

NEWS

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

(202) 755-4846



FOR RELEASE: 1:00 P.M., Thursday, January 18

CORPORATE ACCOUNTABILITY --ONE YEAR LATER

An Address by Harold M. Williams, Chairman
Securities and Exchange Commission

Sixth Annual Securities
Regulation Institute
San Diego, California
January 18, 1979

One year ago today, I appeared on this podium and outlined my views on corporate accountability -- a phrase which I defined as "the process by which corporate managers are held responsible for the results of their stewardship." As part of that address, which has become known as my "San Diego talk," I described my "ideal" board. Although the proposal was a most serious one, those who heard or have read the talk understood, I believe, that the ideal board was not the basic message. Rather, my theme was that it is vital that corporate structure and governance remain a private sector responsibility. I was -- and still am -- most apprehensive of the consequences that would follow from legislation which endeavored to deal directly with how corporations are managed and with the composition and functioning of boards. And yet, I had then and have now a high level of confidence that board structure will be one of the central points of attack when next a federal solution is proposed to remedy perceived corporate failures.

In the past year, nothing has happened to persuade me that the need has diminished for businessmen and

their counsel to be aggressive in developing and maintaining effective accountability mechanisms. On the contrary, the staff of the Senate Subcommittee on Citizens and Shareholder Rights and Responsibilities has engaged during the past months in drafting legislation which would address directly the composition and structure of corporate boards. Previously, this issue was seriously addressed, at least at the committee level, during the time of the 1976 inquiry into the corporate payments problems which produced the Foreign Corrupt Practices Act. I expect it will again be considered -- more forcefully and more tenaciously -- with the next flurry of events which fit in the same broad category of "breakdowns of corporate accountability." Those events, and they are almost inevitable, will further test the trust and credibility of the American people in the American corporation and its management. They will renew the debate which has waxed and waned throughout this century about corporate power. The next breakdown, like the last, will be cited as evidence by those who claim that corporations are concerned only about their own profitability, will do anything to maximize it, and respond only to the force of federal legislation and restriction.

In my view, the burden which the corporate community would need to carry in order to avoid a legislative outcome might prove unsustainable in political terms. Despite the wave of public reaction against government, the polls still show that public resistance to more government intervention does not apply to regulation of business.

For these reasons, I would like to pursue with you again today the subject of corporate accountability. My reason for revisiting the topic of last year's address can, I think, best be illustrated by a quotation from John W. Gardner's book, Self Renewal, which Bryan Smith recently quoted in similar circumstances:

"The Paul Revere story is a very inadequate guide to action in a complex society. It was all too wonderfully simple. He saw danger, he sounded the alarm, and the people really did wake up. In a big, busy society the modern Paul Revere is not even heard in the hub-bub of voices. When he sounds the alarm no one answers. If he persists, people put him down as a controversial character. Then some day an incident occurs that confirms his warnings. The citizen who had refused to listen to his warnings now rushes to the window, puts his head out, nightcap and all, and cries, 'Why doesn't somebody tell me these things?'"

Strengthening Accountability

The warning which I am sounding -- hopefully with more success than Gardner's despairing vignette suggests -- centers on the consequences which will follow if we, as businessmen, directors, lawyers, and private citizens, fail to appreciate and act upon the need for meaningful accountability in our corporate system. My ideal board proposal was intended -- not to be followed in lockstep and not as an arbitrary purge of some groups which have traditionally served as directors -- but as a response to both the environment in which corporations must operate today and to the sociology of the boardroom. Before turning to the dynamics of the board, I want briefly to review the environment. My conclusion has not changed during the past year: While our society is increasingly demanding that those who exercise power -- corporate or otherwise -- be subject to some accompanying mechanism to insure that the resulting societal impacts are considered, it cannot depend upon either shareholders or managements acting alone to discharge that accountability role in the modern public corporation. The focus must be on the corporate board.

