

# Why Traditional Corporate Governance Implementations Fail and Lack Sustainability

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*Received: 6 December 2013 Accepted: 4 January 2014 Published: 15 January 2014*

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## Abstract

-The collapse of high-profile international businesses, giant banks and mega-multinational companies over the past several years, the recent unprecedented worldwide financial crisis, the power shift from public to private sector through converting state-owned enterprises to joint stock publiclyowned companies, the transfer of technology, and globalization are compelling reasons for good corporate governance practices to be applied. Large-scale accounting scandals that brought trouble to many large companies are often caused by unethical behavior of top-executives. Poor ethical leadership, lack of integrity, mismanagement, fraud, corruption, and violating corporate governance rules are the main contributors towards bankruptcy and financial failures. This article introduces an authentic way to reduce these failures.

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**Index terms**— authentic governance, corporate governance, personal governance, integrity, business ethics, personal balanced scorecard.

## 1 I.

The Human Element he human element represented by the directors and employees is the major cause of the mentioned failures. Especially unethical behavior of leaders is the main cause of bankruptcy and financial failures. Remember what Alan Greenspan, Former Chairman of the Board of Governors of the US Federal Reserve System, said: "Our market system depends critically on trust-trust in the world of our colleagues and trust in the world of those with whom we do business?". I am saying that the state of corporate governance to a very large extent reflects the character of the CEO." Therefore, the corporate governance codes around the world should strongly advocate a focus on personal integrity development within organizations.

Many governments and large companies everywhere are currently very keen to revamp, develop, and implement a corporate governance code to address the above mentioned shortcomings. Unfortunately, all these codes are cosmetic and not sustainable. All these codes do not provide adequate protection. For example, top executives in Europe and the USA found easy escape routes to misinterpret their code and increased their salaries significantly.

The situation at JPMorgan Chase, the world's largest bank, early this year is an interesting case with regard to corporate governance. Government investigators have recently found that JPMorgan Chase devised "manipulative schemes" that transformed "money-losing power plants into powerful profit centers," and that one of its most senior executives gave "false and misleading statements" under oath. JPMorgan executives also ignored a series of alarms that went off as the bank's Chief Investment Office breached one risk limit after another. Rather than ratchet back the risk, JPMorgan personnel re-engineered the risk controls to silence the alarms. In a previously undisclosed case, prosecutors examined whether JPMorgan failed to fully alert authorities to suspicions about Bernard Madoff. And nearly a year after reporting a multibillion-dollar trading loss, JPMorgan did face a criminal inquiry over whether it lied to investors and regulators about the risky wagers. This case pinpoints that JPMorgan's corporate governance code and exhaustive regulations do not provide adequate protection. A recent study conducted by Labaton Sucharow, a New York City law firm, suggested that Wall Street still has a shaky grip on its ethical compass. Despite the financial changes enacted after the 2008 financial crisis, improper and even illegal activity is perceived as common among traders, brokers, portfolio managers, and bankers.

Some other examples: a) US Treasury estimated that if Apple had more honestly assessed what percentage of its profits were generated by its U.S. operations, it would have owed \$2.4 billion more in federal taxes last

year; b) Wal-Mart's often criticized treatment of employees as a commodity and its sometimes inhuman business ethics; and c) Chevron has been accused of tax evasion as well a number of environmental infractions in several countries and hiring military force for use on native peoples.

All the above mentioned organizations have comprehensive corporate governance codes in place, implemented by the left brain Big Four accountancy firms (PwC, KPMG, Ernst & Young and Deloitte), which apparently are not working at all. Unethical behavior of top-executives, poor ethical leadership, lack of integrity, mismanagement, fraud, corruption, and violating corporate governance Scandals.

## 2 II.

Authentic Governance; Aligning Personal Governance with Corporate Governance

Most companies' approaches to corporate governance are extremely formal, bureaucratic, cosmetic, not holistic and not authentic, and therefore fail to address above mentioned shortcomings. Their implementations of corporate governance provide no protection from potentially catastrophic ethical failures. We urgently need a sustainable and innovative solution to this global epidemic.

