DOWNLOAD PDF THE SECOND BOTTOM LINE : A CORPORATE EXECUTIVES COMMUNITY DUTY

Chapter 1 : Does a business corporation have a responsibility to society? | Acton Institute

Under corporate social responsibility theory, to who(m) does the chairman and CEO of the company owe an ethical duty? The workers, the community and the shareholders. When the CEO of the company decides that he wants to pay the workers while the plant is closed, because "it is the right thing to do" regardless of the consequences, what ethical.

Thus, the COO role meets individual expectations and changes as leadership teams adjust. The President is usually the legally recognized highest rank of corporate officer, ranking above the various Vice Presidents including Senior Vice President and Executive Vice President , but on its own generally considered subordinate, in practice, to the CEO. Parsons was number two in the company hierarchy during his tenure as President of Time Warner from to , but he had no authority over the operating divisions, and instead took on assignments at the behest of Chairman and CEO Gerald Levin. Capellas ended up serving just six months as HP president before departing. His former role of president was not filled as the executives who reported to him then reported directly to the CEO. Schwartz became sole president of Bear after Spector was ousted, and several months later assumed the position of CEO as well when James Cayne was forced to resign Cayne remained chairman. Bradley Jack and Joseph M. While Fuld was considered the "face" of Lehman brothers, Gregory was in charge of day-to-day operations and he influenced culture to drive the bottom line. Miller was President from â€", while serving additionally as CEO for 18 months from â€" When Wells died in a helicopter crash, [21] no replacement President was named as his duties were resumed by Eisner. Michael Ovitz was President from â€", being hired by Eisner and then dismissed not long afterwards. Staggs was COO from â€", during that time the senior executive team had a dual reporting structure to both Staggs and Iger; Staggs resigned after the board did not give him assurances that he would succeed as CEO. Manulife has used the President and COO titles for separate roles. Although the number of COOs has been in decline for the past 10 years, there are reasons to anticipate an increased utilization of the position in the future, including: Companies are becoming larger and more complex, making it more difficult for one person alone to have total oversight over the whole organization [3] Companies are finding a strong relationship between firm performance and the presence of a COO [24] Companies are becoming more deliberate about CEO succession planning and will use the role to on-board and train successors [3] The increase in talent mobility means that the role will likely be used more often as a retention mechanism for key executives that are at risk of moving to a competitor [3] Roles and functions[edit] The role of the COO differs from industry to industry and from organization to organization. Some organizations function without a COO. Gregory were the co-COOs. The COO is responsible for ensuring that business operations are efficient and effective and that the proper management of resources , distribution of goods and services to customers and analysis of queue systems is conducted. Despite the functional diversity associated with the role of COO, there are some common functions the COOs usually perform: Either way, the position is used as a training and testing ground for the next CEO. Not being automatically granted the luxury of a "diagnostic period. Finding time to manage a new key stakeholder: Many COOs turned CEOs are often surprised how time-intensive managing the Board of Directors can be and must learn to incorporate this important responsibility into an already packed schedule. Being in the spotlight. COOs are used to having the luxury of working "behind the scenes. Often COOs struggle not with the strategy portion of the job itself, but overcoming the perception of other stakeholders that they are an "execution" executive versus a "strategy" executive. When a relationship built upon trust is created between the CEO and COO, firm performance is improved and shareholder results are strengthened. When communication breaks down, mistrust or misunderstanding is likely to mess up. Clear Decision Rightsâ€"The COO role appears to work the best when the roles and responsibilities of the COO have been clearly delineated ahead of time and the COO is allowed to make the final decision within pre-agreed upon scope. Sharing the Spotlightâ€"In effective CEO-COO relationships, both parties are comfortable with how much "credit" they receive for their work internally, externally, from the Board of Directors, and from each other.

This is not a partnership that can be forced. Relationship with board of directors[edit] In addition to having a strong and trusting relationship with the CEO, the COO should also have an effective relationship with the board. A strong relationship between the board and the COO also offers the board an additional expert opinion on the health of the company, and status of key initiatives. It benefits the CEO to allow such a relationship to form because it reflects confidence and fosters transparency. A strong relationship benefits the COOs in that they are able to expand their experience as well as their professional network. Additionally, if they are looking to be the next CEO, it allows them to develop credibility with the board. Researchers advise the COO to go beyond simply presenting at board meetings, to ensure they are developing strong one-on-one relationships with each board director. Additionally, the COO typically has to be a high-level leader who is comfortable being fully in charge. Many executives with the leadership skills necessary to be a top-level COO would prefer to be running their own organization as opposed to taking orders from a CEO. COOs can also find themselves trapped into being labeled an "operations" person or a "Number 2" as opposed to being seen as a strategic and top-level leader by the Board of Directors, which causes some executives to steer clear of the position. Perhaps it is the most difficult of all organizational working relationships because more than others, it is a balancing act on the threshold of power. Miles have published extensively on the subject of the COO. In addition to writing a book dedicated to analyzing this hard-to-understand position, [33] their research has been published in the Harvard Business Review, MIT Management Review and Chief Executive.

Chapter 2 : Business Ethics: The Power of Doing the Right Thing

Study of business ethics is concerned with the image of the business and the impacts the business has not the environment, customers, suppliers, employees, and the global economy. Negative--> Affects suppliers, consumers, the community, and society.