Opinion Research Corporation's recently-published "Shareholder Attitude Survey," conducted for the Business

Roundtable, summarizes the attitude of the individual shareholder. ORC stated two of its principal findings in this way:

"It is the rare shareowner indeed -- about one in twenty -- who is holding onto his shares in order to vote on management decisions and otherwise take a direct and active role in the company's affairs. Overwhelmingly, the decision to hold onto stock is the expectation of economic gain."

* * *

"When they do vote their shares in the proxy, about three in four [shareholders] say they either 'always' or 'most of the time' tend to follow management's recommendations."

There is, of course, undoubtedly a fair amount of self-selection at work in this process; those shareholders who were dissatisfied with management may have sold their shares and sought out a more compatible management with which to cast their lot or left the market and the ranks of shareholders altogether -- indeed, ORC's survey required 11,509 screening interviews to locate 1,506 shareholder households. In any event, the study concludes that most individual shareholders are not substantively interested in who the directors are or in how the company is run, but only in dividends and their ability to profit from share ownership. In fact, the interests of many such shareholders may well be inconsistent with the long-term

economic viability of the corporation and with the overall viability of the corporate sector. For that reason, some other body needs to assume the responsibility for the accountability of the corporation in other than short-term economic growth terms. And if the board of directors cannot or will not play that role, the political process will likely at some point in time create and substitute another body or structure for the board as we know it.

At least one other group has a responsibility to bear which I suggest is different than presently perceived by many -- the institutional shareholder. But we will leave that issue for another day.

It can, of course, be argued that management, rather than the board, should have primary responsibility for the accountability of corporate power. In fact, I have enormous regard for the integrity and competence of American business executives, and my emphasis on the board is not meant to impugn management or suggest that it cannot be trusted.

That having been said, however, I think it would be unfair and unrealistic to expect management to bear

the full responsibility for the public accountability of the corporation. I acknowledge the substantial progress that many managements and boards are making. I recognize that executives themselves are increasingly concerned with their apparent public disfavor, and that the problems they face are not necessarily unique to business. The ORC study of shareholders reinforces the subtle dilemma in which management finds itself. The shareholders' interest is primarily in economic growth and the profits they can derive from their investment. This is understandable for those wearing the investor hat, although views may change when the shareholder dons his hat as a citizen. While, for example, ORC found that a two-thirds majority of shareholders oppose any federal regulation that would require special groups to be represented on company boards, it is significant that 24 percent of those surveyed favor such a requirement. And that percentage increases as the size of the investment portfolio decreases, as education declines, and as the economic level -- at least as reflected by membership in the "blue collar" category -- declines. Thus, it is not unreasonable to be concerned that nonshareholders and the so-called mass of the people would vote

more heavily in favor of federally mandated constituency directors -- a concept which I totally oppose -- and perhaps for other federally mandated requirements.

In any event, however, if the factors which please shareholders are those which will make the price of their stock go up -- earnings, dividends, and increased marketplace demand for shares -- they also provide incentive and pressure for management to focus on short-term economic results. If there is to be an institutionalized counter-poise within the existing process, as I believe there must be, it must, of necessity, come from a broader perspective than management's.

This dilemma is not dissimilar from the conflict in which some political leaders privately admit to feeling themselves ensnared. The men and women who hold elected public office in this country are typically individuals with a strong personal commitment to fostering the continued strength of our society. Yet, the political process and the impact of a powerful news media increasingly seem to compel politicians to choose between doing what is popular with their constituencies -- and thus conducive to their re-election -- and doing what they believe will enhance the long-term health of our nation. In fact, that very phenomenon may, if the chips are ever actually down, generate far more votes in favor of federal control of the corporate structure than most businessmen suspect. Thus,

my point is not to distinguish business alone; on the contrary, the dilemma it faces mirrors one which runs throughout our society. Nonetheless, that will be cold comfort if business fails to appreciate the urgency with which it must address its own structure and devise ways to institutionalize an ability to look at the larger and broader implications of running, building, and managing the American corporation in the late 20th Century. Supreme Court Justice Lewis Powell put it this way,

"No thoughtful person can question that the American economic system is under broad attack. * * * The overriding first need is for businessmen to recognize that the ultimate issue might be survival -- survival of what we call the free enterprise system, and all that this means for the strength and prosperity of America and the freedom of our people."

