

What Directors Need to Do To Restore Trust in Capitalism

By The Honorable Barbara Hackman Franklin



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Throughout history, capitalism has created economic growth and jobs. It has spurred innovation, increased living standards and lifted millions out of poverty. Yet, for all its good, we also must acknowledge that capitalism is not perfect.

Actions That Are Good For Business

In recent history, every time there is an economic crisis or a major scandal, capitalism has come under attack. Out of this have come new approaches and more government intervention to, in theory, make the system work better. This happened again in the aftermath of the financial meltdown of 2008. The U.S. government stepped in with stimulus measures, corporate bailouts, plus the Wall Street Reform and Consumer Protection Act of 2010, known as Dodd-Frank. The result: public trust and confidence in our capitalistic system continues to suffer.

Public companies are first expected to give shareholders a return on their investment. But today this isn't enough. The bottom line is that expectations for company performance have increased. This will be true well into the future, and public companies must deliver. So, the smartest companies are paying attention to the needs and desires of their stakeholders—stepping up efforts to protect the environment, improve health and safety, support the communities where they operate and do business and bring greater diversity to their workforces, managements and boards. These same companies are putting forth sustainability goals, producing sustainability reports and using other vehicles to be more transparent about what and how they are doing and aspiring to do.

Actions like these are not only good for people; they are good for business. Being socially responsible can build and add luster to a company's brand, and that brings its own rewards.

Otherwise, if the business community does not step up to the challenge of doing more for the planet and for its people, then government may step in. In my experience, government is not as efficient or innovative as private-sector companies, which have a strong motivation to create, produce and get ahead.

So more government is not the answer—we are. Companies and business people are the answer. It is up to our companies to make capitalism work better for the benefit of our shareowners, stakeholders, employees, customers, communities, and yes, our countries.

And we as directors must help and encourage them.

We know that we have a unique role to play. Boards of directors provide policy guidance, hire the CEO and track company performance. The CEO runs the company, and shareowners elect directors. Because we have a key role in helping the companies we serve to be successful financially, we also have a role in buttressing our capitalistic system to make it perform better. As the public expectation for corporate behavior has been elevated, so too has the public expectation for director performance. This is the “new normal.”

Specifically, here are five suggestions that directors at all companies and nonprofits regardless of size can do:

1. **Be the best we can be in the boardroom.** Be a leader by example. Bring every ounce of our experience, wisdom, objectivity, good judgment and high integrity to the board table. The volatile and uncertain times we are in require it, and public awareness of our high standards can help to build back trust in capitalism.

2. **Stress the “tone at the top,” a culture which is ethical and rewards integrity.** This culture must start at the top with the CEO and the board and flow down through the entire organization. The

internal control systems must work well, too, but the critical ingredient for long-term ethical behavior is the culture. Audit committees are often the overseers of tone at the top but the full board should be involved. Nothing loses public trust faster than scandal, fraud, self-dealing—or the perception of those things. In my experience, maintaining a culture of high ethics takes constant vigilance.

3. Build a strong board that values openness and candor. Make sure the group process, through which decisions are made, works well. This is still one of the under-emphasized aspects of board performance. Directors must trust and respect each other, be willing to speak their minds, and have no agenda other than the wellbeing of the enterprise. Essential, too, is a leader of the independent directors who is respected and trusted by the directors as well as by the CEO and who is skilled at building consensus and making sure all voices are heard. If the board group process works well, it will be much more effective at guiding the company to perform well financially and to do good for the public at the same time.

4. Push for socially responsible actions to be embedded in company strategy. That means there would be goals and milestones to measure progress on these actions. While many companies have such goals, too often the board doesn't regularly track progress. Ask the CEO for periodic reports to monitor progress on these actions the same way the board gets reports to monitor financial performance. Then, reward progress. Include among the metrics on which executive compensation is based some measures that track progress on corporate social responsibility actions. Some companies have compensation metrics that relate to improving safety, customer satisfaction or diversity—in addition to the usual financial measures.

5. Stay current—continuing education for each of us is a necessity today. We need continuing

education about business practices, locally and globally, about corporate governance, about corporate social responsibility, and about what is going on in the fast-moving global arena, which touches us all.

Right now there may be storm clouds ahead. For one, global GDP growth is slowing again. The International Monetary Fund and the World Bank have recently lowered their forecasts of global GDP growth. As I write this, the U.S. continues to wrestle with concerns surrounding the “fiscal cliff.” And there are other issues: cyber security and the protection of intellectual property, the use or misuse of social media, the perennial issue of executive compensation, as well as the challenges of doing business in many countries around the world.

We as directors must keep up. We cannot afford to be stuck in the practices and mindsets of the past.

Please know that NACD is your partner as you work to stay current.

We want to be inspiring and helpful. We have a vast, easily accessible library of resource materials compiled throughout our 35-year history. We have many

educational offerings and peer-to-peer networking opportunities. We bring the “voice of the director” into the public policy process by commenting on regulatory proposals and convening sessions, which bring directors together with stakeholders.

I believe in capitalism. I have faith that capitalism will continue to bring economic growth, jobs and prosperity to people all over the world. And we directors have a role to play—to help improve the performance of the companies we serve by encouraging and monitoring their financial success as well as their actions of corporate social responsibility. If we join together and work for this, I truly believe our collective efforts will count—and trust and confidence in capitalism will again grow. ■

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