, political, and cultural change, and will vary with national or regional culture.

Society, acting through its government, and in conjunction with the historic roles of the individual and family, creates the vehicles responsive to societal needs. In the twentieth century, the resources of the nonprofit and business sectors were added to those of the individual and government sectors to respond to new societal needs. Both the nonprofit and business sectors are subservient to the government and are subject to the benefits and regulations attendant to that relationship.

FIGURE 1: Fulfillment of Society's Needs



For thousands of years, individuals had recourse only to family and tribe in times of duress. In time, seeking security against external threats and internal strife, individuals surrendered some part of their individual freedom to form governments. As civilizations matured, security became more than just protection against physical threats, expanding to include concerns about income security and health. In the Middle Ages, feudal authorities and religious and social organizations became a major factor in providing succor in those areas once the exclusive responsibility of the individual and the family. In more recent times, society has assigned many of these roles to business, nonprofits, and the government.

Health care is a prime example. Until very recently in human history, the individual and his/her family were responsible for the providing care. If the individual or family could not provide, charitable organizations, often church-related, provided some level of care. During World War II, in response to wage controls, employers competitively recruited employees by offering health insurance as a new benefit. Today, it is the common expectation that an employer will provide health insurance for the employee and his family. Since 1965, health care has been provided by the government for the poor and the elderly. We are now engaged in a debate as to whether healthcare should be available to all citizens, and, if so, through a single payer (government) system or through market mechanisms mandated by the government.[3] We have shifted responsibility for health care

[3] Whether a single payer or multiple payer, services would continue to be provided by a mix of public, nonprofit, and private institutions and practitioners.

from the individual and family to charitable institutions, then to business, and finally to a universal healthcare system whose structure and modus operandi will be defined by government.

The roles of the individual, government, nonprofit, and business sectors shifted dramatically in the last century. This shift was driven by the effects of the scientific and economic revolutions that propelled America from a small, agrarian society to the world's largest and most advanced industrialized nation.

Scientific discoveries and technological innovations were the source of many of the major changes in the 20th century. Advancements in medicine lengthened our life spans. Technology increased the nation's productivity, propelling the movement of America's population from the farm and rural communities to manufacturing jobs in urban settings.

TABLE 2: THE TRANSFORMATION OF THE AMERICAN NATION IN THE 20th CENTURY

	1900	1950	2000
Population	76.1 mill	151.2mill	282.2 mill
Average longevity Male/Female	46.3 /48.3yrs	62.1/72.1yrs	75.2/80.4 yrs
Per capita GDP (2000 $)	$4,843	$11,752	$34,785
Percent of population living in metro areas	40%	56%	80%
% workforce in: -manufacturing	27%	26%	19%
-agriculture	43%	12%	2%
-service	25%	52%	63%
-government	4%	10%	16%
Women as % of workforce	19%	32%	60%
% population w/ high school degree	2%	17%	72%
Real GDP (2000 $)	376.1 bill	1.78 trill	9.82 trill

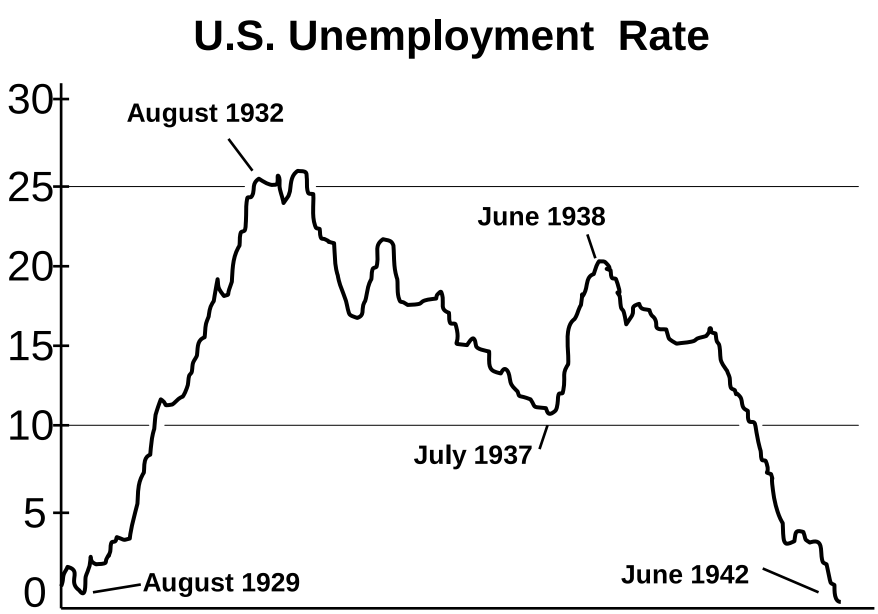
Economic and demographic changes in the course of the century had immense social consequences. As the nation's population migrated from rural communities to industrialized cities, the family unit shrunk, and waged-based employment exposed families to greater economic insecurity.

TABLE 3: THE TRANFORMATION OF THE AMERICAN FAMILY IN THE 20th CENTURY

	1900	1950	2000
Average size of households	4.6	3.38	2.59
Percent of population over 65 years	4.1%	8.1%	12.4%
Birth rate per 1000 in population	30	24	14
Percent population divorced	1.00%	4.0%	19.0%

As the second decade of the 20th century neared its end, the country appeared prosperous and destined to continue the remarkable economic advances of the preceding 20 years. Yet, on October 24, 1929, the U.S. stock market began an extraordinary and rapid collapse that in three months erased 40% of its value. At the depths of the depression, unemployment exceeded 25%, and thousands of banks failed. The GDP (Gross Domestic Product) declined from $105 billion in 1929 to only $55 billion in 1932, and wages paid to workers declined from $50 billion in 1929 to only $30 billion in 1932.[f] Millions of unemployed men wandered through the country in search of work.

FIGURE 2[g]



The misery spawned by the Great Depression and the concurrent mass migrations from the Dust Bowl highlighted the lack of adequate social mechanisms to deal with the uncertainties of unemployment, illness, death, and old age. In the first three decades of the 20th century, the country's social support system had continued the practices prevalent in the preceding century.[h] Aside from generous pensions and disability payment paid to military veterans and their survivors, and scattered and limited state and local support for the needy, the majority of Americans were vulnerable to the consequences of illness, disability, old age, and death. As the American family migrated from the land to the city, individuals who once relied upon the security of their land but now depended on a wage economy could no longer look to their families as their primary source of support in difficult times. In desperation, the nation turned to its government and the nonprofit community for help.