Accountability and the
Dynamics of the Board Room

If it is accepted that strong and vigorous corporate boards are central to defending against the attack Justice Powell perceives, a second question arises. How can the corporate board best structure and operate itself in order to serve as the effective accountability mechanism which, in my view, is the only realistic prophylactic against federal intrusion? The answer to that question

lies, I think, in understanding the dynamics which are at work in a given corporation between management and board and between director and director. We must understand the tensions and pressures which particular board structures and particular principles of board composition place on the individuals involved and then seek to minimize those which are counterproductive and harness those which promote the goal of accountability. That task is not one which can be accomplished from Washington, D.C. and imposed across the country. It is rather one which must be addressed with insight, sensitivity, and continuous scrutiny in each corporation.

Let me restate this point somewhat differently because it is central to the balance of my remarks. The ultimate determinant of board effectiveness is the quality of the individual directors -- their character, integrity, intelligence, and the time, effort and energy which they are able and willing to bring to the board's work and the board room environment. With the right individuals, the board may well be effective despite its structure. With directors who do not perceive their

role in the accountability process and who do not recognize the impact of their actions on the larger future of our corporate system, no structural alterations can transform them -- a fact illustrated, for example, in the Commission's reports on the functioning of the National Telephone Company's board of directors and the nonmanagement directors of the Stirling Homex Corporation. Nonetheless, structure does influence behavior, and structural reforms can remove impediments to the effective operation of the board.

The impact of those impediments should not be underestimated. Many forces are at work in the typical board room to foster a socially compatible environment in which directors will feel uncomfortable posing questions which are difficult or embarrassing. The process, similar to that at work in any small group over time, is one of subtle initiation into the proper atmosphere -- a socializing process which encourages the director to adhere to the norms of acceptability. As Sister Scully of the Gulf Board put it, "they all eat at the Duquesne Club." Milton C. Lauenstein, a former board chairman, insightfully illustrated the same process with his satirical

advice to the chief executive who wishes to insure the impotence of his board. Lauenstein counsels the would-be corporate autocrat to

"make every effort to emphasize that the the board is an elite group. The setting of the meetings, the quality of food and drink provided, and the format of material presented should all help promote the feeling that the body is above indulging in controversy or dealing with grubby commercial issues.

"No opportunity should be missed to reinforce the directors' belief that they are the statesmen of the business community dealing with global issues and broad philosophical questions. Above all, the unwritten law that directors should not criticize each other or the company should be clearly recognized and enforced." */

It is crucial for boards to seek out ways to neutralize the socializing process that would mold its members into that kind of club-like mini-society. The goal is not contention or obstreperousness. Rather, it is to assure an atmosphere in which openness, forthright discussion, and freedom of inquiry are the norm rather than the aberration.

*/ M. Lauenstein, Preserving the Impotence of the Board, Harvard Business Review 36, 37 (July-August, 1977).

From that perspective, I want to consider specifically some of the structural factors which, in my judgment, are most likely to promote the vigorous functioning of the corporate board. This is not to say that, whenever any of these factors exist, it will assure that the board functions effectively. Neither is it to say that the absence of any of these factors will prove fatal. What it does say is that their absence represents a potential weakness in board function and increase the board's burden in proving its effectiveness.