Corporate governance practices worldwide via traditional corporate governance codes are extremely formal, bureaucratic, cosmetic, and doomed to failure. Business ethics cannot be controlled with a range of formal and exhaustive rules, regulations, guidelines, and procedures. It's about decency and personal integrity, and this must be cultivated within you. Remember what Albert Einstein said: "Try not to become a man of success but a man of value". As demonstrated by Enron and others, traditional corporate governance codes provide no protection from potentially catastrophic ethical failures. Company integrity must always start with personal integrity. It must be an informal learning process and a way of life, based on alignment with yourself and alignment with your company. This ethical process must be promoted and communicated within the whole company to all stakeholders consistently. In this way ethical behavior will become a routine in the whole organization, and leaders and employees will gain more understanding about their responsibility with regard to ethical behavior.

They will understand that it is their responsibility to act ethically, on duty as well as off duty. This is a more sustainable, comprehensive and holistic approach to ethics and social responsibility.

It is time that we are aware that corporate governance cannot be controlled effectively with formal and exhaustive rules, regulations, guidelines, and procedures only. It's about decency and personal integrity and this must be cultivated from within. Against this background, I propose an organic and holistic approach to corporate governance, by integrating personal values and integrity into one overall authentic governance framework, in which formal corporate regulations and personal values mutually reinforce each other. This theory has not only been borne out through my leadership experiences in the corporate world, but is also based on the leadership vision of Harvard Business School professor Bill George, who outlined in his article "Why Leaders Lose Their Way" why powerful and talented leaders often misbehave and how they lose their moral bearings, such as: Hewlett-Packard CEO Mark Hurd who resigned for submitting false expense reports concerning his relationship with a contractor; US Senator John Ensign (R-NV) who resigned after covering up an extramarital affair with monetary payoffs; and Lee B. Farkas, former Chairman of giant mortgage lender Taylor, Bean & Whitaker, who was found guilty for his role in one of the largest bank fraud schemes in American history. According to Bill George, they can avoid these pitfalls by devoting themselves to personal leadership development that cultivates their inner Sustainable corporate governance starts with personal leadership development, based on selfreflection and introspection and embedding personal values in the mind of the Chairman, President, CEO, CFO, managers and employees, and coaching them to reflect on these values honestly. It's about values-based Leadership. Steve Jobs once remarked, "The only thing that works is management by values". This is done, according to the authentic governance method I have launched in my new book; by coaching the Chairman, President, CEO, CFO, managers and employees to reflect on their "personal ambitions and their alignment with their behavior and actions." In this way good corporate governance will be a way of life, characterized by trust, credibility, transparency, personal and social responsibility, open communication and a continuous learning process, embedded in an ethical culture. This cultural shift will have a positive impact throughout society.

## 3 III.

## 4 Authentic Governance Model

In this article I introduce a more sustainable, authentic and holistic approach to corporate governance, which I call authentic governance. I have defined authentic governance in holistic humanized terms, namely: the systematic process of continuous, gradual and routine improvement, steering, and learning, that lead to sustainable high performance and ethical excellence. I made a distinction between authentic personal governance and authentic corporate governance, which I will explain below in detail. So, authentic governance is a continuous voyage of discovery, involving continuous, gradual and routine improvement, steering, and learning. It is about a journey towards a happier and more successful life for individuals and ethical corporate excellence.