Expansion of the Government's Role - A New Age in Economic Security

As the Great Depression unmercifully destroyed the lives of millions of Americans, economic security systems to mitigate the loss of income due to illness or layoff—and to assist the elderly in old age—were either nonexistent or so meager as to be totally ineffective.

Upon taking office in 1932, President Franklin D. Roosevelt proposed a social insurance program for the elderly based on worker contributions while they were employed. On August 14, 1935, President Roosevelt signed into law the Social Security Act of 1935, creating the foundation of the economic security system we know today.

The act provided for federal old-age benefits (what we think of as Social Security) [4] and federal support to the states for old-age assistance, unemployment administration, aid to dependent children, maternal and child welfare services, vocational rehabilitation, and public health services.

In 1965, Medicare health coverage for all Americans age 65 or older and Medicaid health coverage for the poor were signed into law by President Lyndon Johnson, clearly the most significant additions to the act since its inception. In 1972, the Supplemental Security Income (SSI) program was passed by Congress, adding provisions for needy disabled individuals to the original 1935 programs for the needy aged and blind. In 2000, 45 million Americans received $407 billion in Social Security benefits, and an additional 6 million individuals received $33 billion in SSI payments.[i]

Thus, by the year 2000, an extensive safety net for the American people had been created by the Social Security Act of 1935 and its subsequent amendments, and by major assistance programs in housing, food stamps, and medical care for the needy. The total cost of these programs was $1.33 trillion in 2000[j].

TABLE 4: GOVERNMENT SPENDING IN THE 20th CENTURY

	1900	1950	2000
Real GDP (2000 $)	376.1 bill	1.78 trill	9.82 trill
Federal, State and Local spending (2000$)	n/a	380.9 bill	2.79 trill
-as % of GDP	n/a	21%	29%
Federal /State and local Employees	n/a	2.1/4.3 mill	4.1/17.9 bill
Government expenditures on social programs (2000$)	n/a	89.0 bill	1.07 trill
Social expenditures as % of federal, state and local expenditures	n/a	23%	38%

The Expansion of the Role of Nonprofits in Meeting Society's Needs and Expectations

[4] Maximum payment could not exceed $85.00 per month

As one of the quadripartite delivery systems of economic and social protections to society, the nonprofit sector plays a major role in meeting society's many needs, filling social needs unmet by families, business or government. The sector continues to grow, in spite of increasing government involvement in areas that once were primarily the domain of the nonprofit world.[5]

The nonprofit world as we know it today began when post World War II social legislation provided financial support to nonprofits in the fields of education and healthcare. Many new nonprofits were founded as a result of the increasing social activism surrounding Lyndon Johnson's Great Society initiatives and from the new activism in civil and immigrant rights. [k] The new wave of social activism was facilitated and stimulated by significant increases of federal funds flowing to, or through, nonprofits, which served as delivery vehicles for government programs or social objectives.

The growth of nonprofits was explosive. "The number of nonreligious nonprofits grew from 27,500 in 1946 to 744,000 in 2000." [l] Today, the nonprofit sector is immense. In 2004, 1.4 million nonprofit organizations were registered with the IRS. Of these, slightly more than half had gross receipts greater than $25,000 and were required to report annually to the IRS. In 2004, the reporting nonprofits had revenues of $1.361 billion and assets of $2.967 billion. [m]

In 2004, the nonprofit sector accounted for 5.2% of gross domestic product (GDP) and, with 9.4 million paid workers, the nonprofit sector accounted for 8.3 % of wages and salaries paid in the United States. [n] The paid employees were supported by 65 million volunteers (equivalent to 4.7 million full time employees).[o] In 2004, healthcare organizations employed 55% of all nonprofit paid employees, followed by education with 14%, and social assistance at 13%.[p]

The scope of nonprofit activity is remarkable. According to Lester M. Salamon in his book, *The State of Nonprofit America,*[1] nonprofits are responsible for:

- Half of the nation's hospitals
- One-third of the nation's health clinics
- A quarter of its nursing homes
- Nearly one half of the higher education institutions
- Four-fifth of individual and family service agencies
- 70% of its vocational rehabilitation facilities
- 30% of day care centers

Expansion of the Employer's Role - Employer Provided Benefits

The menu of employer benefits offered today has its roots in welfare capitalism[6] of the late 19th and early 20th centuries. Employers resisting unions and government social

[5] In the period 1980 to 1999, federal entitlement spending increased three fold.
[6] Welfare was used in the sense of worker prosperity, rather than its current definition.

programs embraced welfare capitalism as an alternative. Through improvements in wages, working conditions, and benefits, employers hoped to bond workers to their companies, thereby reducing turnover and improving productivity. "By 1914, the National Civic Foundation counted 2,500 firms pursuing a gamut of welfare activities, from cafeterias, gardens, and profit-sharing plans to company housing, magazines, and athletic facilities."[q]

Following World War I, industrialization increased the need for skilled labor, and ensuing shortages promoted and facilitated the formation of unions. The depression of 1930 to 1940 added fuel to the fire, and union activities became a major feature of the U.S. industrial landscape. Some part of the unions' agenda was met by the Social Security Act of 1935, which provided partial relief for many of the most urgent needs of American workers, offering all workers and their dependents partial income security in the event of disability and old age.

The most significant employee benefit as measured by its costs to employers today was the beginnings of employer-provided medical benefits during World War II. Unknowingly, the business community gave birth to a monster. In 1950, the average American medical expense per capita was $500[r]. In 2007, it was $7,000.[s]

With this business-driven decision, employers undertook to provide an economic benefit, soon to be joined by a variety of other social benefits also intended to attract and retain employees. Today, employer-paid benefits are 30% of total compensation.