A. Independence

The single factor most destructive of the effectiveness of the board and of its ability to discharge the accountability function is its members' lack of independence. For that reason, I recommended at this conference last year, and several times since, that, in order to avoid jeopardizing the accountability process, the board should consist exclusively of directors who have no other significant relationship to the corporation; that the corporate chief executive be the only exception to this rule; but that the CEO not serve as the chairman of the board. "Independence" as applied to directors is, of course, a word which is not easily defined in objective terms -- as the Commission's

recent corporate governance proceeding pointed out. I want therefore to repeat, in very general terms, the meaning I attach to it. In my judgment, the board service of members of management, major customers and suppliers of goods and services -- including commercial bankers, outside counsel, and investment bankers -- and any other individual who has a stake in the corporation which has the potential to divide his judgment -- or the perception of his judgment -- raises legitimate questions of independence.

This is not, of course, to say that individuals who have some economic relationship to the corporation separate from board service would necessarily be unable to function as valuable directors. The extent to which a board's independence and effectiveness are in fact compromised by the service of a director who is, for example, a major supplier of goods or services, depends -- at least in part -- on the extent to which the the individual permits himself to be compromised. I have, for example, served with attorneys who were totally independent despite major fee arrangements with the corporation. I have also worked with attorneys who appeared to be motivated by the client relationship.

The issue is not one of conflict of interest in the legal sense of that term, but in a more fundamental behavioral sense. Justice Jackson once commented that men are more often bribed by their loyalties and ambitions than by money, and it is that principle which needs to be considered in structuring an effective and independent board. If one focuses exclusively on what the law considers a conflict of interest, he may derive considerable comfort concerning the independence, in the legal sense, of most boards. At the same time, however, he may have shut his eyes to the kinds of pressures which actually influence a director's behavior.

I doubt that any of this is particularly novel or surprising to those here who have actually served as directors. The underlying principle is fairly obvious; it is hard to question seriously that those who have an economic stake in the corporation may find it difficult to ignore that stake when they assume directorships. The issue is whether we choose to recognize and deal with that fact squarely or to pretend it does not exist. Basically, how a director deals with a conflict of this sort is obvious

to his fellow directors; over a period of time how individual directors handle conflicting relationships becomes quite apparent to those who serve with them. The real question is whether the board will face up to the issue when it appears or compromise the integrity of the board by acting as if it does not exist. And a board that cannot face this kind of issue can be counted on to sidestep others as well. That is what leads to proscriptive solutions.

B. Management Directors

The problem is more extreme when members of management serve on the board. There is an essential conflict between a director's responsibility, as a member of the board, to oversee the stewardship of management, and the responsibility of the members of that same management. To put it conversely, members of management cannot be expected, as a general rule, to assess objectively the performance of the management of which they are a part, the adequacy of the performance of their superior, the chief executive, and similar issues which entail an evaluation of their own fitness. They cannot realistically be expected to measure and reward their own performance, ask themselves embarrassing questions,

or fire themselves or the president who hired them. Moreover, the issue is not solely one of self-interest; managers may well find it difficult to evaluate objectively their closest professional associates and friends.

The presence on the board of management members raises issues of conflict of interest -- not only in the legal sense -- but also in the sense that none of us are fully capable of passing judgment on our own careers. To the extent that we permit individuals to be placed in that position, shareholders, corporate critics, politicians, and the general public can legitimately raise substantial issues of the credibility of the corporation's accountability process and its board of directors.

The arguments presented in defense of management directors take several forms. They focus generally on the value of management representatives as a source of information and the need to have regular exposure to potential successors to the chief executive. These needs are compelling. The solution of board membership, however, is based on the convenience of present practice rather than on necessity or overwhelming logic.

First, some nonmanagement directors -- or those speaking on their behalf -- have pointed out that they are not comfortable having only the chief executive's version of the corporate condition and of management's recommendations presented at board meetings -- that since, either inadvertently or intentionally, he can color the presentation, additional points of view may provide both necessary factual background and a check on the chief executive. Others have put their criticism in terms of the lack of adequate knowledge of the business which they attribute to most nonmanagement directors.