By redefining and governing themselves effectively, leaders and employees will gain more understanding about their responsibility regarding ethical behavior, and they will understand that it is their responsibility to act ethically, on duty as well as off duty. Figure 1 shows the related authentic governance model, which provides an excellent framework and roadmap to develop, implement, and cultivate personal governance and corporate

governance in a systematic and sustainable way. This new governance blueprint is an inside-out approach and focuses mainly on the human side of good governance. It places more emphasis on understanding yourself and the needs of others, meet those needs while staying true to your personal and corporate values, improve yourself and your personal integrity continuously, making ethics a way of life and a continuous learning process, and align these with formal corporate regulations, procedures and guidelines, instead of focusing on exhaustive formal corporate regulations, procedures and guidelines only. Personal ambition has no value unless you take action to make it a reality. Therefore the emphasis in this stage is developing an integrated and well balanced action plan based on your personal ambition to realize your life objectives. It's about translating your personal ambition into action. Your PBS entails your personal critical success factors that are related to your personal ambition and your corresponding objectives, performance measures, targets and improvement actions. It translates your personal ambition into manageable and measurable personal objectives, milestones and improvement actions in a holistic and balanced way. iii. Personal governance Personal ambition and personal balanced scorecard have no value unless you implement them to maintain, and cultivate your ambition and PBS to govern yourself effectively. This entails personal governance; the systematic process of continuous, gradual and routine personal improvement, steering, and learning. Your PBS needs constant updating to reflect the new challenges you take, the lessons you have learned, and the growth of yourself. b) Alignment with yourself corporate governance will be cosmetic if personal integrity is not a way of life in your organization and if you focus mainly on ethical procedures, formal regulations, and guidelines. Therefore it's needed to align your personal ambition with your behavior and your way of acting (see Figure 2). So you need to commit yourself to live and act according to your personal ambition and to keep promises that you make to yourself. Personal governance built on the person's true character is sustainable and strong. You should reflect your true self and must adhere to a moral and behavioral code set down by your personal ambition. This means that who you really are, what you care about, and your passions should come out in your personal ambition, and you should act and behave accordingly (you should be yourself) to build trust. This inner alignment is an important step towards lasting personal growth and reinforcing integrity, honesty, trustworthiness, credibility, transparency, and personal charisma. People with this perspective on life value others' lives and create a stable basis for others to feel they are credible, truthful, and trustworthy.

## 5 Global Journal of Management and Business Research

Volume XIV Issue VI Version I Year 2014 ( ) B ii. Corporate Balanced Scorecard (CBS)

The corporate ambition has no value unless you don't take actions to make it a reality. Therefore the emphasis in this stage is developing an integrated and well balanced action plan based on the corporate ambition to realize the corporate objectives. The CBS is needed to improve the business and governance processes continuously based on the corporate ambition in order to add value to customers and satisfy them.

iii. Corporate governance The next step is to implement, maintain, and cultivate the corporate ambition and CBS in order to govern your organization effectively, to deliver peak performance, and to create competitive advantage. This entails corporate governance: the systematic process of continuous, gradual and routine corporate improvement, steering, and learning. This stage focuses also on the implementation of formal corporate regulations, procedures and guidelines (corporate governance code). To operate in accordance with the corporate ambition and related CBS, through its implementation using the PDAC cycle, results in a journey towards sustainable and ethical business success.

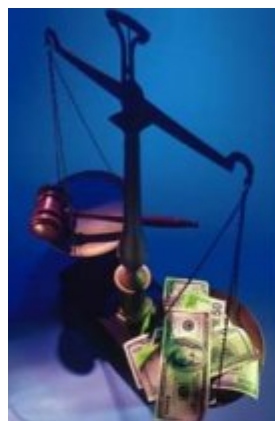
## 6 d) Alignment with your organization