TABLE 5. Employment Costs per Hour for Employee Compensation and Costs as a Percent of Total Compensation in 2007[t]

COMPENSATION	ALL WORKERS	
COMPONENT	COST	PERCENT
Total Compensation	$28.03	100.0%
Wages and Salaries	19.56	69.8
Total Benefits	8.47	30.2
Paid leave	1.95	7.0
Supplemental pay	.72	2.6
Insurance[7]	2.35	8.4
Legally Required	2.21	7.9
Retirement & savings	1.22	4.4
Legally Required benefits		
Social security and Medicare	1.58	5.6
Federal unemployment insurance	.03	.1
State unemployment insurance	.14	.5
Workers' compensation	.48	1.7

SUMMARY

In the 20th century, America was transformed from a largely rural society and an agricultural economy to an urban society with the world's largest industrial and service-

[7] Life, health, and disability insurance

based economy. As the nation changed, so too did the roles of the individual, government, nonprofit, and business sectors in meeting the rising needs and expectations of society.

In an agricultural society, the land had provided security to the worker and his family, enabling them to survive the vicissitudes of nature, illness, and old age. Industrial workers, on the other hand, lacked any protection against the loss of income due to illness, injury on the job, or termination of their jobs through no fault of their own. With the notable exception of military veterans, pensions to provide income in old age were literally unknown.

Triggered by the Great Depression of 1930-40, the American concept of the nation's social responsibility for its least fortune members began to change. Through the Social Security Act of 1935, a set of basic benefits became available to the American worker, providing some protection against unemployment, disability, and old age.

Today, America has a vast public entitlement network to protect workers from loss of income due to unemployment, injury in the work place, and old age. Medical care is available to the poor and older citizens. And, 1.4 million nonprofits provide a wide range of services to the public, often acting as a delivery vehicle for government-funded programs.

Thus, in the course of a century, the roles of the individual, business, nonprofits, and government sectors were redefined to reflect the changed nature of the American economy and society. Businesses, nonprofits, and units of government assumed greater responsibility for meeting the economic and social needs of the American people, responsibilities once borne by the individual and his family.

Corporations, today, are accountable for unemployment insurance, contributions to workers' Social Security, and worker's compensation in event of an injury on the job. In competition to recruit and retain employees, corporations offer a variety of other employment benefits, the most significant being medical insurance for the employee and his/her dependents. Thus, since World War II, American corporations voluntarily have undertaken to fill basic societal needs, needs that in other developed nations have been the responsibility of government programs or mandates. Business inadvertently entered into the area of social policy, a role beyond its charter and competency, and in doing so created public expectations that it cannot meet.[8]

The question before our nation today is what economic or social benefits are rights versus privileges, and, if rights, who is responsible for delivering them – the government, the nonprofit community, or business?

[8] The American automotive industry is foundering on the cost of employee medical insurance, a burden borne in other countries by the government.

WHAT IS THE APPROPRIATE ROLE OF THE CORPORATION IN MEETING SOCIETY'S NEEDS?

The economic role of the corporation is a proven model. With appropriate regulations and vigilant monitoring by government, corporations will continue to serve the nation well. The division of activities and responsibilities between business and government is well established and defined. The role of nonprofits is a unique American model, one that works well.

But, the second role of modern corporations—to provide economic and social benefits to its employees—is a flawed model. Some employment benefits are mandated by federal and state statutes, such as workers' compensation, unemployment insurance, and the range of benefits associated with the Social Security Act of 1935 as amended. But, most benefits are a matter between employer and employee, either through negotiations or as employment inducements. This produces an uneven patchwork of economic security for American workers, differentiating between small and large employers, between private industry workers and government workers, and between geographic areas.

Retirement and healthcare benefits are good examples. In 2007, of companies with 99 or fewer workers, 44 % offered retirement benefits; of companies with 100 or more workers, 85% offered retirement benefits. Similarly, for health benefits the comparison was 59% for companies with 99 workers or less versus 93% for companies with 100 or more workers. Geographic differences are significant. In the West South Central region of the U.S., only 31% of establishments offered retirement benefits and 48% offered health benefits. In contrast, in the East North Central region, 53% of establishments offered retirement benefits and 68% offered health benefits.

TABLE 6. Establishments Offering Retirement and Healthcare Benefits in 2007[u]

All establishments = 100%

CHARACTERISTICS	RETIREMENT BENEFITS	HEALTHCARE BENEFITS
All establishments	46%	60%
1-99 workers	45%	59%
100+ workers	85%	93%
South Atlantic	54%	61%
East South Central	31%	68%
New England	43%	54%
East North Central	53%	68%
West North Central	53%	56%
South Atlantic	54%	61%
West South Central	31%	48%
Mountain	38%	56%
Pacific	41%	64%

Today, some American workers enjoy a rich offering of quality, employer paid benefits. Those with a full plate of employer paid benefits most likely work for large (500+

employees) corporations. But a significant number of workers, mostly those who work for smaller companies, have minimum employer-paid benefits, or are without such benefits altogether. Even when benefits are offered, many employees chose not to participate or are unable to do so if required to pay a share of the costs. Only the government-mandated benefits of Social Security, unemployment insurance, and workers' compensation are universally available and uniformly applied.

TABLE 7. Participation rates of private industry workers in various benefits in 2006[v]

	In Percent	
BENEFIT	1999	2006
Defined Benefit pension	21	20
Defined Contribution Plan	36	43
Paid Holidays	75	76
Medical Care benefits	53	52
Short term disability	36	37
Long term disability	na	30
Life insurance	na	58
Paid Sick Leave	53	57
Paid vacations	79	77
Employer assistance for child care	6	15
Employee contributes to health care coverage	67	75

As the cost of employee benefits has risen, employers have sought ways to limit their future liabilities. Many companies have shifted from defined benefit retirement plans to defined contribution plans, limiting the employer's future liability for pension payout and transferring investment performance risk to the employee. Today, one item currently dominates the issue of employee benefits. According to David M. Cutler in his book *Your Money or Your Life,* the country in 1950 spent less than $500 (in today's dollars) on the average person's medical care versus nearly $6,000 in 2006. According to the Kaiser Foundation 2006 Employee Benefit Survey, in 2006 the annual premium for coverage of a family of four was $11,500, of which $2,973 was paid by the employee. Workers are now paying $1,094 more in premiums for annual family coverage than they did in 2000. In spite of increased employee participation in paying for the rising cost of medical insurance, only 61% of all firms offered health insurance in 2006, down from 68% in 2001.