Whether or not these criticisms are valid factually, the solutions may lie in changes in board practice rather than membership. I agree that, if the board receives its perspective of the company and its affairs only from the chief executive officer, it is taking an unnecessary and undesirable risk. In my view, members of management should, as a matter of board policy, be present for large parts of the discussion at board meetings, perhaps most of it. They should be involved in factual presentations and even in board deliberations up to the point at which

their presence interferes with candor. They should not, however, be part of the decision process of the board. This procedure has worked well in many companies.

C. Information Flow

Those who stress the importance of board access to information have, however, hit upon another key point. Mechanisms to assure that the board has adequate information is in itself vital to board effectiveness and the discharge of its accountability role. A number of recent corporate failures included inadequate flow to directors of information available within the company. Only with regular communications and access to corporate management for information -- without interfering with the management process -- can the board equip itself properly to discharge its role. Not only should the formal process of information flow satisfy board needs, but board members should be free -- and indeed be encouraged -- to discuss, informally, with senior management matters of interest or concern within the province of board responsibility. This kind of informal dialog can produce a very valuable interchange between board and management.

Access to information entails costs, however, and both management and board members must recognize those costs. Adequacy of director compensation, committee structure, time availability, and personal energy and resources will all bear upon a director's and board's ability and willingness to request and assimilate the necessary information. Yet, at the same time, structure has its impact also. For example, I have spoken in other contexts about the benefits of a corporate structure in which the internal audit staff has a reporting relationship to the board's audit committee. Indeed, viewed in that light, proper information flow to sustain the accountability process may be a component of compliance with the Foreign Corrupt Practices Act.

The point, however, is that -- in whatever manner it is accomplished -- better disclosure and more complete information brings better critical thinking into board decision-making. It is all but impossible to prove that fewer mistakes occur because of better informed thought processes; it is, however, not difficult to elicit examples

of errors in judgment -- and resulting injury to the corporation and legal liability -- which have resulted from board action taken without sufficient information.

The problems of inadequacy of information, and its correlative lack of confidence in management, led Arthur Goldberg to make his oft-quoted request for a separate board staff -- a concept I reject. Unfortunately, the specific proposal obscured the problems which concerned him.

D. The Chief Executive's Role

The final element of my ideal board proposal was the principle that the chief executive officer, while properly a board member, should not serve as chairman. It is far easier for someone other than the CEO, who is both burdened with important operating responsibilities and necessarily interested in preserving his own freedom of action, to focus on the effective functioning of the board. Some have argued that the separation of these two roles is impractical and unrealistic. But it is working successfully in a number of prominent corporations today. And, in my judgment, it can work in any corporation if the parties involved want it to work. The issue is

much more one of the willingness and commitment of the CEO than one of any problem inherent in the idea of a separate chairman not a member of management.

Perhaps the single most compelling reason for selecting someone other than the CEO as the board's chairman is the importance of the chairman's ability to control the agenda as a tool to promote board effectiveness. Authority over the agenda is a powerful mechanism for the chairman to exert dominance over the board; indeed, its importance to the board's processes is analagous to the internal control system's pivotal role in management's exercise of authority over the affairs of the corporation itself. When directors are able to focus board deliberations on the issues they consider crucial and the environment is one of openness to inquiry, the likelihood that the board will play a meaningful role in corporate decisionmaking is magnified. Dividing the roles also enables the chairman to focus on the board's effectiveness and leaves the CEO freer to advocate the management position on matters before the board.

Accountability and Committee Structure

I have concentrated thus far chiefly on the structure of the board from the standpoint primarily

of the traits and roles of the individuals who make up the board. I want now to turn to a second important facet of the board -- its committees. An effective committee structure can be a vital component of an accountability system in which the board of directors brings to bear the broad perspective on corporate affairs which is essential in today's environment.

A. Nominating Committee

A corollary to the importance of the independence and character of individual directors is that the functioning of a nominating committee, by which potential directors are selected, is in itself a key element of accountability. In my view, this committee could become the single most effective force in improving corporate governance because of its impact, over time, on the composition of the board and on the succession of management. Tom Murphy of General Motors put it this way,

"Our experience at General Motors is that the nominating committee has a distinct and entirely helpful role to play in corporate governance and that companies need not wait to establish such a committee until they are forced to do so."