It is times like these that can challenge many companies that do not have this kind of ethical commitment. With pressure on short-term results, many companies set unrealistic goals and employees feel extreme pressure to meet them or face the possibility of losing their jobs. But ethical behavior and integrity are clearly linked to profitability. Ethical Behavior in Sales One of the most visible positions in any organization in terms of ethics is sales. What the salesperson says and does is a direct reflection of the organization and its ethics. Consider this ethical dilemma if you were a real estate agent. You have just landed a fantastic listing: The seller tells you that the home inspector suspects there is insect damage to the siding of the house, but the seller says she has never had any problems. Also, the seller feels so strongly about not disclosing this information to prospective buyers that she said she would rather go with a different agent if you insist on disclosing the possible insect damage. What would you do? Either withholding or falsifying information is lying and therefore unethical. Imagine that you are a financial planner responsible for managing your clients assets. One of your clients is a very conservative investor; right now you are not making much money from his account. You have an opportunity to sell him a high-return investment, but the risk is far greater than you think he would normally take. You think you can sell him on it if you leave out just a few details during your conversation. This could be a win-win situation. Should you give him your pitch with a few factual omissions or just make the investment and tell him after the money starts rolling in? What should you do? Even though the result of the investment could be a good one, it is your obligation to provide full disclosure of the risk and let the customer make the investment decision. You should never make assumptions and decisions on behalf of your customers without their consent. If you are frustrated about your lack of income on the account, you might not be the best financial planner for him. You should have an honest conversation with him and perhaps suggest a colleague or other planner that might be a better fit for his investment strategy. Just Say No What if your employer asked you to do something that you are not comfortable doing? But the deadline is only two days away, and none of your customers is ready to make a purchase. Then you remember talking to one of the administrators, and she mentioned the need for donations. It would help the school during this challenging financial crisis and it would be more inclined to make a purchase quickly. This could be a good move for everyone. When you are in sales, you are not only representing yourself, but you are also representing your company. Although it appears that all parties will benefit from the donation, it is not ethical for the school, you, or your company to make an exchange like that. Donations should be made with no strings attached. You might miss the opportunity to earn your bonus this year, but you will learn valuable lessons to make next year an even better sales year. It was an expensive restaurant, and the two of you thoroughly enjoyed yourselves; you had steak, wine, and a chocolate dessert. After all, you make a lot of money for the company and have been working a lot of nights and weekends lately. Is it OK to submit the additional tip money on this expense report? If you have legitimate expenses, they should be submitted according to the company policy. This can be another one of those slippery slope arguments; if you do it once, you might be tempted to do it again. Many people in many companies have been fired for providing false information on their expense reports. Personal ethics and business ethics are a part of everyday selling. The customer is always right, except when he asks you to do something unethical. What should you do to uphold your ethics and maintain your relationship? Evaluate the situation with a clear head. Most unethical behavior is driven by emotions such as fear, greed, stress, and status. Identify what is causing the behavior but wait until you have some time to reflect. Identify the criteria you are using to make this judgment. Is the behavior against company policy? Is it against the law? Is it against your personal code of ethics? Always ask a trusted colleague, supervisor, or human resources representative for advice. While certain values might be important to you, they may not be important to your best friends or even every member of your family. While family, friends, and your environment have a significant influence, you develop your own set of values. Consider the list below, which includes some examples of values:

Chapter 3 : What's the difference between bottom-line and top-line growth?

In the end, the natural result is that corporate bottom line goes up, and the state of the public good goes down. This is called privatizing the gain and externalizing the cost. This system design helps explain why the war against corporate abuse is being lost, despite decades of effort by thousands of organizations.