Thus, in spite of the array of government and corporate income security programs, many workers and their families lack access to vital benefits.[9] Access to important benefits such as health insurance, retirement income, vacations and holidays, short and long-term disability, sick leave, and assistance for child care vary widely depending on the size, profitability, and location of the employer. Corporations have step by step, benefit by benefit, in an unplanned manner, entered the realm of social policy making, substituting the individual values and decisions of nearly six million employers for a cohesive and

[9] In 2007, 47 million Americans were, for one reason or another, without health insurance

uniform national policy of employment benefits. I believe the lack of universal access to uniform basic benefits[10] is damaging to the social harmony necessary for the successful functioning of democratic capitalism.

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American corporations have an enviable record in the production of goods and services that meet the needs of customers world-wide. Supported by public investments in education and infrastructure, they have created the world's largest economy and one of the world's highest levels of per capita income. They have fulfilled their purpose as the economic engine of the state.

While American corporations have long led the world in the mastery of innovation and technology, their lead is now seriously challenged. Markets once dominated by American manufacturers are now the strengths of other nations, such as the Japanese domination of consumer electronics and the recent European success in aircraft manufacturing. Greater challenges lay ahead as the Chinese and Indian economies reach their stride.

If America is to maintain a competitive edge in competition for world markets, its corporations must perform at ever higher levels of effectiveness and efficiency. To do so will require greater clarity of corporate purpose and responsibilities.

Today, the American corporation serves two purposes. Yet, it is ideally suited for only one of them. The American corporation is qualified and expert at the production of goods and services. Operating within the framework of democratic capitalism, the corporation has proven its merit. But, in the delivery of economic and social benefit to its employees, a role for which it is ill suited, the corporation struggles to meet public expectations.

As noted earlier, the success of democratic capitalism is based on a balance of entrepreneurial drive and its rewards with a democratic sharing of the fruits of our collective efforts; that is, a sharing of the immense wealth created by our economic system. In America, the rough edges of democratic capitalism are softened by an unwritten understanding that society will protect its members against misfortune through a vast array of benefits delivered by the government, nonprofits, and business. The availability of economic and social benefits is part of the public's patrimony.

Today, some part of these benefits is delivered in a universally accessible and uniform manner by government. But, many basic and highly desired benefits[11] are regarded as corporate responsibilities. This is a task that is impossible for corporations to perform well, for the fragmented and individualistic nature of the corporate world (5.9 million employers) denies the possibility of equal treatment of 115 million employees. As a consequence, classes of employees are created: those with full benefits; those with partial

[10] Employers, be they public or private, may choose to offer additional benefits as employment inducements, but an adequate level of basic benefits would be available to all workers.
[11] Benefits provided by corporations include: healthcare insurance, life insurance, pensions, short and long - term disability, day care subsidies, sick pay, tuition assistance, and holiday and vacation pay.

or poor benefits; and some without benefits altogether. As the promise and goal of democratic capitalism is equality of treatment with respect to basic human rights, the assignment to corporations of the authority to decide who will receive benefits, and at what level, is to guarantee inequality of treatment.

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I believe there are basic rights related to employment, income security, health, and education that are important to the social harmony necessary for democratic capitalism to function. These rights must be accessible by all workers and provided in equal measure.

- Protection against the loss of income through no fault of one's own.
  - *extensions of unemployment benefits during economic downturns*
  - *temporary income protection against impacts of globalization and technology*
  - *portable pensions*
  - *short and long- term disability protection*
  - *survivors' income protection*

- Protection against catastrophic healthcare issues
  - *universal health care*[12,w]

- The right to work and to enjoy the fruits of one's labor.
  - *day care subsidy for working parents.*[13]
  - *federal standards for paid vacations and holidays*[14]

- Access to education sufficient to participate in today's labor market.
  - *free public education through the 14th year. Merit and income-based scholarships thereafter* [15]
  - *retraining for those impacted by globalization*

To insure access and equality, I see fulfillment of these rights as a public responsibility, for only the federal government can ensure uniformity of access and treatment. Some benefits may be delivered directly by the government, while other by corporations under government mandate, as we do today with unemployment insurance, workers' compensation, and benefits under Social Security.

In summary, the American corporate model is a proven vehicle for national economic prosperity. But as equality in the treatment of citizens in a democratic society is vital to the functioning of our system of democratic capitalism, there must be national standards

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[12] Healthcare insurance equivalent to that provided federal employees.
[13] If structured properly, an early educational component would provide a high return to society. Arthur J. Rolnick, of the Minneapolis Federal Reserve Bank, has written extensively on this subject.
[14] In contrast to most highly developed nations, the United States has no federally required paid holidays or vacations.
[15] As a GED teacher's assistant, I have come to realize how critical free education in the 13th and 14th years could be to our immigrant population, providing them access to community colleges and vocational institutes that can equip them with the tools needed to compete in today's job market.

for basic human rights with respect to employment, income security, health, and access to education. Decisions concerning basic economic and social benefits are the commission of government, not corporations.