The emphasis here is aligning personal ambition with corporate ambition and creating uniformity of personal and organizational values. By unifying corporate ethics with individual ethics you will create a strong foundation of peace, integrity, engagement, and learning upon which creativity and growth can flourish, and life within the organization will become a more harmonious and ethical experience. You will also attract and retain the most talented employees. It's about aligning personal governance with corporate governance and getting the optimal fit and balance between these two activities in order to enhance labor productivity, to create a climate of trust, and to stimulate engagement, commitment, integrity, and passion in the organization. This alignment process is needed because staff members don't work with devotion or expend energy on something they do not believe in or agree with. If there is an effective match between their interests and those of the company, and if their values and the company's values align, they will be engaged and will work with greater commitment and dedication towards realizing the company objectives (see Figure 3). When the personnel's personal ambition is in harmony with their company's (are compatible) and combined in the best interest of both parties, the results will be higher productivity and sustainable corporate governance. Employees are stimulated in this way to commit, act ethically and focus on those activities that create value for clients. This will create a strong foundation of peace, personal integrity, and stability upon which creativity and growth can flourish, and life within the organization will become a more harmonious experience. The effective combination of all these four phases creates a stable basis for high performance employees and a high performance organization. <sup>1</sup>

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Figure 1:



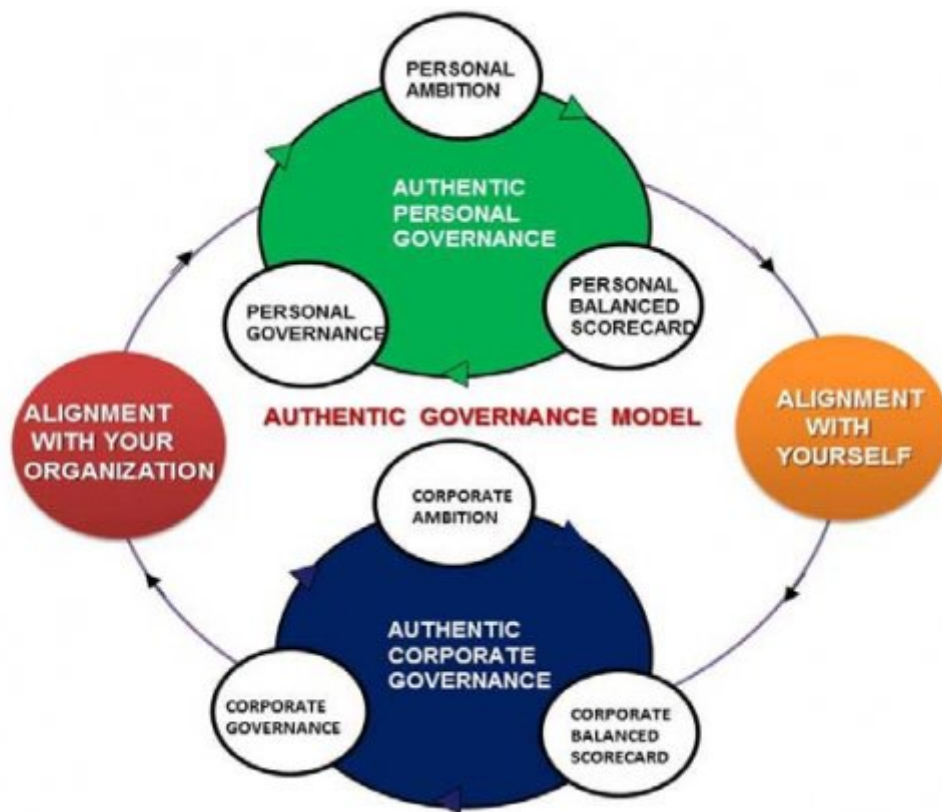
## Business corruption affects society at large

Some recent examples:

- Dominique Strauss-Kahn, former head of the International Monetary Fund and a leading French politician, was arraigned on charges of sexual assault.
- JPMorgan Chase devised “manipulative schemes” that transformed “money-losing power plants into powerful profit centers,” and its most senior executive gave “false and misleading statements” under oath.
- Hewlett-Packard CEO Mark Hurd resigned for submitting false expense reports concerning his relationship with a contractor.
- US Senator John Ensign resigned after covering up an extramarital affair with monetary payoffs.
- Lee B. Farkas, former chairman of giant mortgage lender Taylor, Bean & Whitaker, was found guilty for his role in one of the largest bank fraud schemes in American history.