The nominating committee can best serve its function if it is comprised entirely of nonmanagement directors, as the Corporate Directors Guidebook recommends -- particularly if they are independent. The chief executive officer should not be a member of the nominating committee. But, the committee should consult with him on the formulation of its recommendations. Indeed, absent more fundamental problems, I cannot imagine nomination of an individual with whom the chairman and the chief executive do not have at least a basic compatability.

In selecting nominees, the committee's focus must be on independence, an acquiring mind, the ability to work with others, and a frame of reference and experience which brings tangible strengths to the board and corporate deliberations. The board should be measured by its collective talents and strengths and not by stereo-typing individual board members. Each board member need not have met payroll. The committee should recognize the desirability of including among the board's membership directors from outside the business community who can bring a different set of experiences and perspectives to the board. Token or constituency directors

are not, however, a constructive response; directors selected solely for the names they bear or the constituency which their nomination placates may well make little or no contribution other than to pontificate occasionally when discussion turns to their area of interest.

In looking for nominees, I would not suggest that the nominating committee ignore potential independent directors because they are known to present board members, are graduates of the same universities or members of the same clubs, or live in the same neighborhoods. The search for directors should not, however, be contained within these perimeters. A significant source of independent outside directors can be found among senior management of other companies. Historically, only the top officers of corporations were invited to become board members of other corporations; perhaps we need now to look somewhat more broadly for individuals with experience and knowledge who can make a contribution to the board. Accounting and law firms -- other than those retained by the corporation -- universities, other not-for-profit organizations, and the ranks of former members of government are also fertile sources.

The nominating committee's role in director selection should extend beyond the recruitment of potential director candidates. The point of my ideal board is not to devise a set of inflexible rules -- with respect to director independence or any other aspect of board membership -- which should be imposed on every corporation. In a particular corporation, the benefits to be derived from including a member of management or a supplier may outweigh the costs. The crux of the problem is to assure that decisions concerning board composition reflect a reasoned and thoughtful balancing of these costs against the benefits expected from a given directors' board service. In my judgment, the nominating committee is the body which should measure the costs and determine whether the benefits outweigh them.

The nominating committee should also take on the responsibility for reviewing the performance of the board, both individual board members and collectively, and of recommending to the board changes in its responsibilities, composition, size, committee structure, and compensation.

The nominating committee should also review the composition and membership of each of the standing committees, the board and committee fee structure, director retirement policy, management personnel serving on other boards, and the membership of the proxy committee charged with voting management's solicited proxies at the shareholder meetings. It should also review all proxy comments received from shareholders which relate directly or indirectly to the board and its composition and duties. The nominating committee should consider reducing the size of the board below what may have been the tradition. Too large a board can interfere with its effectiveness and make it impossible for any member to contribute meaningfully to board deliberations. Good decision making requires a size small enough that each director can interact and share ideas with his fellows.

B. Compensation Committees

Another committee which has an important contribution to make to strengthening accountability is the compensation committee. This committee should be the focal point for issues such as the level of executive compensation, the form in which that compensation is to be paid, the noncash prerequisites executives are to receive, and the manner

and extent to which compensation should be geared to performance. In that latter regard, the compensation committee has a more subtle role in corporate accountability than is typically recognized. When compensation turns on short term economic performance, for example, it provides added incentive for executives to perform against that measure, perhaps at the expense of longer term viability or broader issues of social responsibility. Corporate compensation systems need to assure that what is being measured and what is being rewarded conform to what the board actually expects of the corporation and its executives. The compensation committee can be the vehicle for incorporating those expectations into the compensation structure.