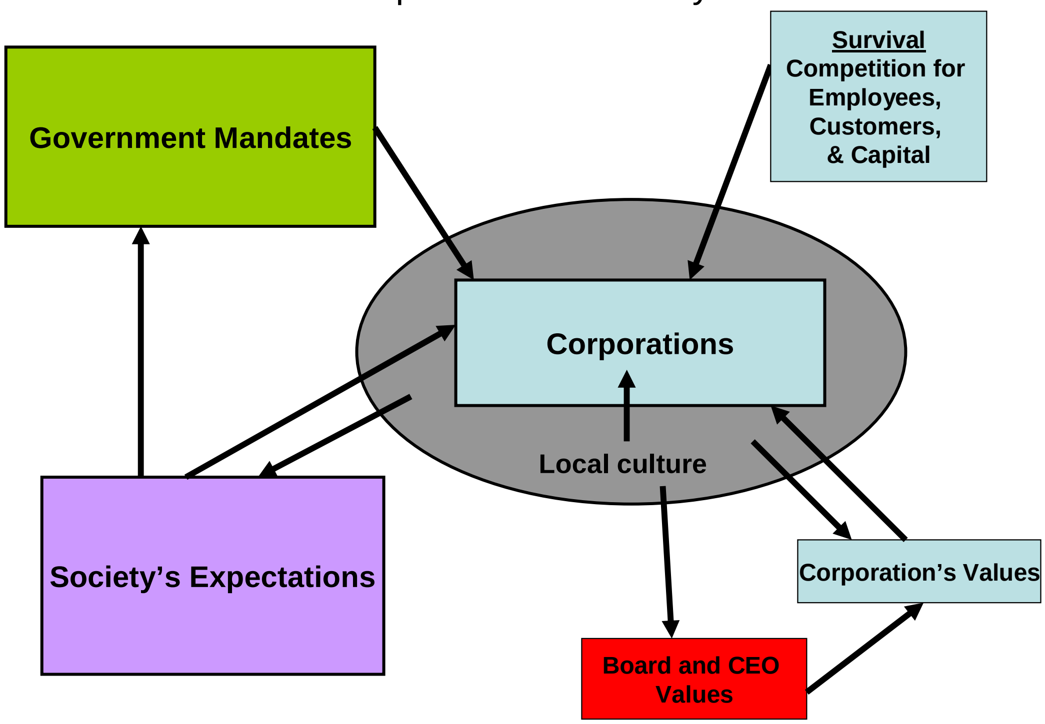
PART TWO

- WHAT DRIVES CORPORATE BEHAVIORS?
- WHAT IS RESPONSIBLE CORPORATE CONDUCT?
- HOW WELL DO U.S. CORPORATIONS MEET THESE STANDARDS?
- CONCLUDING THOUGHTS

What Drives Corporate Behaviors?

Corporations interact with a variety of constituencies, each with its own agenda. Customers, shareholders, employees, suppliers, communities, government, and competitors directly or indirectly drive corporate behavior. Balancing the expectations of this disparate group requires the wisdom of Solomon and the patience of Job.

FIGURE 3: Corporations in Society



Survival

There is one priority that stands above all others: the survival of the corporation. With few exceptions, a corporation must, over time, generate profit. The Grim Reaper patiently waits for those who, through misfortune or indolence, fail to heed this warning. Unless one has a monopoly for a product or service, the corporation must compete for customers. But, even monopolies can be short lived due to patent expirations, anti-trust laws, and new technologies.

The field is littered with the memories of corporations who once commanded their industries. Household names of the 1950s have vanished from view as poorly-performing companies failed or merged with stronger parties; e.g. TWA, PanAm, Eastern, and Western airlines; aviation manufacturers MacDonald, Douglas, and Martin; business automation manufacturers Digital Equipment Corporation, National Cash Register, and Burroughs; automobile manufacturers Hudson, Packard, and Studebaker; and locally, Minneapolis Moline, Honeywell, Control Data, Pillsbury, Tonka, Peavy, Northwestern

Bank, Northwestern National Life Insurance Company, McQuay, and the Donaldson's and Powers department stores.

Contrary to public opinion, most corporations struggle to earn meager returns on revenue. The average net profit as expressed as a percentage of revenue for U.S. manufacturers is less than 4%.[x] The margin for error is narrow. While the government has bailed out large companies (Chrysler) and entire industries (the savings and loan companies),[16] the vast majority of companies are on their own.

Government Mandates
Corporate behavior is clearly influenced by the corporation's interaction with national, state, and local governments. Society, through its governmental agents, regulates or prohibits corporate behavior or actions that are injurious or objectionable. Anti-trust, employment, and environmental laws govern corporate behaviors in these areas. Governments may mandate businesses participation in collecting taxes (Social Security contributions) or in funding income security programs such as unemployment insurance and worker's compensation. The Internal Revenue Service and the Federal Accounting Standards Board establish policies that influence corporate direction. Through financial incentives (subsidies and favorable taxation) and government spending, governments can create conditions favorable to individual companies or entire industries.

Corporations, on the other hand, act to influence government policies through extensive lobbying. The number of registered lobbyists in Washington D.C. climbed from 3,400 in 1975 to 32,890 in 2005. Over $2 billion were spent on lobbying in 2005.[y] A new career path has been created—election to congress and thence to lobbyist—recalling that old saying: "He went to Washington to do good, and stayed to do well."

Society's Expectations
As no man is an island, so, too, corporations are inextricably entwined in their social environment. Society's expectations and judgment of corporate behaviors are reflected directly in government polices and regulations. But, society's indirect actions may be even more powerful. Given a choice, society will choose it suppliers, its place of employment, where it invests, and to whom it awards its social approbation or displeasure. Social pressure and society's buying power have forced many companies to re-examine their stance on such issues as protection and conservation of the environment, public health and safety, and working conditions. Nike, Wal-Mart, and Nestle have painfully experienced the public's wrath for practices that the public found or believed to be unacceptable.

Corporate Values
Corporations are more than a legal device. They are an amalgam of capital, intellectual property, facilities, and equipment, and, most importantly, the gathering and organization of individuals working together to fulfill the corporate mission and vision. For many

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[16] And, is now rescuing Wall Street from the consequences of a calamity of their own making: the sub-prime mortgage credit crisis.

companies, the competitive edge is in the art of acquiring, training, acculturating, organizing, and motivating employees to pursue goals they deem worthy of their efforts.

In general, values drive behaviors. And the composite of behaviors defines a company's culture. Although the globalization of commerce, the cross-border flow of entertainment media, and the miracle of modern communications (cell phones, faxes, and the Internet) have blurred the edges of national and local cultures, the power of organizational culture remains a factor in distinguishing one entity from another.

A corporation's culture is fabricated from many sources: local and national cultures in which the corporation and its employees live and work; social memories of the corporation's past; industry culture (think of Silicon Valley versus Detroit), and the values of the corporation's management.

Leadership can influence a corporation's culture through personal example and strategic human resource policies that reflect the leader's values. But lasting culture change is slow to develop. It requires thoughtful planning, leadership, consistent and coherent effort, and significant investment of resources and managerial time.

In summary, corporations, taken collectively, reflect the value systems of the societies in which they work and live. At one end of the bell curve will be some companies that exhibit and reinforce the best elements of society's values, and, at the opposite end, those companies whose behaviors reflect the dark side of human behavior and free market capitalism run amok.

What is Responsible Corporate Conduct?

This is the field of the philosopher. If members of society hold different views based on their personal values, then whose values do we use as a standard? What are good values? Are there universal values that transcend borders and cultures?

In the last decades of the 20th century, the business community came under increased public scrutiny and criticism. The headlines were dominated by stories of large employee layoffs following leveraged buyouts, the enormous savings and loan scandal and subsequent federal bailout, and the egregious behavior of major Wall Street leaders. The public's opinion of business leaders fell to new lows, exceeded only by unions, lawyers, and politicians.