Corporations as Responsible A Civil Action was originally a novel, but more people have seen the movie, which was distributed by W. One of the memorable scenes is John Travolta playing a hotshot lawyer speeding up a rural highway to Woburn, Massachusetts. He gets pulled over and ticketed. The polluted water, Travolta suspects, eventually surfaced as birth defects. After checking things out, he races his Porsche back to Boston at the same speed. Scott Rudin, , film. Make the money hurt. What if people who directed businesses began understanding their enterprise not only in financial terms as profits and losses but also in ethical ones? What if companies became, in a certain moral sense, like people, members of society bound by the same kinds of duties and responsibilities that you and I wrestle with every day? When companies are seen that way, a conception of corporate social responsibility comes forward. Three Approaches to Corporate Responsibility According to the traditional view of the corporation, it exists primarily to make profits. From this money-centered perspective, insofar as business ethics are important, they apply to moral dilemmas arising as the struggle for profit proceeds. While these dilemmas continue to be important throughout the economic world, when businesses are conceived as holding a wide range of economic and civic responsibilities as part of their daily operation, the field of business ethics expands correspondingly. Now there are large sets of issues that need to be confronted and managed outside of, and independent of the struggle for money. Broadly, there are three theoretical approaches to these new responsibilities: Corporate social responsibility CSR Stakeholder theory Corporate Social Responsibility CSR The title corporate social responsibility In general, the conviction that corporations are not only legal entities with responsibilities but also moral entities, and they hold ethical obligations comparable to those of citizens in a society. Second, corporate social responsibility is also a specific conception of that responsibility to profit while playing a role in broader questions of community welfare. As a specific theory of the way corporations interact with the surrounding community and larger world, corporate social responsibility CSR As a specific theory of business ethics, a package of four obligations the corporation holds as an independent ethical actor in society; the responsibilities are economic, legal, ethical, and philanthropic. The economic responsibility to make money. Required by simple economics, this obligation is the business version of the human survival instinct. Of course there are special cases. Nonprofit organizations make money from their own activities as well as through donations and grants , but pour it back into their work. In some cities, trash collection is handled by this kind of organization, one that keeps the streets clean without at least theoretically making anyone rich. For the vast majority of operations, however, there have to be profits. The legal responsibility to adhere to rules and regulations. Like the previous, this responsibility is not controversial. What proponents of CSR argue, however, is that this obligation must be understood as a proactive duty. Going back to John Travolta racing his Porsche up and down the rural highway, he sensed none of this respect. The same goes for the toxic company W. The same logic can work in the corporate world. Many industrial plants produce, as an unavoidable part of their fabricating process, poisonous waste. In Woburn, Massachusetts, W. Grace did that, as well as Beatrice Foods. A lawyer driving home from work may spot the local children gathered around a makeshift lemonade stand and sense an obligation to buy a drink to contribute to the neighborhood project. Similarly, a law firm may volunteer access to their offices for an afternoon every year so some local schoolchildren may take a field trip to discover what lawyers do all day. An industrial chemical company may take the lead in rehabilitating an empty lot into a park. None of these acts arise as obligations extending from the day-to-day operations of the business involved. Instead, these public acts of generosity represent a view that businesses, like everyone in the world, have some obligation to support the general welfare in ways determined by the needs of the surrounding community. Taken in order from top to bottom, these four obligations are decreasingly pressing within the theory of corporate social responsibility. After satisfying the top responsibility, attention turns to the second and so on. At the extremes, the logic behind this ranking works easily. More difficult questions arise when the economic responsibility conflicts with the legal one. For example, to remain profitable, an industrial plant may need to dispose of waste and toxins in barrels that barely meet legally required strengths. The positive economic aspect of the decision to cut corners is the ability to stay in business. If necessary, the company should have accepted bankruptcy before causing the social damage it did. At the time of the decision, however, there may have been less certainty about exactly what the risks and benefits were. Even among individuals promoting a strong sense of corporate responsibility for the surrounding community, there may have been no clear answer to the question about the proper course of action. Regardless, corporate social responsibility means every business holds four kinds of obligations and should respond to them in order: The Triple Bottom Line The triple bottom line A form of corporate social responsibility dictating that corporate leaders tabulate results not only in economic terms but also in terms of company effects in the social realm and with respect to the environment. There are two keys to this idea. First, the three columns of reponsibility must be kept separate, with results reported independently for each. Second, in all three of these areas, the company should obtain sustainable results. The notion of sustainability is very specific. At the intersection of ethics and economics, sustainability means the long-term maintenance of balance. Economic sustainability values long-term financial solidity over more volatile, short-term profits, no matter how high. According to the triple-bottom-line model, large corporations have a responsibility to create business plans allowing stable and prolonged action. That bias in favor of duration should make companies hesitant about investing in things like dot-coms. Silicon Valley, California, for example, is full of small, start-up companies. A few will convert into the next Google, Apple, and Microsoft. What gets left out, however, of the newspaper reports hailing the accomplishments of a Steve Jobs or a Bill Gates are all those other people who never made itâ€”all those who invested family savings in a project that ended up bankrupt. Sustainability as a virtue means valuing business plans that may not lead to quick riches but that also avoid calamitous losses. Moving this reasoning over to the case of W. Money is saved on disposal costs. This possibility leads immediately to the conclusion that concern for corporate sustainability in financial terms argues against the dumping. As the imbalances grow, as the rich get richer and the poor get both poorer and more numerous, the chances that society itself will collapse in anger and revolution increase. The threat of governmental overthrow from below sounds remoteâ€”almost absurdâ€—to Americans who are accustomed to a