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Corporate Leadership and the Crisis

By Carly Fiorina

The audacity of hope is about to be tested as President-elect Barack Obama's transition team moves forward in the context of bailout strains, job losses, and a pessimistic economic outlook. As we watch the CEOs of the Big Three auto companies plead at congressional hearings for taxpayer money to avert "catastrophe," the great debate about the proper role of government continues with new urgency. It is of equal importance to consider the role business should play in ensuring economic security for a hopeful citizenry.

Business leaders must use these difficult times as an opportunity to restore our credibility with the American people. We must be prepared to step up to new levels of transparency and accountability and to recalibrate our own role in an increasingly competitive world.

The 21st century is one in which literally almost any job can be performed almost anywhere. It is a world in which we can create, seemingly overnight, a global market of complex financial instruments like credit default swaps worth trillions of dollars, and then wake up one morning and realize that this market is completely opaque to regulators and virtually incomprehensible to both shareholders and taxpayers. In other words, the 21st century -- defined by globalization and technology -- is a world of tremendous individual power and almost limitless possibilities.

In less than a decade, the American people have witnessed three major business-led disasters: the dot-com bust, the collapse of Enron, and the current financial crisis. In all three events, jobs were lost, companies were destroyed, hard-earned savings and investments were decimated, and the credibility of business leadership was gravely damaged. All three had common causes.

The dot-com bubble occurred because people suspended good judgment and decided that technology stock prices really could go up forever and a company really was worth hundreds of times forward earnings -- even though profitability was hard to define and was at least five to 10 years away. As long as everyone was making money, everyone played along. Inevitably, the bubble burst.

The fraud at Enron (and WorldCom and Adelphia) occurred because management teams decided that quarterly earnings and a rising stock price trumped ethics. Despite doubts in many quarters, lots of accountants, bankers, lawyers and credit-rating agencies played along. Inevitably, the house of cards collapsed.

In our current situation, we now know that lots of very smart people bet way too much money on the assumption that housing prices would keep on rising. If concerns existed about the unprecedented complexity of new, technology-driven financial instruments and risk-modeling tools, they were pushed aside in the pursuit of wealth.

In a fast-paced, hypercompetitive, technology-driven world, common sense, good judgment and ethics matter more than ever. The American people expect leaders to have sufficient wisdom and perspective to buck the crowd and defy conventional wisdom when necessary, even if it isn't popular at the time. Quarterly earnings and share price cannot be the singular purpose of business or metric of success for CEOs. Shareholders are not the only constituency a CEO and board serve. Businesses have equally important obligations to employees and customers. A CEO's job is to balance the competing requirements of all of these constituencies.

Business has an important role to play in rebuilding confidence and restoring credibility. To strengthen accountability, boards should put all aspects of CEO pay up for shareholder vote on an annual basis. Clawback provisions, which require a CEO to return compensation to shareholders if promised results aren't delivered following their departure, should be included. CEO pay should be based on a balanced scorecard that reflects customer satisfaction and investment in employees, in addition to achievement of financial goals.

Every board seat should be voted on annually and board membership should be regularly refreshed to ensure that tough questions continue to be asked. And when CEOs go to Washington and ask for taxpayer money, they should also be prepared to submit their resignations and those of their boards. To earn a bailout, a CEO and board should be held accountable for the decisions they've made -- or perhaps the actions they've failed to take.

To strengthen transparency, companies should provide far more than quarterly earnings projections and annual profit targets. Important strategic issues and operational considerations should be reported consistently. Risks and assumptions should be spelled out rather than buried in the fine print. Employees bet on a company when they show up at work. Shareholders bet when they put their money to work. Customers bet when they buy a product. And now we're asking taxpayers to bet. It's reasonable that we all know what the company is betting on.

I know CEOs who already practice some, or all, of these suggestions. Other CEOs will say these prescriptions go too far. I would remind the latter group that we know there are political consequences to business-led crises. After the dot-com bust, technology companies lost real political clout and could not persuade Congress to vote against the expensing of stock options. The onerous regulations of Sarbanes-Oxley and mark-to-market accounting grew out of

Enron's fall. Now, as the economy deteriorates and bailouts continue, a justifiably angry Congress will demand a stiff political price be paid by business. Business leaders must step forward and be part of the solution by volunteering greater disclosure and accepting responsibilities. Otherwise we will be treated as the source of the problem.

There is no doubt that government will now play a greater role in key industries. While this expanded role is perhaps vital for a time, our Founding Fathers knew that government's power should be limited. If we are to emerge stronger from our current crises, businesses must restore their credibility and regain the American people's trust by embracing accountability and transparency.

At no time in human history have we been so unconstrained by our array of capabilities or so challenged by our worst excesses. Never have common sense, good judgment and ethics mattered more.