Whither Ethical Management? - President Bush calls for a new moral code in big business and corporate responsibility

The crisis of confidence in big business experienced after scandals at Enron, WorldCom and others has served to highlight the need for higher standards of ethicality in big business. In the book we cover ethical management and examples are cited of codes of conduct where organizations or professional standards bodies set out precisely what is and is not acceptable practice. However, at the heart of the recent scandals are highly qualified and respected people from accounting, auditing and other professions who have published and fine polished their codes over many years. Clear evidence that the mere establishment of a code does not in any way guarantee compliance.

In early July 2002 US President Bush made a landmark speech outlining his concerns and the measures he was proposing to counter the growing concern over fraud and unethical behaviour in business. The president called for a new ethic of responsibility in America's corporate community. His aim is to expose and punish heavily and swiftly acts of corruption and protect small investors and pension holders. While these proposals will initially only apply to US organizations, it is widely expected to be the forerunner of similar regimes in Europe and elsewhere. The President's Executive Orders will create a Corporate Fraud Task Force to provide direction for investigations and prosecutions of criminal activity. As part of this wide-ranging reform the President has outlined a Ten-Point Plan with which he has spelled out quite clearly the responsibilities of corporate leaders for carrying out their business in an ethical manner. For more detail of the speech go to; www.whitehouse.gov/news/releases2002/03/20020307.html

The Ten-Point Plan

Proposal 1 Each investor is to have access on a quarterly basis to the information they require to make a judgement over the organizations financial performance, condition and risks involved.

Proposal 2 Each investor should have prompt access to critical information. The SEC (US Stock Exchange Commission) will as a consequence of this proposal expand the list of significant events requiring prompt disclosure and the maximum

periods between reporting periods. The CEO will bear particular responsibility for informing relevant stakeholders of the state of the company.

Proposal 3 CEOs should personally vouch for the voracity, timeliness accuracy of their company's disclosures including financial statements, unlike the current situation whereby CEOs only sign off a bare bones certification of the annual financial statement.

Proposal 4 CEOs and other officers should not be allowed to profit from errors or ommisions from financial statements. CEO bonuses and other incentive payments would be disgorged (taken back) in cases of accounting restatements resulting in misconduct.

Proposal 5 CEOs or corporate officers who clearly abuse their power should lose the right to serve in any corporate leadership positions. This proposal would require the SEC to ban individuals from serving as officers or directors in companies if they engage in serious misconduct.

Proposal 6 Corporate leaders should be required to tell the public promptly whenever they buy or sell company stock for personal gain. Such disclosures should be within two business days of execution. Currently corporate leaders are entitled to wait a year before disclosure of private dealing or 40 days for public market dealing.

Proposal 7 In order that the independent auditing of corporate accounting valuations is not compromised the accountancy firms that provide the independent auditing service must not allow the rewards of offering additional services to companies that they audit to taint their reporting. Fees from add-on services must not compromise the integrity of the independent audit.

Proposal 8 An independent regulatory board should ensure that the accounting profession is held to the highest ethical standards. This board would have the power to monitor, investigate and where needed enforce its ethics principles by punishing individual offenders

Proposal 9 The authors of accounting standards must be responsive to the needs of investors rather than the interests of professional accountants. The SEC will be

charged with exercising more effective oversight of the Financial Accounting Standards Board.

Proposal 10 Firms' accounting systems should be compared to best practice and not simply against minimum standards. Under this proposal auditors would be required to the quality of a company's financial controls with the best practices within the industry and communicate its findings to the audit committee. The audit committee will then be obligated to discuss these findings with a view to improving practices where necessary.

Questions for discussion

The proposals outlined above show the concern expressed by the US government over ethical management. Using the following questions as a guide, the area could prove an interesting one for using as a modular assessment vehicle or as a way of offering extended learning opportunities to the programme.

1. How successful do you think the Ten-Point Plan will be in combating fraud in the corporate world?
2. As it is generally accepted that no investment is risk free what type of protection for private or institutional investors are the proposals hoping to achieve?
3. Does the evidence of fraud and corruption discovered in a small number of organizations suggest to you that a general malaise exists or do you think it is confined to an insignificant minority of organizations?

A further activity based assignment would be to use the net and other archives to search on the reasons behind the Enron or WorldCom cases.