solid middle class and minimal resentment of the wealthy. In world history, however, such revolutions are quite common. It may indicate, however, that for a business to be stable over the long term, opportunities and subsequently wealth need to be spread out to cover as many people as possible. All work, the logic of stability dictates, contains dignity, and no workers deserve to be treated like machines or as expendable tools on a production line. They see bosses hiring from temporary agencies, turning them over fast, not even bothering to learn their names. Finally, social sustainability requires that corporations as citizens in a specific community of people maintain a healthy relationship with those people. Fitting this obligation into the case of W. Any hope for cooperation in the name of mutual benefit will be drowned by justified hatred. Environmental sustainability begins from the affirmation that natural resourcesâ€—especially the oil fueling our engines, the clean air we breathe, and the water we drinkâ€—are limited. Further, the case of an industrial chemical company pouring toxins into the ground that erupt years later with horrific consequences evidences this: There are, clearly, good faith debates that thoughtful people can have about where those limits are. Recycling or cleaning up contamination that already exists is important here, as is limiting the pollution emitted from factories, cars, and consumer products in the first place. Together, these three notions of sustainabilityâ€—economic, social, and environmentalâ€—guide businesses toward actions fitted to the conception of the corporation as a participating citizen in the community and not just as a money machine. One deep difference between corporate social responsibility and the triple bottom line is cultural. The first is more American, the second European. Americans, accustomed to economic progress, tend to be more comfortable with, and optimistic about, change. Collectively, Americans want business to transform the world, and ethical thinking is there hopefully to help the transformations maximize improvement across society. Europeans, accustomed to general economic decline with respect to the United States, view change much less favorably. Their inclination is to slow development down, and to keep things the same as far as possible. This outlook is naturally suited to sustainability as a guiding value. The Luddites were a band of textile workers in Britain in the s who saw correctly that mechanized looms would soon rob them not only of their livelihood but also of their way of life. To stop the change, they invaded a few factories and broke everything in sight. Their brute strategy succeeded very briefly and then failed totally. Today, Ludditism is the general opposition to new technologies in any industry on the grounds that they tear the existing social fabric: Actually, innovation is favored as long as advances are made in the name of maintaining the status quo. For example, advances in wind power generation may allow our society to continue using energy as we do, even as oil reserves dwindle, and with the further benefit of limiting air pollution. Stakeholder Theory Stakeholder theory, which has been described by Edward Freeman and others, is the mirror image of corporate social responsibility. Instead of starting with a business and looking out into the world to see what ethical obligations are there, stakeholder theory starts in the world. As a simple example, when a factory produces industrial waste, a CSR perspective attaches a responsibility directly to factory owners to dispose of the waste safely. By contrast, a stakeholder theorist begins with those living in the surrounding community who may find their environment poisoned, and begins to talk about business ethics by insisting that they have a right to clean air and water. This is a very important point. Who are the stakeholders surrounding companies? The answer depends on the particular business, but the list can be quite extensive. If the enterprise produces chemicals for industrial use and is located in a small Massachusetts town, the stakeholders include:

Chapter 4 : The Shareholders vs. Stakeholders Debate

The second argument is corporate executives are duty bound to pursue profits. The third argument is corporations are ill-equipped to directly serve the public good. The fourth argument is social issues should be managed by government, not corporations.

Imagine going to work every day for a company that you are truly excited about, and proud to be a part of. They stand out from the typical "cut-throat" business world by the way they treat suppliers, their commitment to environmental sustainability, their ethical investments, and their desire to empower and promote their team members instead of dragging them down. There is a constant air of excitement and possibility at the office, and you love coming to work each day. Sounds pretty amazing, right? And one approach to building a company like this, and monitoring what it does, is to use "the triple bottom line. The triple bottom line was first fully explained by John Elkington in his book, "Cannibals With Forks: This approach sees shareholders as part of the stakeholder group, but only as part of it. However, a number of important trends support the need for organizations to be benevolent, at least to some extent: Many organizations are critically dependent for success on hiring, motivating and retaining good people. At the extreme, think of leading sports teams or media organizations, in which the people earning big money are the stars, not the shareholders. These organizations have no option but to be focused on their people. In many parts of the world, particularly in certain industries, good people are in short supply. Baby Boomers are moving out of the workplace into retirement, and there are fewer people in the following generations. Different generations have different attitudes to work. While earlier generations may have tolerated impoverished conditions at work, people in generations X and Y are likely to be looking for more meaning. Consumers and potential recruits have many more choices than they had in the past, and are more aware of the ethical and environmental stance of large companies. Some base their purchase and career decisions on these things. People Companies that follow the triple bottom line way of doing business think about the impact their actions have on all the people involved with them. This can include everybody from farmers supplying raw materials, on up to the CEO of the company. The company offers health care, good working hours, a healthy, safe place to work, opportunities for advancement and education, and does not exploit their labor force by using child labor or offering sweatshop wages. In some cases, the "people" bottom line can also include the community where the company does business. While the concept of the people bottom line is certainly attractive, the difficulty comes in deciding how far you go with this. Do you apply it to employees? People near company buildings? And what should you do if you need to restructure the business to remain competitive and shed some staff? Should your concern for people mean that you refuse to make redundancies even though this risks the long term viability of the organization for all staff? Planet Triple bottom line companies take pains to reduce or eliminate their ecological footprint. They strive for sustainability, recognizing the fact that "going green" may be more profitable in the long run. Finding This Article Useful?

