# WHAT CORPORATE AMERICA NEEDS TO DO

The much publicized scandals rocking corporate America have shaken the confidence of investors world-wide. And, hundreds of thousands of employees of the discredited firms have lost their jobs and have seen their retirement accounts dramatically diminished.

Both aggrieved parties had believed that America's corporations were well managed, that all pertinent financial information had been fully and accurately reported, and that adequate safeguards existed in the oversight exercised by the stock exchanges, the Securities Exchange Commission, and other governmental agencies responsible for detecting and punishing fraudulent business practices.

What we have learned is that a handful of corporations were engaged in a variety of unsavory behaviors that were beneficial to senior corporate officers but ruinous to employees and investors alike. We were startled to discover that the regulatory agencies had failed to perform their assigned tasks as the public had a right to assume they would. To observers of American business, perhaps the gravest discovery was the failure of corporate governance, namely the boards of directors in the exercise of their role as the final accountable party in whom investors and employees could place their trust.

While the number of firms engaged in malfeasant or incompetent management behaviors is small, the impact has been mighty. Domestic and foreign investors have reacted, precipitating a massive sell-off in the market. As investors wonder if they can safely make investment decisions based on the information presented by US corporations, and as employees fear for the security of their jobs and the safety of their retirement funds, the credibility of American management has been called into question.

It is important to note that the American economic model of a market based economic system is not in question. The US economy still provides more new jobs than any other model, and has demonstrated a capacity to provide a way of life that is still sought by millions of immigrants seeking to improve their lives.

This is a crisis of ethics arising from a failure on the part of senior corporate management - aided and abetted by investment bankers, stock analysts, lawyers and accountants - in fundamental corporate responsibility. While quick fixes are feasible in strengthening regulatory mechanisms, in eliminating conflicts of interest found in the accounting and legal professions, and in increasing the accountability of officers and directors for the accuracy of financial reporting, the long term solution lies in a heightened appreciation for the need of ethical conduct by all involved in the management of American corporations. As the catastrophic consequences of the recent scandals have demonstrated, good behavior is not optional. It is essential to the long-term health of every company.

This is as true for America as it is for every country.

America's best companies evidence a high degree of corporate responsibility and ethical behavior. Many create and promulgate a corporate code of ethics that employees are expected to observe in their day-to-day working lives. A model for such codes is the Caux Round Table Principles, a document created by Japanese, European, and American business executives, and based on the western world's notion of the primacy of human dignity and the Asian tradition of community, often expressed as working and living together for the common good, including concern for the environment. Ethics and corporate social responsibility must become integral to the management process itself. With this goal in mind, the Caux Round Table proposes that special management tools be developed to assist board directors and company managers in assuring that corporate ethical beliefs are not only professed but practiced by all employees on a daily basis. To further this undertaking, the Caux Round Table has under development a set of tools and practices for corporate self-assessment and improvement based upon the proven and highly successful Baldridge Quality Award Program.

Successful markets thrive on trust and confidence. Because single firms cannot thrive unless they buy and sell in thriving markets, each firm has an obligation to society to enhance the trust and confidence associated with the marketplace for capital, for labor, and for goods and services.

Finally, restoring confidence and faith in American capitalism will require acts of individual moral courage and strategic leadership to offset the biases of excessively selfish egoism. There can be no ethics without leadership and no genuine leadership without ethics.

The American economy is too important a driver of world prosperity and well being for senior American executives to fail in this task of restoring confidence. The entire world community demands swift and decisive action from American business in response to the current crisis of trust in corporate behavior.
initiatives.

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