In response, a limited number of business leaders, supported by a variety of academicians, began to focus on the issue of corporate behavior. In time, from these efforts emerged a number of organizations dedicated to studying and promoting responsible corporate conduct.

While some firms practiced corporate social responsibility (CSR) in the late 19th and early 20th centuries, such practices were manifestations of the personal values of dominant leaders, often the founders or families of the founder. Well known firms such as Kellogg and Johnson & Johnson were early leaders, but until the 1960s there were few followers of the corporate social responsibility movement.

Corporate behavior is the product of various factors: local culture, competitive forces, societal pressure, and government mandates. Beginning in the mid-sixties, a variety of federal mandates had a powerful impact on corporate practices.

Federal legislation such as the 1964 Civil rights Act and the 1970 Occupational Safety and Health Act forced corporations to meet higher standards in their employment practices and safety standards. The Environmental Protection Act of 1970 focused corporate attention on the effects of their operations on the environment. The Foreign Corrupt Practices Act of 1977 shook the American business world as it established control over American business practices in foreign countries. The act was specifically designed to forbid bribing of foreign government officials, a common practice in the international marketplace.[17]

Perhaps the most powerful impetus to the corporate social responsibility movement was the 1991 Federal Sentencing Guidelines for Corporations, which provided for reduced sentences if a corporation could demonstrate that it had a full and active CSR program in place. A powerful incentive now existed to justify investment of management time and corporate support of codes of ethics, training, and monitoring procedures.

The Enron, WorldCom, Tyco, and other highly publicized corporate scandals of the first decade of the 21st century caused Congress to act. In haste, the Sarbanes-Oxley Act of 2002 was passed, requiring more accurate disclosure of a company's financial position, certification by senior officers of the accuracy of the disclosures, and criminal penalties for deception.

Societal pressure also had its effect. In 1978, in response to the South African government's policy of apartheid, General Motors endorsed The Sullivan Principles, a voluntary program for U.S. companies doing business in South Africa. Companies pledged to resist apartheid practices and to oppose the South African government, while still continuing to do business in the country. Many firms followed General Motor's lead. Others, however, chose to boycott South African business transactions altogether. My firm, ADC Telecommunications, fearing that our products would be employed by the state security forces, chose to exit the market. As this denied commercial users access to a useful product, I have long questioned the moral wisdom of my decision.

In the 1980s, the Union Carbide disaster at its plant in Bhopal, India caused the chemical industry to enact a voluntary code of conduct, which became a model for duplication by other industries. Following a series of scandals in the defense industry, a special commission recommended, and defense contractors initiated, a program that included a code of conduct, training, monitoring, and accountability to the public.

[17] The German giant, Siemens, has recently been indicted for multiple cases of bribery of government officials.

The United Nations developed a voluntary Global Compact for Corporations that focuses on human rights, labor standards, and protection of the environment. While some 1,500 companies have signed the compact, many have refrained from doing so on advice of their legal counsel.[18] Other international codes of conduct have encountered the same roadblock. This is not to say, however, that those who have refused to sign are engaged in unethical practices. Many companies simply feel that they are, and have been, acting in a highly ethical manner and see no need to endorse or commit to yet another standard of behaviors.

While the headlines of the past 20 years would lead a casual reader to believe that most of the business world is corrupt, the bark is larger than the dog. The fact is that most companies are obeying the law, and are managed by individuals who share their communities' values. Yet, the financial scandals of recent years and the growing awareness of industry's contribution to global warming and to the despoliation of our environment have created worldwide interest in corporate social responsibility. Graduate schools of business now includes courses on CSR; consulting practices flourish in the field; socially responsible investing now influences \$1 out of every \$9 under professional management;[z]and employees are asking what their management is doing to make their firm part of the "green" world. In the U.K., companies are required by law to report on social and environmental issues pertaining to their operations.

In a December 20, 2006 *Harvard Business Review* article by Michael E. Porter and Mark R, Kramer, entitled "The Link between Competitive Advantage and CSR," the authors make a compelling case for pursuing aspects of corporate social responsibility that are linked to a company's self-interest. The article first reviews the traditional arguments for corporate social responsibility: moral obligation,[19] sustainability,[20] license to operate,[21] and reputation. The thrust of the article, however, proposes instead three categories of social issues to be addressed: generic social issues; value chain social impacts, and social dimensions of competitive context. *Generic* refers to issues that are not impacted by a company's operations or that do not significantly affect the company's long term competitiveness. *Value chain* issues refer to social issues that are affected by a company's daily activities. And *social dimensions of competitive context* are issues in the external environment that influence a company's competitive position. Different businesses or industries will have different issues and responses in each category. Some corporate CSR actions will be in response to issues; others will be initiatives that improve the firm's competitive position while achieving a public benefit.

As an expression of corporate social responsibility, generic and company-specific codes of conduct have proliferated in recent years. Company codes have the merit of being tailored to the company's circumstances and culture. As such, they are measurable and

[18] Companies fear that failure to reach their aspiring goals could lead to law suits.
[19] Kenneth E.Goodpaster, holder of the Koch Chair in Business Ethics at the University of St. Thomas, argues persuasively in an article for the *Oxford Handbook of Business Ethics* that beyond a corporation's obligations to shareholders and stakeholder are equal obligations to human dignity and just community.
[20] Sustainability refers typically to environmental and community relationship issues.
[21] This refers to the need of some companies to secure government permission to operate or the need for community acceptance of a firm's operations.

enforceable. Generic codes are inspirational but lack the authenticity and specificity of the more narrowly written company codes.

Still, one can express one's expectations of corporate conduct according one's own values. Here is my list. On one hand, it represents what I, as a CEO, considered to be mandatory performance standards for my company and myself. On the other hand, it is what I, as a member of society, expect from corporations.