DOWNLOAD PDF THE SECOND BOTTOM LINE : A CORPORATE EXECUTIVES COMMUNITY DUTY

Chapter 5 : How Corporate Law Inhibits Social Responsibility

New studies provide fact-based support for the bottom line benefits of corporate social responsibility, but also raise red flags about greenwashing and long term impacts.

In , Congress enacted changes in the tax code that permitted publicly held business corporations to deduct charitable donations in amounts up to five percent of their federal taxable income. Congress, of course, did not require companies to make charitable donations, but it did wish to encourage them to do so. The legislation became one more landmark in a running controversy about corporate social responsibility. Simply put, this controversy concerns the question of whether publicly-held business corporations sole proprietorships and partnerships must be treated somewhat differently have a duty to the communities in which they operate that goes beyond the duty to obey the law in the conduct of their operations. And if they have such a duty, questions remain about why they have that duty and what exactly it requires them to do. The sources that Christians might ordinarily turn to for guidance on moral matters â€" Scripture and theological traditions â€" are somewhat ambiguous on the question of corporate social responsibility. The God of Israel has a special concern for the poor. Israel is encouraged to see these people as under the special protection of God and exhorted to care for them as God would see, for example, Deut. Jesus Himself reinforces this obligation powerfully in such passages as Matt. A similar theme is echoed in the fathers of the church, such as St. John Chrysostom, who regard aid to the poor and vulnerable as a fundamental Christian duty. On the other hand, the obligations described in these and many other passages clearly refer either to individuals or to the community as a whole. No passage of which I am aware speaks to the duty of commercial organizations. This should not be surprising, since in biblical times commerce was relatively uncomplicated and ordinarily a personal affair. Scripture might speak of the duties of a merchant but never of the duties of a company. Business corporations as we know them are, after all, a modern invention. In sum, then, if we consult Scripture for guidance, we will learn of a personal obligation to care for those in need but we will find nothing about a corporate obligation. A similar pattern can be found in the reflections of theologians up to modern times. They exhort us to seek justice and to engage in works of charity but again, they see these as individual responsibilities and the question of whether voluntary commercial associations might have such responsibilities is never addressed. More recently, though, the church has given sustained attention to the special situation of business corporations. Both documents emphasize that it is legitimate for businesses to make a profit, but they also insist that the fundamental rule governing the conduct of businesses is that they serve the common good. Neither document, however, suggests that business corporations have a social responsibility that goes beyond this, even in passages where this could be quite naturally discussed. By contrast, the attention given to the study of business ethics over the last several decades has served to reinforce the conviction that business corporations have a social responsibility that requires them to use some of their resources to address needs in their communities. These resources may be cash, or physical property, or even the time and energy of their employees. Ordinarily, the needs addressed are outside the scope of the normal operations of the company. As a result, corporations make significant contributions to the arts or to social service organizations. In doing this, advocates argue, they are merely being good corporate citizens and giving something back to the society. We may call this the strong view of corporate social responsibility. Many opponents of this view insist that business corporations have no responsibility to society beyond obeying the law as they go about their operations. Their principal and overriding responsibility is to shareholders and it is a responsibility to conduct the operations of the company in such a way as to maximize the wealth of these shareholders. We may call this the weak view of corporate social responsibility. Perhaps the best known proponent of the weak view is Milton Friedman, the Nobel laureate in economics. In , Friedman wrote an article for the New York Times Magazine in which he argued that business corporations best serve their societies when they increase their profitability. Furthermore, he said, executives of business corporations had no warrant to use the assets of the company for charitable purposes. To do so would constitute, in his judgment, an illicit tax on the shareholders, since it would be a use of their money for public purposes that was neither lawfully required nor consensual. This article has probably become the most commonly reprinted essay in the business ethics literature though it is normally offered as an example of wrongheaded thinking about the nature of business and about corporate social responsibility. Not surprisingly, Friedman has been misunderstood or misinterpreted to say that businesses need not be concerned about ethics in their pursuit of profit. Over the last decade or two, as some version of the strong view has become the common opinion in business schools and executive suites, thinking about the nature of the business corporation and its relationship to the community has also changed. Quite often the moral quality of a company has been evaluated in terms of its commitment to social responsibility. In practice, however, this has created at least two kinds of problems, which on occasion have been serious and which, in any event, should provoke us to reconsider the wisdom and soundness of the strong view of corporate social responsibility. The first kind of problem is that the specific nature of corporate contributions sometimes becomes an obstacle to the successful conduct of business. For example, several companies have received unwelcome publicity and been the target of customer outrage because of their support for or opposition to Planned Parenthood. Some years ago, the Target Corporation which famously donates five percent of its taxable income each year to arts and service organizations came under criticism for its very modest support of a Planned Parenthood program unrelated to abortion services. When it decided to drop its support on the grounds that it was unnecessarily controversial, it then was threatened with boycotts from customers and investors who supported abortion rights. After a few weeks the company reinstated its small grant to Planned Parenthood but then, of course, it was threatened with boycotts by pro-life customers. As these funds have become larger and more numerous their impact on corporate giving practices is likely to be felt. In many cases, a contribution approved by one fund will cause another fund to reject the investment. In the future we will probably see more companies review, and perhaps reduce, their corporate giving in order to minimize interference with their core business operations and to avoid entanglements that make their stock less attractive to investors. A second sort of problem is more subtle but its effects have been brought home to us quite dramatically over the last two years. There can be a dark side to corporate philanthropy, as companies like Enron have demonstrated. In other cases, corporate donations have funded projects directed by the spouses of members of Congress or other officials. And even where there are less egregious conflicts of interest, nonprofit organizations and the people who benefit from their services can bring influence to bear to support their donors over against the community as a whole as for instance when artificial barriers prevent competitors from entering a marketplace. The modern, publicly held business corporation is an ingenious invention, and it has never been given the credit it is due for the prosperity enjoyed by the Western and Western-like developed nations of the world. There is no question that corporations can and have abused their power, but without excusing this abuse, the corporate structure, when it has been properly employed, has been a key factor in the unprecedented growth in material prosperity that we have experienced. The corporation as a form of organization makes possible the gathering together of resources for long-term or complicated projects that other forms of business organization cannot stimulate. However, the very newness of the corporate form has caused us to puzzle about its nature. In still other contexts, the law considers corporations not so much to be things as to be networks of contractual relationships. Nevertheless, in each of these instances the determining principle behind the relevant legal conception of the corporation is rooted, not in some conclusion about the nature of the corporation, but rather in a problem the law wishes to resolve. Treating the corporation as if it were a person or an object of ownership or a network of contracts allows the courts to resolve the problem at hand, but we should not be misled by this into thinking that the law has told us what a corporation truly is. Ethicists, economists, and social scientists each similarly grasp an important piece of the whole, relevant to their own disciplines, without necessarily accurately describing the whole. Thus, for ethicists the corporation is or perhaps is not a moral agent; for economists it is a set of relationships designed to optimize efficiency; for social scientists it is a social arrangement with its own culture, both like and unlike families and civil societies. In truth, we need to think much more deeply â€" and in ways more open to enrichment from theological sources â€" about the distinctive character of voluntary associations of all sorts, not merely the special type that concerns us here, the business corporation. In place of this deeper examination, we may say this at least: Like other voluntary associations, such as bowling clubs or gardening societies, corporations are, strictly speaking, indifferent but not hostile to the overall happiness of their members and focused instead on one or several elements of this happiness. Corporations should be concerned that their employees have meaningful work for which they are paid fairly, but need not take responsibility for their personal and spiritual lives. Nevertheless, this tight focus does in fact contribute to the well-being of people and enhances the common good of the community, thus conforming in its own way to the requirements of the Christian tradition. Business corporations enhance the common good by providing good employment, by producing needed goods and services, and by creating wealth. Their potential to do this is so great, in fact, that the prosperity of a modern society can be directly correlated with the presence in the society of this corporate structure. In principle, therefore, the community permits and protects this form of association, because it makes a particularly important contribution to the common good when it functions properly. And the community retains the right to regulate corporations in order to insure as far as possible that it does function properly and make this contribution. Now all this may sound abstract and esoteric but there is a point to take away that is critical to the problem of corporate social responsibility. That point is that business corporations by their nature serve the common good when they function as they should. They are not grudging concessions made by the society to the greed of executives and investors. As a result, the primary social responsibility of a business corporation is, in fact, to make the contribution to the common good that it is uniquely structured to make. It need not justify its existence on the ground that it addresses broad social injustices or performs general works of charity. Yet the rationale sometimes offered for the strong view of corporate social responsibility implies that producing economic benefits is not enough; business corporations must do more. Neither suggestion bears close examination. When business corporations are created the community does not give something away. Instead, in order to pursue the economic benefits offered by the corporate structure the community offers something in exchange. It offers to recognize the corporation as a stable, enduring entity and to limit the civil liability of its members i. Any fair assessment of the impact of the corporate structure on communities would conclude that the communities sacrifice little and gain much. Indeed, one might also fairly ask whether the exchange a community makes in sacrificing tax revenues in order to support non-profit corporations creates proportional benefits for the common good. Does all this mean that business corporations have no corporate social responsibility beyond conducting their operations within the law? Where the strong view of corporate social responsibility demands too much, the weak view that corporations need only obey the law requires too little in light of the Christian tradition. Law by its very nature is reactive; laws and regulations are enacted to prevent harms we have experienced in the past from occurring again. They rarely, if ever, anticipate harms we have never experienced and offer advance protection. As a result, the law constitutes a minimal set of requirements for ethically sound behavior for individuals and organizations. That we sometimes think laws or regulations become too detailed in their prescriptions is a different matter. Corporations, in other words, like morally upright individuals, have responsibilities that are not adequately described by laws and regulations. These genuine corporate social responsibilities concern both what they ought to avoid and what they ought to do. For example, business corporations have a responsibility to avoid causing harms to the community e. They have similar duties to avoid exploiting employees or manipulating customers, regardless of whether the specific sorts of exploitation or manipulation are subject to regulation. They also have a duty not to use their economic and political power to secure legislation that is unfairly favorable to them such as artificial barriers to the entry of competitors to the market. On the positive side, corporations have a duty to treat their major constituencies as fairly as they can. That is, they must seek to provide secure, well-compensated, meaningful employment, to produce goods and services that genuinely satisfy human needs, and to create wealth for investors. They should also be ready to address needs in their fields of operation that are not well served and may not be very profitable. For example, grocery wholesalers and retailers could be open to ways in which they could help to insure that no one in the community goes hungry; construction companies could explore ways in which affordable housing could be built; and pharmaceutical companies could propose creative and effective partnerships with government to make medications available more cheaply. These examples do not exhaust the possibilities for discharging the responsibilities of business corporations to their communities but they do illustrate the direction in which these responsibilities run. Thoughtful readers will be able to recognize many other possibilities.

