

**CORPORATE GOVERNANCE:
A SACRED TRUST**

**A Woodstock Business Conference
Discussion Paper**

The preparation of this discussion paper was prompted by a series of intense discussions within the Washington, DC Chapter of the Woodstock Business Conference on the responsibility of corporate governance in the light of disclosures of business practices by corporations such as ENRON, World Com and TYCO.

Corporate Governance: A Sacred Trust

Where the Woodstock Business Conference Can Make a Difference

Founded on the conviction that ethics and values grow out of one's religious heritage, the mission of the Woodstock Business Conference (WBC) is to establish and lead a national network of business leaders to explore their respective religious traditions and to promote corporate cultures that reflect their religious values to the benefit of society at large. In the most general terms, the idea is to build a link between the spiritual and the economic realms such that the values of the former affect behavior in the latter.

Certainly in the United States it is through our religious traditions that most of us were taught about good and bad, learned "right" from "wrong". Not what was legal or illegal, but *right* from *wrong*, were given a moral context to our lives. And for the great majority of us in the United States, and throughout the West, this context is most commonly experienced in the Judeo-Christian Tradition – specifically, the Ten Commandments, the Sermon on the Mount, and the Eleventh Commandment, i.e., to love one another. And within that tradition, there are two principals of a secular nature that are profound beyond the risk of exaggeration:

- Each human being is of *value*, of worth, in and of himself or herself, without need of validation from any state, or religion, or sect, or other person.

- Each person is responsible for his or her actions, the state of their lives, for their individual, separate tracking across time and among the things of this earth.

And these are related. A person is of value because he or she can be responsible, and because a person can be responsible, he or she is of value.

So fundamental are these values that they find expression in the three principal realms of human experience: political, economic, and spiritual. In the political realm, what is democracy but the core values? All created equal and each endowed with certain inalienable rights whose protection and advancement is the responsibility of those who enjoy them. In the economic realm, enterprise is the assumption of responsibility for one's own well being and the recognition of the value others bring to an endeavor. And what is the spiritual realm of our lives but the discovery of the individual being that is each of us as we take up the quest to seek and nurture an awareness of God?

Now it might be asked, what do these values as expressed in the three realms have to do with corporate governance? The answer is *everything*. While the values are at the very core of human yearning and are essential to our concept of freedom, it is only in the present age in that they have found expression in three distinct realms. Indeed, the separation among the realms is more than the expression of our freedoms, it is *cause* of them.

A person can be politically free *only* if he or she is economically independent of the state, does not depend on it for a job or sustenance. A person cannot truly believe in God if he or she can be compelled to belief by a church capable of the political or economic sanction of those who will not "believe".

The emergence and presence of the third realm, the economic, has come to require of the first two that each stands on its own merits, without the power to threaten economic loss or to coerce politically. In turn, the political and spiritual realms provide to the economic realm the legal and moral context of its existence; i.e., value systems through which the economic realm can find meaning beyond the mechanics of the market place. In effect, the separation of the three realms serves to confirm the legitimacy of each.

Furthermore, it is critical that we understand and appreciate fully that the realms comprise a mutually sustaining dynamic in which each needs and supports the others, that *all three* are lessened by a diminution in the respect held for any one of the three realms by any one of the others. It is within this dynamic that our freedoms have found expression and without this dynamic *they cannot survive*.

And how did we come to this dynamic, this unique place in history? It took a while.

In the Europe of our Founders, the religious and political realms were so closely joined that *wars* were fought over differences in *spiritual* beliefs. Those who claimed the charge "to love one another" led their flocks to war, scores of them, all over differences in the interpretation of humankind's relationship with *God*.

It was a culture that presumed the Divine Right of Kings and one in which the amalgam of state and church control was assumed, standing before and above the individual whose rights and purpose were defined in the context and the interest of the state. It was only at the

sufferance of the state/church amalgam that a person was allowed an identity, his or her *validity*.

Not so in America. Here, the economic, spiritual and political realms grew separately. Parallel and adjoining, even connected, but increasingly distinct. While our Founders may not have expressed it in exactly these terms, it was and remains the result. The assumption was -- and remains -- that a person could do a thing until it could be shown that he or she shouldn't and a law is made so that they couldn't. In effect, freedom of action and the encouragement of initiative.

The emergent structure was not a concept someone created or developed, nor was it the result of any strategic plan, or any plan at all. It was the self-reinforcing consequence of an increasing level of individual awareness and freedom as the West grew out of the Middle Ages, a gradual assumption by the individual of the responsibility for his or her own welfare, his or her own prosperity. And necessary to the separation of the three realms was the growth of science and the application of reason to the world about us; i.e., technology. In time, there came the recognition that the lot of humankind was subject through science and reason to improvement by humankind's own hand, and this within a lifetime on earth.

All of this is not to say that the emergent structure was from its beginning manifestly benign for all, or that its later successes promoted the welfare of *each* citizen. What it did do, though, was to create opportunity and raise incomes and output, and spectacularly so in the last 150 years. Such was the growth that in those places where the realms were separate, or separating,

the proportion of those suffering poverty declined dramatically, and did so largely by engaging and creating opportunities for those born poor and not to privilege. And not surprisingly, it was to these places that those born in want but with the courage to do something about it migrated, and by the *millions*.

While history holds us from claiming to have found the ultimate human state, it equally holds us to focus on the value of what we have achieved and how to maintain it so that it can be both improved and built upon. And in this, if our political and religious freedoms are sacred, then so must be the economic freedoms without which the others are not possible. And as we expect those in authority in the political and spiritual realms to assume the responsibilities and roles of duty and devotion, should our standards for those in authority in the economic realm be any less demanding? Do they not also bear a *Sacred Trust*? Certainly they must, for to hold them to a lesser standard imperils the very dynamic in which the question can be openly raised.