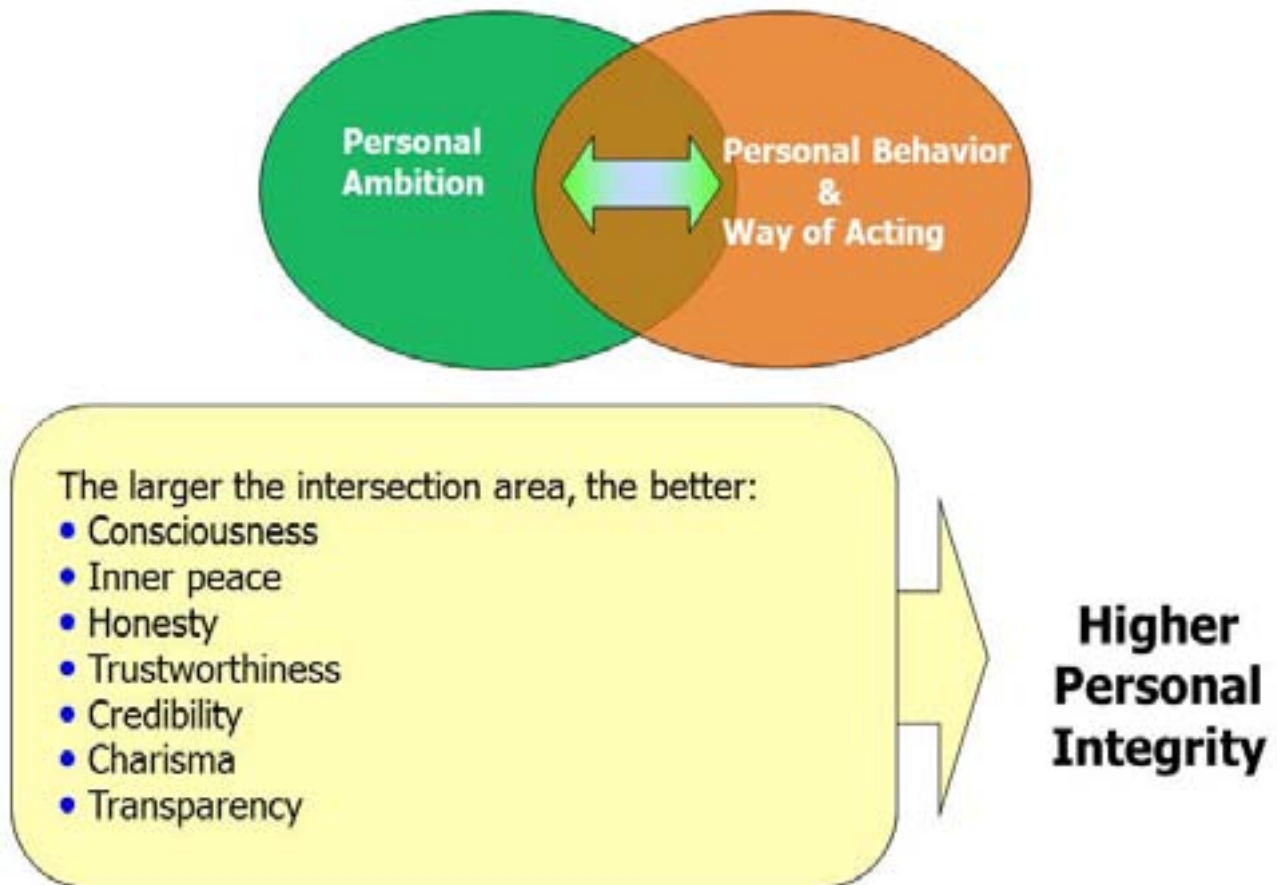
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Figure 2: Figure 1 :



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Figure 3: Figure 2 :B



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Figure 4: Figure 3 :

IV. Authentic Governance Institute  
Become a Certified Authentic  
Governance Consultant

Figure 5:

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