Chapter 6 : Corporate Responsibility - Corporate | www.nxgvision.com

To better understand the relationship among business, volunteering and the bottom line, the Case Foundation and HandsOn Network commissioned LBG Associates to explore howâ€"and to what degreeâ€"corporate volunteerism positively impacts communities, employees and companies.

I realized that the many social ills created by corporations stem directly from corporate law. It dawned on me that the law, in its current form, actually inhibits executives and corporations from being socially responsible. So in June I quit my job and decided to devote the next phase of my life to making people aware of this problem. My goal is to build consensus to change the law so it encourages good corporate citizenship, rather than inhibiting it. The provision in the law I am talking about is the one that says the purpose of the corporation is simply to make money for shareholders. Every jurisdiction where corporations operate has its own law of corporate governance. But remarkably, the corporate design contained in hundreds of corporate laws throughout the world is nearly identical. That design creates a governing body to manage the corporation--usually a board of directors--and dictates the duties of those directors. In short, the law creates corporate purpose. That purpose is to operate in the interests of shareholders. In Maine, where I live, this duty of directors is in Section of the business corporation act, which reads: Although the wording of this provision differs from jurisdiction to jurisdiction, its legal effect does not. This provision is the motive behind all corporate actions everywhere in the world. Distilled to its essence, it says that the people who run corporations have a legal duty to shareholders, and that duty is to make money. Failing this duty can leave directors and officers open to being sued by shareholders. Section dedicates the corporation to the pursuit of its own self-interest and equates corporate self-interest with shareholder self-interest. No mention is made of responsibility to the public interest. Section and its counterparts explain two things. Second, these provisions explain why executives behave differently than they might as individual citizens, because the law says their only obligation in business is to make money. This design has the unfortunate side effect of largely eliminating personal responsibility. Because corporate law generally regulates corporations but not executives, it leads executives to become inattentive to justice. They demand their subordinates "make the numbers," and pay little attention to how they do so. Directors and officers know their jobs, salaries, bonuses, and stock options depend on delivering profits for shareholders. Companies believe their duty to the public interest consists of complying with the law. Obeying the law is simply a cost. Since it interferes with making money, it must be minimized--using devices like lobbying, legal hairsplitting, and jurisdiction shopping. Directors and officers give little thought to the fact that these activities may damage the public interest. They have no incentive to offer ideas that would advance the public interest unless they increase profits. Projects that would serve the public interest--but at a financial cost to the corporation--are considered naive. Outside the corporation the effect is more devastating. It is the law that leads corporations to actively disregard harm to all interests other than those of shareholders. When toxic chemicals are spilled, forests destroyed, employees left in poverty, or communities devastated through plant shutdowns, corporations view these as unimportant side effects outside their area of concern. In the end, the natural result is that corporate bottom line goes up, and the state of the public good goes down. This is called privatizing the gain and externalizing the cost. This system design helps explain why the war against corporate abuse is being lost, despite decades of effort by thousands of organizations. Until now, tactics used to confront corporations have focused on where and how much companies should be allowed to damage the public interest, rather than eliminating the reason they do it. They only seek to limit where damage is created not in our back yard and how much damage is created a little less, please. But the where-and-how-much approach is reactive, not proactive. Even when corporations are defeated in particular battles, they go on the next day, in other ways and other places, to pursue their own private interests at the expense of the public. I believe the battle against corporate abuse should be conducted in a more holistic way. We must inquire why corporations behave as they do, and look for a way to change these underlying motives. Once we have arrived at a viable systemic solution, we should then dictate the terms of engagement to corporations, not let them dictate terms to us. We must remember that corporations were invented to serve mankind. Mankind was not invented to serve corporations. Corporations in many ways have the rights of citizens, and those rights should be balanced by obligations to the public. Corporations are incapable of a human emotion like greed. They are artificial beings created by law. The real question is why corporations behave as if they are greedy. The answer is the design of corporate law. We can change that design. We can make corporations more responsible to the public good by amending the law that says the pursuit of profit takes precedence over the public interest. I believe this can best be achieved by changing corporate law to make directors personally responsible for harms done. Let me give you a sense of how director responsibility works in the current system. Under federal securities laws, directors are held personally liable for false and misleading statements made in prospectuses used to sell securities. If a corporate prospectus contains a material falsehood and investors suffer damage as a result, investors can sue each director personally to recover the damage. Believe me, this provision grabs the attention of company directors. They spend hours reviewing drafts of a prospectus to ensure it complies with the law. Everyone in the corporation improves their game to meet the challenge. The law has what we call an in terrorem effect. Since the potential penalties are so severe, directors err on the side of caution. While this has not eliminated securities fraud, it has over the years reduced it to an infinitesimal percentage of the total capital raised. I propose that corporate law be changed in a similar manner--to make individuals responsible for seeing that the pursuit of profit does not damage the public interest. To pave the way for such a change, we must challenge the myth that making profits and protecting the public interest are mutually exclusive goals. The same was once said about profits and product quality, before Japanese manufacturers taught us otherwise. If we force companies to respect the public interest while they make money, business people will figure out how to do both. The specific change I suggest is simple: Directors and officers would still have a duty to make money for shareholders, This simple amendment would effect a dramatic change in the underlying mechanism that drives corporate malfeasance. It would make individuals responsible for the damage companies cause to the public interest, and would be enforced much the same way as securities laws are now. Negligent failure to abide by the code would result in the corporation, its directors, and its officers being liable for the full amount of the damage they cause. In addition to civil liability, the attorney general would have the right to criminally prosecute intentional acts. Injunctive relief--which stops specific behaviors while the legal process proceeds--would also be available. Compliance would be in the self-interest of both individuals and the company. No one wants to see personal assets subject to a lawsuit. Similarly, investors tend to shy away from companies with contingent liabilities, so companies that severely or repeatedly violate the Code for Corporate Citizenship might see their stock price fall or their access to capital dry up. Many would say such a code could never be enacted. Corporations should have only one purpose--to make the most profit for their shareholders--and pursuit of that goal will be best for America in the long run. They also owe something to their workers and the communities in which they operate, and they should sometimes sacrifice some profit for the sake of making things better for their workers and communities. An overwhelming 95 percent of Americans chose the second proposition. Clearly, this finding tells us that our fate is not sealed. When 95 percent of the public supports a proposition, enacting that proposition into law should not be impossible. If business people resist the notion of legal change, we can remind them that corporations exist only because laws allow them to exist. Without these laws, owners would be fully responsible for debts incurred and damages caused by their businesses. Because the public creates the law, corporations owe their existence as much to the public as they do to shareholders. They should have obligations to both. It also makes no sense to endlessly chase after individual instances of corporate wrongdoing, when that wrongdoing is a natural result of the system design. Corporations abuse the public interest because the law tells them their only legal duty is to maximize profits for shareholders. Until we change the law of corporate governance, the problem of corporate abuse can never fully be solved. This is the world we live in. This is the world we cover. Because of people like you, another world is possible. There are many battles to be won, but we will battle them togetherâ€”all of us. Common Dreams is not your normal news site. We want the world to be a better place. If you can help todayâ€”because every gift of every size mattersâ€—please do.

Chapter 7 : Chief operating officer - Wikipedia

The triple bottom line A form of corporate social responsibility dictating that corporate leaders tabulate results not only in economic terms but also in terms of company effects in the social realm and with respect to the environment. is a form of corporate social responsibility dictating that corporate leaders tabulate bottom-line results not.