C. Audit Committees

I have reserved audit committees for final mention, not because I believe they are less significant, but because their importance has already become fairly well recognized. Although the American Institute of Certified Public Accountants recently concluded that it should not compel public companies to establish audit committees as a pre-condition to obtaining an independent auditor's certification, it reiterated its support for the audit committee concept. In addition,

the Foreign Corrupt Practices Act, and the importance which it places on establishing mechanisms to insure that the company has a functioning system of internal accounting controls, has given added impetus to the audit committee movement.

Thus, at this point, the central task is to define the audit committee's responsibilities and enhance the quality of the committee's work. Ralph Ferrara, the Commission's General Counsel, put it this way in an address to the Southwestern Legal Foundation last May:

"When the Commission calls for audit committees, the call is for effective, responsible audit committees, and not merely non-functioning, albeit decorative, shells. Regrettably, a survey published in the Coopers & Lybrand Audit Committee Guide states that among responding corporations only 60% of audit committees choose the outside accountant and only 40% review the yearly audit before its release. The most common audit committee function -- reviewing the auditor's management letter -- was performed only in two-thirds of the corporations. Frankly, I do not know what the other so-called audit committees are doing, but the Coopers & Lybrand study does not suggest that the effort underway in the private sector is anywhere near the quality necessary to insure against preemptive federal action."

I would only add that, while a large part of the problem is undoubtedly that some audit committees are the decorative shells to which Mr. Ferrara referred, equal

danger lies in overloading the committee with responsibilities tangential or unrelated to their primary one. While the nominating committee, as I have suggested, may be the proper vehicle for broad examination of the board's structure and composition, the audit committee should be permitted to concentrate on working with the corporation's accountants, both internal and external. The importance and uniqueness of that function militate strongly against requiring audit committee members to direct their attentions to other duties.

* * *

Conclusion

My comments about particular potential improvements in board structure could be continued at some length. As I said at the outset, however, it is important that consideration of those comments not detract from the objective they serve -- to provide a framework within which to tailor corporate structure which promotes meaningful accountability. The board and management must be sensitive to the burden upon the private sector to demonstrate that the exercise

of corporate power both is and appears to be accountable to some organ with a broader perspective than either shareholders or management can typically be expected to bring to bear.

Both management and directors also share another, closely related, goal -- to develop a board which can bring the best, most informed, and most objective advice available to bear in solving the complex problems which confront the entity. If directors are timid or feel compelled to compromise rather than advocate their views forthrightly -- whether because of their personalities, their friendships, or their pocketbooks -- then, in the long run, the corporation is the loser. And the officers and directors may be the losers as well since they may not be able to point to the kind of disinterested decision-making which underlies the business judgment rule.

No accountability system, no board structure, no group of directors can insure that the board and management will be able to avoid errors in judgment, or worse. If, however, shareholders and the public generally understand

the good faith and care with which the board oversees the exercise of corporate power, they are far less likely to turn to government for a prescription for "zero-defects" in corporate decision-making.

I hope that these comments will help to place in perspective some of the potential responses to the demand for more meaningful accountability which I and others have sounded. There is ground for optimism. It is clear to me that many thoughtful, concerned business executives are struggling to evolve a new philosophy within which to perceive their jobs, the conditions of their companies, and their values in order to better reconcile private objectives and public goals. The success of that evaluation and its tangible manifestations are essential. Business leadership, particularly its most politically and socially astute members, must recognize that if we are to safeguard the relative autonomy of American private business and preserve the system, we must assure that it works effectively -- more effectively than it does now. We cannot afford the polarization that tends to pit those identified as supporters

of the "public interest" against backers of "private interests." If that polarization is permitted to occur, the economic order which prevails in our country today will not survive.

The survival of the corporate system as we now know it is of vital interest and concern to all Americans, not only those in the business world. There are political as well as economic and social aspects to the issue. As we go about the task of assuring a responsive corporate structure, we must remember that political freedom and economic freedom are inexorably intertwined, and only if the corporation survives as an economically free vehicle, will we be able to maintain our individual liberty.

Thank you.