A responsible corporation:

- *provides goods and services that are cost effective,*[22] *fairly advertised,*[23] *safe when used in the manner and for the purposes prescribed, and respectful*[24] *of the environment.*
- *produces such goods and services in a manner protective of worker safety, worker health, and the environment.*[25]
- *is a responsible steward of the shareholders' assets.*
- *fully discloses all required and pertinent information on which investors and others may make judgments.*
- *fully complies with all rules and regulations.*
- *fairly compensates its employees within the context of competitive market conditions and local standards.*
- *treats all employees with respect.*
- *insures fairness*[26] *in the workplace.*
- *is respectful of the cultures in which it does business.*

While CEOs capture the spotlight, their employment, compensation, and powers are derived from and subject to the approval of the Board of Directors. The ultimate responsibility for a corporation's conduct resides with the board. Accordingly, I suggest that every director answer him or herself these questions:

1) *Am I free of any conflicts of interest in my role as a director of this firm?*
2) *Do I know enough about the organization I am charged to govern that I can honestly answer the following questions:*

[22] Provides highest level of performance, reliability, and quality consistent with the price of the goods or service.
[23] The product or service meets the specifications on which a buyer makes his/her decision.
[24] Does no harm or as little harm as is technically and economically feasible.
[25] This provision applies to a firm's subcontractors and other suppliers.
[26] All employees treated equally with respect to process.

- *Would I recommend that my family and friends purchase the products and services of this company?*
- *Would I recommend that my children pursue a career in this company?*
- *Would I advise my family and friends to make investments in this firm based on the honesty and accuracy of the firm's financial disclosures and published assessments of its prospects?*
- *Could I assure my friends that the management of this firm will be an honest and prudent steward of the shareholders' assets?*
- *Would I welcome this firm and its facilities into my neighborhood? Would it respect our environment and nourish our civic community?*
- *Would I want my name associated with the conduct of this firm in its dealings with its multiple constituencies; that is, its customers, its employees, its suppliers, its competitors, its shareholders, and the communities in which it works?*

The Dilemma of Judging Corporate Behavior

If our judgment of a corporation's conduct influences our buying, investing, and employment decisions, then what standards do we apply in reaching our judgment? If our judgments are based on the information that comes our way in the course of our daily lives, what then is the validity of our information base? Is it complete? Balanced? Or, is it largely based on information generated by the cause celebre du jour? For many, Wal-Mart is that cause celebre today. It has taken first place as the company that people love to hate. Are they right?

To many, Wal-Mart represents all that is wrong about American corporations. Yet, 176 million people visit a Wal-Mart store every week. An amazing 90% of all Americans will visit a Wal-Mart store this year. Importantly, Wal-Mart serves the lowest income families, who have average incomes of $35,000 per year.[27] The company has taken the lead in promoting energy conservation, setting goals that, if achieved, will have a major impact on our nation's environment. And, it is the nation's leading contributor of charitable cash contributions.

How, then, does one judge Wal-Mart? Is it saint or sinner? Or both? Wal-Mart illustrates the difficulty in judging corporate conduct. In our large and complex society, there is a wide range of individual values, defying an easy and absolute construct with which to judge our corporations. It finally comes down to the values and priorities of the one making the judgment.

In conclusion, responsible corporate conduct is a mixture of legislated behaviors expressing public values and voluntary initiatives undertaken by the corporation. Such initiatives may stem from fear of restrictive legislation, or are taken to improve the corporation's image with customers and the public, or as a strategy to improve a competitive position. But, many CSR initiatives are simply the honest expressions of the values of those who direct the corporation. I can point to a host of national and local

[27] The average income of Target and Costco customers is $50,000 and $74,000 respectively.

companies whose exemplary behaviors make employees, shareholders, and their communities justifiably proud.

How Well Do U.S. corporations Meet These Standards?

Surprisingly well. While I have been a critic of executive and board leadership for the past 25 years, my targets were always the exceptions to the behavior of the business community at large. Recall that there approximately six million employers in the United States. The illicit behaviors widely reported in the press involve only several hundred corporations. Unfortunately, many have been well- known names, suggesting that their behaviors are representative of industry and commerce at large, But for every CEO who backdated options, there were thousands who didn't. For every CEO who embezzled or who lavished corporate monies on himself, there were thousands who didn't. For every corporation that engaged in slippery accounting practices, there are thousands who accounted for and properly reported their financial data.

But, there is no denying that some corporate executives have engaged in egregious, if not legal, behaviors that cast a pall over the entire world of business. I believe it is important to evaluate the severity of the misconduct by the range of its consequences.

While it is disappointing, even maddening, that some CEOs and their board allies are engaged in the looting of their corporation's assets, backdating options, or misleading theirs investors, society has the means to curtail such behavior. Criminal sanctions are a powerful deterrent. Relatively few corporations have failed due to the larceny of their executives, and the consequences of their misdeeds are normally limited to their employees and shareholders
.

The behaviors I fear are those that are completely legal, but whose consequences spread far beyond a single corporation's walls. There are a number of such issues that are troubling to me.

Executive Compensation

Over the past 25 years, the ratio of CEO compensation to that of the average worker rose from a multiple of 42 in 1980 to 411 in 2005. More often than not, the greedy behaviors of executives as exercised in outlandish compensation and lavish perquisites have had limited effect on the earnings of their firms. The real damage is the erosive effects of their behaviors on their organizations' culture, and, if the executive commands public attention, the malefic effect on the public's trust in institutions. Unfortunately, this distrust insidiously weakens the public's respect for institutions in other sectors of society as well, such as the public's trust in government. This spillover effect is far more destructive to the public good than a loss of confidence in the business community.

Failed Leadership

The largest companies in an industry most often set the moral tone and the standards of the industry. Executives of these firms exercise immense power and influence, reaching not only throughout their industry, but often far into the nation's or the world's economy as well. Accordingly, the executives are richly compensated and treated as royalty. But, with power comes responsibility. When this responsibility is abrogated, the consequences are far reaching. Our nation is suffering the pain of such a default today.

Within a single decade, the leaders of the U.S. financial community have led this country into two recessions, the first triggered by the phantasmagoria known as the Dot-Com bubble, and the second, the housing led credit crisis that is troubling our nation today. In both cases, in the process of leading the sheep to slaughter, members of the financial community profited mightily. And, while now largely forgotten, it is useful to remember that the savings and loan crisis of the late eighties cost the US taxpayer an amount equivalent to $450 billion dollars today.[28]

The consequences of their incompetence are hard to forgive. In the Dot-Com fiasco, millions of Americans saw their savings and investments plummet. The resulting recession cost millions more their jobs. The full impact of the current credit crisis is not yet known, but hundreds of thousands of families will lose their homes and thousands more will become unemployed.