The use of this phrase by businesses, the media, and students of business, however, almost always signifies something more than ordinary relationships and includes voluntary actions that either are or can be interpreted as done just for the good of the community. This produces ambiguities and conflicts. A strictly "free market" view of business defines a company as working for its stockholders under law; any charitable work or contributions are thus shorting what stockholders are due. A more modern view, which arose in the s under the rubric of "social responsibility," defines corporations as involved in, indeed responsible for, achieving social goods over and above profits. Ambiguity also arises from the fact that many businesses are small and, in effect, the extensions of one or two individuals who are viewed as autonomous personsâ€”while large corporations are collectives managed by hired functionaries. Two definitions of community relations are thus equally correct. The other makes community relations a branch of public relationsâ€”a form of communications. Thus a company may have acquired a good reputation because it is always ready to help when asked in different waysâ€”through people, money, or providing equipment. Managers at all levels understand in advance that this is sanctioned and approved. It is a corporate tradition, the way that things are done. In another company, community relations may take a much more publicly visible form. The company will be proactively generous. It may sponsor an annual festival, for instance; it may be the chief support of a famous hospital or research center; or it may be well-known for lending executives to civic causes or for taking a leadership role in fund-raising activities for the orchestra or the community theater. Such behavior is often the long, institutionalized shadow of a famous founder who set such activities going. They are still pursued with energy, at high cost, with a high level of public recognition. In the very nature of things, it is always difficult, in such cases, to distinguish "generosity" from "corporate pride. Under such a program, the company publicizes information about its activities. If it expands, it presents adding jobs in a favorable light. If it closes an operation, it presents its out-placement and employee counseling activities in the most favorable light. Anything even remotely associated with the community is interpreted as a contribution whether it is or not. The driving force in these cases is "perception," and the philosophical underpinning is that "perception is reality. Thus companies sometimes engage in or even initiate program activities, exploited to the maximum by using public relations, in order to counter a single unfavorable event or a chronic problem. A major fire blamed on poor supervision may be the triggering event; the chronic problem may be the production of toxic wastes or a strong odor that occasionally rises from its factory. This description clearly shows that community relations is a conscious expression of corporate will and that the motives behind it become visible to the public over time. The more free the activity is, i. Despite their good intentions, however, some 70 percent of survey respondents admit they fail to consider community goals in business unit plans. The discontinuity between beliefs and actual behavior, however, as reported by Boston College, may be due to two factors. First, businesses may be principally motivated to participate in programs by the personal and humanitarian inclinations of owners and executivesâ€”not for business reasons unless some problem needs to be addressed. Second, data are very difficult to find that produce immediate and direct linkages between, say, charitable contributions, organizing volunteer programs, providing vehicles for a clean-up event, or the establishment of a scholarship programâ€”and the bottom line. Enhancing the Possibility of Partnerships. Center for Corporate Citizenship at Boston College.

Chapter 8 : The Triple Bottom Line - The TBL 3Ps from www.nxgvision.com

Many academics, nonprofit leaders, and consultants are still trying to convince executives to invest more in CSR by telling them stories about how it will benefit their companies' bottom line.

Should companies seek only to maximize shareholder value or strive to serve the often conflicting interests of all stakeholders? Scandals at Enron, Global Crossing, ImClone, Tyco International and WorldCom, concerns about the independence of accountants who are charged with auditing financial statements, and questions about the incentive schema and investor recommendations at Credit Suisse First Boston and Merrill Lynch have all provided rich fodder for those who question the premise of shareholder supremacy. Before attempting to declare a victor, however, it is helpful to consider what the two theories actually say and what they do not say. The objective is to balance profit maximization with the long-term ability of the corporation to remain a going concern. The fundamental distinction is that the stakeholder theory demands that interests of all stakeholders be considered even if it reduces company profitability. Third, it is sometimes claimed that the shareholder theory prohibits giving corporate funds to things such as charitable projects or investing in improved employee morale. In fact, however, the shareholder theory supports those efforts â€" insofar as those initiatives are, in the end, the best investments of capital that are available. It is sometimes claimed that the stakeholder theory does not demand that a company focus on profitability. As many observers have pointed out, the stakeholder view does have a historical tradition in the U. As long as the firm made a decent profit every year and raised the dividend it paid its stockholders, this was considered good enough. One force was the pointed arguments of free-market economists. However, the prospect of such takeovers seemed to have made it, for a time, more dangerous for executives to acknowledge publicly anything other than the shareholder theory 14 or to behave in any fashion that could suggest a nonoptimal return to shareholders. Sign up Please enter a valid email address Thank you for signing up Privacy Policy To be sure, many would prefer that the shareholder-stakeholder dispute simply go away. However, none of these assertions can withstand logical scrutiny. First, consider the assertion that the theories converge â€" that if managers take care of the stakeholders, they will wind up maximizing profits and shareholder returns in the long run. Consider a business with many long-term employees that has manufactured its products for more than 30 years in a small Mid-western town. Those products have been sold in many foreign markets â€" but for the past 10 years, not in the United States. Its executives have recently concluded that they can no longer afford to manufacture the products domestically, and the most cost-effective solution is to outsource the manufacturing to another country. The shareholder theory would support closing the plant and would direct the executives to provide only what the law requires to the community and the employees, since there is little possibility of a backlash against the company due to a plant closing because the products are solely for export. However, the stakeholder theory would infer a normative obligation to both the community and the employees; while it might not demand that the company continue to operate the plant, it would expect some attempt to retrain the employees, help the community attract new industry and so on. In many cases, though, the linkage between such actions and the profit and loss statement is either nonexistent or so indirect as to strain credulity. The stakeholder theory demands that stakeholder interests be considered as an end in themselves. If stakeholder interests are being considered only as a means to the end of profitability, then managers are using stakeholders to effect the results dictated by the shareholder theory. These are two very different concepts. Second, consider the assertion that U. To be sure, most U. However, it is startling to note that there is evidence that public perceptions may not comport with those of economists and the financial community. Note that the study did not ask the managers about their own views on the question. Finally, consider the assertion that companies have no choice but to follow the shareholder theory, on the basis of law and market forces. Although some people claim that U. The duty of care simply means that directors should gather necessary information before making decisions; the duty of loyalty means that directors should be careful to act appropriately when there are conflicts of interest. One obvious way in which this can be done is for the board of directors to dismiss senior executives who do not maximize profitability. However, research indicates that the forced departure of executives who do not maximize profits is by no means assured, showing it to be more likely when there is an outsider-dominated rather than an insider-dominated board. For a similarly weak performance, a CEO is two to three times more likely to be dismissed during the first four years on the job or after having been on the job 10 years or more than in the period in between. However, based on economic theory, there is still a way in which managers who do not maximize profits, and whose boards do not remove them, will wind up unemployed: Some have argued that the large number of mergers and acquisitions in the late s provides evidence that this assumption is accurate. In fact, a seminal study by Julian Franks and Colin Mayer concluded that we cannot rely on hostile takeovers to perform such a disciplinary function. But since Franks and Mayer found that hostile bidders do not even distinguish significantly between the companies within an industry, we should view predictions that the market will punish managers who do not follow the shareholder theory more as a statement of religious conviction than as an empirical observation that has withstood rigorous scrutiny. Therefore, the dispute seems to be with us for the time being and the suggestions that recent financial scandals prove the failure of the shareholder theory deserve careful scrutiny before they can be accepted. The year saw a good deal of corporate executive behavior that was at best disruptive to the free flow of commerce and, at worst, illegal. Few would dispute that such behavior should be discouraged rather than rewarded. The real question, of course, is whether the shareholder theory prescribes, and therefore rewards, behaviors that are actually detrimental to society. Many of the more strident critics of shareholder theory seem to claim that as executives are charged with maximizing shareholder value and are given large incentives to do so through stock options or other schema, they will respond by embracing whatever manipulations are necessary to achieve that goal. It is further suggested that if those manipulations include setting up illegal partnerships and then shredding incriminating evidence, shareholder theory will encourage the behavior, as long as the executives do not get caught. Since society deems these behaviors reprehensible and since it is suggested that the shareholder theory drove executives to behave that way, these commentators conclude that the theory is bankrupt and must be jettisoned. The argument relies, however, on an incomplete and somewhat misrepresentative interpretation of the shareholder theory. First, while the mantra of maximizing shareholder value was indeed chanted by many in the economic and financial communities in the late s until the scandals hit in , it is not at all clear that such a goal is completely consistent with the intent of the shareholder theory. It must be remembered that shareholders get a return from their invested capital in two different ways: Yet those who criticize the mantra of maximized shareholder value seem to be most disturbed by the recent fixation on market returns, which the theory never viewed as the primary end state to begin with. Second, the argument seems to suggest that the shareholder theory prescribes any action in pursuit of shareholder returns. But the theory clearly dictates that the pursuit of profits should be done legally and without deception, and there is little wiggle room for the kinds of overtly illegal behavior alleged in many recent financial scandals. Thus, the executives who broke the law were not operating according to the shareholder theory. Third, it must be remembered that many of the executives undertook actions that, from all outward appearances, were more for their own benefit than for that of the shareholders. For example, Enron Corp. Thus, the strident line of argument does not appear terribly compelling, since it seems to misinterpret the shareholder theory even as it indicts the theory. However, others who also argue that recent financial scandals augur a move to the stakeholder theory take a less hostile, more compelling tack. That argument is more compelling. In this context, we can see that the dispute between the shareholder and stakeholder theories in the United States, in which it appeared for several years that the shareholder theory was emerging as a victor, is now best viewed as a standoff. Rightly or wrongly, the theory is being tarnished by association. Still, even if one generously concedes that many recent linkages of executive misbehavior to the theory are misplaced, it is hard to claim that the shareholder theory has done anything to help the situation. Against this backdrop, U. Third, whichever theory is embraced, executives need to be clear about the choice in organizational communications. About the