And where specifically in the economic realm does this responsibility -- and authority -- lie? Ultimately, the *Sacred Trust* must rest in the hands of those who sit on the boards of the companies comprising it; i.e., corporate governance. It is here that a company's place in and impact on the dynamic must be weighed and decided. It is here that the interests of the firm must be advanced in the context of the dynamic. The dishonest firm cheats not only its customers or suppliers or employees or investors. More ominously, it lessens as well respect for the economic realm itself.

And this is where the WBC can help by initiating a national dialogue on the concept of the *Sacred Trust*; i.e., it is the responsibility of corporate governance that companies behave in a way that does not threaten or harm the structure that houses them, the dynamic. This, in fact, would be asking no more of corporate governance than what was intended in the laws under which joint stock companies were created in the first place. It is to ask no more of corporate governance than should be *expected* of it.

Yet it was just this responsibility that corporate governance has too often abandoned in a slavish pursuit of *shareholder value*, the sound bite of choice of the roaring 90's. In building to the bubble that burst in 2000, 'shareholder value' was exactly what the broker wanted to sell and was precisely what the customer wanted to buy. The problem was that what the customer – the 'shareholder' – wanted was not necessarily consistent with the health of the companies whose stock he or she held, the companies that largely comprise the economic realm.

There was, in effect, a disconnect between to the two primary functions of the equity market - - accumulating investment capital and providing a place to trade it. 'Shareholder value' was, in fact, a misnomer, and its common usage remains just that today. What it actually means to those who claim it is *market value*, i.e., the *price* of any one share, say one one-hundredth million of the company's equity account, at any particular moment in time. And the ultimate problem with 'shareholder value' as sound bite is the confusion it led to with *investor value*. The effect was that of the tail wagging the dog, where short-term, market clearing transactions assumed so dominant a profile that the equity exchange, whose *first and most fundamental*

purpose was to facilitate and encourage investment, fell to encouraging and facilitating *speculation*.

And while speculation is inevitable in any market, taken to extremes it can be ruinous because its effect is to treat the company, the *whole company*, as a product or good to be swapped and consumed and excreted one share, one slice, at a time. Looked at in terms of agricultural economics, it is analogous to slaughtering the breeding stock; i.e., that which whose purpose and value is to produce is instead *consumed*.

The solution to this disconnect is not to so much to regulate the market, to cut off the tail, as it is to improve the behavior of the dog, to quell its excitability. And this is first a *value* thing, and then a *behavior* thing, the former being the basis and focus of WBC and the latter being its intended impact. While the core values are concrete, they need nurturing and promotion to find expression and impact. Behavior is driven by instinct, process, and learning. It reflects both values and needs, and is affected by our perception and appreciation of each.

Perception and appreciation follow attention and respond to information and this is where the sound bite comes in, for good or ill. As above, it was a convenient venue in the pursuit of short-term gain, no matter the cost. But shareholder value is also a goal essential to the success of a company and a concept critical to the entirety of the economic realm. The failure of corporate governance in too many cases was not that it was driven by shareholder value, but that it was driven by nothing else. What is needed is a companion sound bite to broaden the perspective of Board Room deliberations and why not *Sacred First?*

The idea of the *Sacred Trust* in no way would lessen a company's pursuit of excellence or its competitive instincts. What is envisioned is a specific acknowledgement of it in the form of a stated corporate commitment to the dynamic. As one Board member drives for shareholder value, another puts *Sacred Trust* on the table and by this the context of decision making is broadened, the discussion and analysis more comprehensive. Specifically what is envisioned is a routine and conscious inclusion of the *Sacred Trust* in Board Room planning and operating decisions.

It must be remembered -- and reminded -- that while the direction and operational practices of a company reflect the management style and vision of the CEO, the CEO is hired by and responsible to the Board of Directors. So as the Board hires, the Board gets, and is responsible for -- for good or ill. The Board also chooses how it will respond to the equity market where the company's stock is traded. It can decide whether it wants to attract investors or speculators, to grow and improve its breeding stock, or to slaughter and consume it.

Advancing the concept of the *Sacred Trust* presents significant challenges. First among these is that the role the economic realm plays as *guarantor* of our political and religious freedoms is not generally recognized. Second, many in leadership positions, already wary of the autonomy of business, can point too easily to companies which act with disregard for the core values and the impact their decisions have on the dynamic. However, we have learned over the last 100 years that joint stock companies will change when required and prodded. We can

swim in rivers that once caught on fire and breathe safely in cities where once the air hid the noontday sun.

While much remains to be done in an ever changing world, the fact remains that there has never been a period in human history when political freedoms were as widely enjoyed or realistically anticipated, or that the ability to have an effect on one's material well-being has been more widespread. In 1960, only two in five Americans over the age of 25 had a *high school* degree. Less than forty years ago, common civil liberties were denied *by law* to one in ten Americans. For all its problems, it is a measurably better world we live in today than it was fifty years ago.

The emergence and interaction of the three realms has been essential to this progress and will remain its predicate into the foreseeable future -- so long as the dynamic is maintained and opportunities to strengthen it are sought and realized.

In this, the WBC is well placed to serve an important role.

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Paul Belford
Bill Bole
Dr. George Brenkert
Molly Bryson
Eugene Carter (?)
George P. Clancy
Francisco Claver, SJ
Charles Connolly
Wm. J. Corcoran
Mike Curtin
Maury Devine
Emily Donohue & guest
Emmett Fenlon
Jerry Filteau (or someone from CNS)
Steve Garber
John Gannon (?)
Dick Green
Arthur Heimbold
Margaret Heimbold
George Koch
James Koltes
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