In both debacles, Wall Street leaders were deeply involved in the highly profitable preludes to the ultimate collapse. This is failed leadership of the first order. And, given their positions of power, it is a betrayal of the public trust.[29]

Perversion of the Democratic Process

In 2005, there were 32,890 registered lobbyists in Washington, D. C., and over $2 billion was spent on lobbying.[aa] Battalions of corporate lobbyists patrol the halls of Congress, seeking to influence legislators and their staffs to pass legislation favorable to their client or to block legislation that threatens their company or industry. The term *corporate lobbyist* today has a negative connotation, invoking images of a sordid enterprise.

Because legislative committees and their staffs can shape legislation that has immense impact on an industry and/or individual companies, it is vital that the companies and/or their industry associations have an opportunity to argue their case. I conclude the purpose is valid.

However, it is one thing to seek to put one's case before those who make the laws and another if one's purpose is to seduce, if not suborn, legislators and their staffs. In spite of politicians' protests to the contrary, it is difficult to believe that lavish corporation-provided entertainment, free trips, use of corporate jets, and major contributions to a legislator's election campaign do not influence the lawmaker. These practices not only

[28] Paul Krugman in *the New York Times*, Marcy 18, 2008

[29] If a manufacturer were to produce products of comparable danger to the public good, they would find themselves in civil, if not criminal, courts.

undermine the democratic process, they bring disrepute to the business world. According to a 2005 poll taken by GlobeScan,[bb] 85% of Americans thought that large companies have too much influence over government.

Loss of the Public's Trust

The issues raised above, coupled with environmental and product safety issues, have taken their toll on the public's confidence in business. In a 2007 Harris poll,[cc] only organized labor, law firms, the press, and Congress were lower than business in the public's confidence. In the GlobeScan report noted above, a world-wide sample showed that 75% of those polled believed that greater regulation of corporations was needed to protect the rights of workers, consumers, and the environment.

While the vast majority of American companies are ethically managed, with concern for their employees and their communities, the few transgressors have sullied the reputation of the many. As noted earlier, many of the corporate practices that we judge to be appropriate today were brought about by federal legislation and subsequent regulation. If our business community wishes to avoid further government supervision, it must aggressively seek out the ways and means to prevent behaviors by corporations and executives that violate the public's sense of fairness.

Concluding Thoughts

- As corporations are a creation of the state, society may choose to assign to corporations responsibilities that in other times and other places have been the role of individuals, government and the nonprofit community. But corporations are special-purpose institutions, qualified to efficiently and effectively perform economic tasks. In this role, they serve their nation well. They are neither chartered nor equipped to substitute for the government or nonprofit communities in the formulation of social policies. America needs to clarify the respective roles of the individual, nonprofit, business, and government sectors. While corporations may serve as a vehicle for the delivery and financing of social policies established through the democratic process, they are an inappropriate mechanism for determining such policies.

- When privileges metamorphose to rights, they leave the private realm and enter into the public sphere. Most developed nations regard access to education and healthcare, income protection, day care, and paid vacations and holidays to be essential to the well-being of their citizens and their nation. As such, they have become considered as basic rights, guaranteed by statute. America needs to re-examine our positions on these issues, for they touch on the health and well-being of our society as well.

- Corporations are an agglomeration of individuals. As such they represent the strengths and weakness, the good and the bad, the richness and poverty of spirit that resides in each of us. Thus, even with the most noble of intentions, individuals and corporations will falter. Government can regulate to restrict the most egregious behaviors. But, beyond that we can only hope for the best, with full recognition of the frailty of the human condition. In the end, the conduct of corporations reflects the cultures in which they live and work.

- Since the corporation is a creation of the state, the public has the right to control corporate behavior. But, it must do so with out killing the golden goose. In spite of past and present transgressions, the corporate model has served our nation well.

NOTES

[a] Center for Labor Market Studies, Northeastern University
[b] Economic Policy Institute.

[c]Investors Words <Investorswords.com/1140/corporation > Fall 2007

[d] Cornell University Law School, Legal Information Institute <http://www.law.cornell.edu/topics/corporations.html>, Fall 2007

[e] U.S. Census Bureau <http://www.census.gov/csd/susb/susb04.htm>

[f] U.S. Census Bureau <http://www.census.gov/>

[g] www.econreview.com/events/ur1932b.htm

[i] The Social Security Act (H.R. 7260)

[j] http://www.usgovernmentspending.com/year2000_0.html#usgs302a

[k] Peter Dobkin Hall "A Historical Overview of Philanthropy, voluntary Associations, Nonprofit Organizations in the US, 1600-2000." *The Nonprofit Sector, A Research Handbook.*

[l] Peter Dobkin Hall "A Historical Overview of Philanthropy, voluntary Associations, Nonprofit Organizations in the US, 1600-2000." *The Nonprofit Sector, A Research Handbook.*

[m] *Nonprofit Sector in Brief*, The Urban Institute, 2007

[n] National Center for Charitable Statistics, the Urban Institute, 2007

[o] Salamon, Lester M. *Employment in America's Charities*, John Hopkins Center for Civil Societies

[p] Salamon, Lester M. *Employment in America's Charities*, John Hopkins Center for Civil Societies

[q] *Moderns Manors*, Sanford M,. Jacoby, Princeton University Press

[r] *Your Money or Your Life*, David M. Cutler

[s] Kaiser Family Foundation, 2007 Annual Survey

[t] US Department of Labor, Bureau of Labor Statistics, September 2007

[u] Bureau of Labor Statistics www.bls.gov

[v] US Department of Labor, Bureau of Labor Statistics, Employee Benefit Survey, 2006

[w] My family enjoyed a national single payer healthcare system while living in France. Unfortunately, my wife, Carol, contracted tuberculosis, was hospitalized for six weeks in quarantine, and confined to bed rest for an additional six months. For an entire year, Carol received daily antibiotic shots while family members took prophylactic medications. We chose our doctor and our hospital. The costs of the illness were totally paid by the government insurance.

[x] Manufacturing Institute of the National Association of Manufacturers, October, 2005

[y] Reich, Robert. *Supercapitalism*

[z] *The Economist Magazine*, January 19, 2008

[aa] Reich, Robert. *Supercapitalism*

[bb] GlobeScan in conjunction with the University of Maryland, June 2005

[cc] Harris Poll, Feb 6-12, 2007