DOWNLOAD PDF THE SECOND BOTTOM LINE : A CORPORATE EXECUTIVES COMMUNITY DUTY

Author H. Contact him at jeff. University of Chicago Press, , Note that I am considering only the normative version of the theory, which states how managers ought to behave. There are also descriptive versions of the stakeholder theory, which describe actual behavior of managers, and instrumental versions, which predict outcomes for example, higher profits if managers behave a certain way. These distinctions are drawn crisply in T. Bowie Englewood Cliffs, New Jersey: Prentice-Hall, , 97â€” It is to this version of the normative stakeholder theory that the following description refers. Note, however, that Post, Preston and Sachs, who take a more instrumental than normative view of stakeholder theory, embrace a wider enumeration of stakeholders, including regulatory authorities, governments and unions. Note that these are ethical rights. Some authors â€" for example, see J. However, the most recent writings by the leading proponents of the social contract theory â€" including T. Oxford University Press, , 3â€" Stanford University Press, Free Press, , 30â€" Harvard Business School Press, , 7â€"8. Blackwell, ,

DOWNLOAD PDF THE SECOND BOTTOM LINE : A CORPORATE EXECUTIVES COMMUNITY DUTY

Chapter 9 : Should Corporations Have Social Responsibilities? The Arguments Against

Corporate Social Responsibility (CSR) is the responsibility of an organization for the impacts of its decisions and activities on society, the environment and its own prosperity, known as the "triple bottom line" of people, planet, and profit.

According to the COSO framework, which of the following is true of internal control? It is not geared to the achievement of objectives in overlapping categories. It is an end in itself, not a means to an end. It is affected by people at every level of an organization. They result in less transparency in ensuring ethical corporate governance. They encourage greater accountability for financial stewardship. They result in a lesser emphasis to prevent any financial misconduct. They do not impact executives, boards, and internal audits. Which of the following legal duties of board members suggests that a director does not need to be an expert or actually run the company? Duty of care b. Duty of good faith c. Duty of candor d. Duty of loyalty Answer: Identify the duty of obedience according to which board members should strive toward corporate objectives, and are not permitted to act in a way that is inconsistent with the central goals of the organization? Which of the following duties of board members suggests that conflicts of interest are always to be resolved in favor of the corporation? Duty of candor Answer: Which of the following is true of Federal Sentencing Guidelines for boards? The board must be knowledgeable about the objectives and process of the ethics program rather than simply the mere contents of a training session. The board should avoid exercising reasonable oversight with respect to the effectiveness and implementation of the ethics program. The board should leave the evaluation of all board policies, procedures, governance structure, and position descriptions to the executives. The board need not work with executives to analyze the incentives for ethical behavior. Which of the following are additional ethical responsibilities board members should have beyond legal obligations? They should maintain closed conversations within the firm. They should refrain from providing oversight. They should be critical in their inquiries about corporate vulnerabilities. He also created false documents, underreported his income, and evaded paying taxes for a year. According to Kevin Bahr, which of the following is a cause for conflicts in the financial markets? The independence and lack of expertise of audit committees b. The presence of shareholder activism c. Long-term executive greed versus short-term shareholder wealth d. Self-regulation of the accounting profession Answer: Which of the following is true of excessive compensation packages? When executive compensation is tied to stock price, executives have a strong incentive to focus on long-term corporate interests rather than short-term stock value. When huge amounts of compensation depend on quarterly earnings reports, there is a strong incentive to manipulate those reports in order to achieve the money. Economic fairness and personal morality always exists in executives receiving lofty compensation packages. Excessive compensation packages serve corporate interests when they provide an incentive that is not based on executive performance or accomplishments. Which of the following scenarios gives rise to conflicts of interests in corporate governance? Senior executives determining the compensation received by board members b. Board members hand-selecting employees in their company c. A CEO not chairing the board of directors d. The absence of cross-fertilization of boards Answer: Which of the following exemplifies insider trading? Misappropriation of proprietary knowledge d. Illegally evading income taxes Answer: Sara, an employee of PentaComp Inc.