

Publications

Academy Study Challenges Corporate America To Think Beyond Regulation

Restoring Trust in American Business, a new book by the American Academy of Arts and Sciences, examines the recent wave of corporate scandals. It systematically assesses the role of six “gatekeepers” – auditors; lawyers; investment bankers; corporate directors; regulators; and business journalists – highlighting their failure to prevent corporate misconduct. The book recommends concrete steps for improving corporate conduct and restoring confidence in American business.

As the book points out – and as Americans who invest in stocks and read the business pages know – “the early years of the new century have been plagued by major scandals at Enron and WorldCom, by numerous instances of overly aggressive accounting and excessive executive compensation, by compromised auditors and securities analysts, by inattentive boards of directors, and by self-indulgent mutual fund managers. Public confidence in American business and finance has been shaken to a degree not seen since the Great Depression.”

“The American Academy recognizes that public confidence in American business and financial institutions is critical to our national stability,” said co-editor Leslie Berlowitz, Executive Officer of the Academy. “To restore that public trust, it is time to reimagine and rebuild gatekeeper roles to enable those holding such positions to shape corporate conduct more effectively.”

Under the Academy’s auspices, corporate lawyers Martin Lipton and Larry Sonsini and manage-



ment scholar Jay Lorsch convened a series of roundtables that looked beyond regulation, to consider how to promote greater corporate responsibility. The sessions included experts from law, journalism, government, investment banking, corporate governance, management, and a variety of scholarly disciplines. Published by the MIT Press, the volume features essays by twenty-two distinguished contributors, including John Reed (New York Stock Exchange), Felix Rohatyn (formerly Lazard Freres), Gerald Rosenfeld (Rothschild North America), Damon Silvers (AFL-CIO), William Allen (New York University), and Rakesh Khurana (Harvard Business School).

“In order to function properly, our market system depends on a set of gatekeeper institutions,” said co-editor Jay Lorsch, Professor at Harvard Business School. “When those gatekeepers either can’t or won’t meet their explicit or implied responsibility to the public trust, the system breaks down. Having strong gatekeepers is vital to the well-being of our market system.”

According to the Academy report, the recent scandals illustrate that minimum compliance with the law isn’t always enough. For that reason the solution cannot be simply a rush to regulation. In many instances, there was a broad and systemic failure of professionalism. Professionals, expected to use specialized knowledge for the public good and abide by explicit codes of conduct, instead succumbed to market pressures and financial self-interest.

“Acting with integrity can’t be legislated, but it can be encouraged through stronger peer associations and improved professional checks and balances,” said co-editor Andy Zelleke, project director of the American Academy’s Corporate Responsibility study. The study concludes that gatekeepers must embrace higher professional standards to improve corporate conduct and limit the ability of “bad apple” managers to compromise accepted values and practices. To achieve that end, the report proposes remedies specific to individual professional roles:

- Lawyers must reformulate their public obligations and codes of conduct in order to balance their allegiance to clients with the greater public interest;
- Auditors must ensure that their primary duty is to the investing public rather than to the company they are auditing;
- Investment bankers and corporate directors must develop a consensus about their public obligations and foster a more professional identity and orientation;

Reviewer Comments

“This powerful collection of commentaries by the nation’s most compelling thinkers makes it clear that the engine that drives the markets is not money but integrity, and that it takes a village of committed, principled, and vigilant participants to make it work. It is filled with indispensable insights and practical advice for executives, directors, investors, and policy-makers.”

– Nell Minow, Editor, The Corporate Library; co-author, *Corporate Governance*

“These essays present clear, concise and cogent analyses of why America lost trust in American business and what must be done in order to restore that trust.”

– Donald Keough, former President and CEO, Coca-Cola Company

“This book could be subtitled ‘The Road Back From Enron.’ It offers a moderate and readable approach to letting American business back into civilized society on a promise of good behavior – a promise that needs to be monitored.”

– Daniel Schorr, Senior News Analyst, National Public Radio

- Regulators and business journalists need to articulate and adhere to explicit standards of professionalism that are tied to upholding the public trust.

To order copies of *Restoring Trust in American Business*, call the MIT Press at 1-800-405-1619 or visit <http://mitpress.mit.edu>. ■