

Preface

“Integrity is not a commodity. It’s the most rare and precious of personal attributes. It is the core of a person’s — and a company’s — reputation”.

—John Stumpf, Chairman and CEO Wells Fargo

Over the past years, we have heard and read plenty about how Boards of Directors should behave more responsibly in the light of corporate governance. Despite all these efforts, many implementations of corporate governance provide no protection from potentially catastrophic ethical failures.

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 reengineered 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 are the following: (a) US Treasury estimated that if Apple had more honestly assessed

what percentage of its profits were generated by its US 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 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.

Harvard Business School professor Bill George 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 compass, based on self-reflection. This process requires thought and introspection because many people get into leadership roles in response to their ego needs.

Unethical behavior of top executives, poor ethical leadership, lack of integrity, mismanagement, fraud, corruption, and violating corporate governance codes are the main contributors towards the above-mentioned scandals. We urgently need a sustainable and innovative solution to this global epidemic.

Most companies' approaches to corporate governance are extremely formal, bureaucratic, cosmetic, not holistic, and not authentic and therefore fail to address above-mentioned shortcomings. It is time that we become aware that corporate governance cannot be controlled effectively with formal and exhaustive rules, regulations, guidelines, and procedures only. It is about decency and personal integrity, and this must be cultivated from within. As demonstrated by the examples given above, traditional corporate governance codes provide no protection from potentially catastrophic ethical failures. Company integrity must be a continuous informal learning process, 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.

Sustainable corporate governance starts with personal leadership development, based on self-reflection 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. In this way, good corporate

governance will be 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 also have a positive impact throughout society.

Against this background, we 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 new theory has been borne out of our leadership experiences in the corporate world. In this theory, we have defined governance in holistic and authentic terms, namely the systematic process of continuous, gradual, and routine improvement, steering, and learning that lead to sustainable high performance and ethical excellence.

This groundbreaking authentic governance method differs from traditional corporate governance concepts, which focus mainly on bureaucratic regulations, procedures, and policies and which insufficiently consider the importance of authenticity, holistic approach, and alignment with human capital, needed to achieve ethical corporate excellence. Our innovative corporate governance approach is combined with powerful tools to deliver peak performance and to create a stable basis for trustworthiness, credibility, and personal and corporate responsibility. It places more emphasis on understanding yourself and the needs of others, meeting those needs while staying true to your personal and corporate values, improving your personal integrity continuously, making ethics a way of life, and aligning these with formal corporate regulations, procedures, and guidelines. This integrated governance system, developed and globally trademarked by Dr. Hubert Rampersad, will create a paradigm shift in organizations and will work as a catalyst to accelerate the transformation of the personnel into committed and ethical executives and employees.

Based on this new concept Dr. Rampersad has established the Authentic Governance Institute (AGI) in the United States (www.authenticgovernance.org), which is the global not-for-profit membership association for the authentic governance profession. AGI's worldwide advocacy for authentic governance is reinforced by our globally recognized standards, certification and licensee programs for consultants and organizations, extensive academic programs, eLearning programs, chapters of practice in 50 countries, and professional development opportunities. Become a member and see what AGI can offer you at every stage of your authentic governance career. Discover more about what our AGI membership is and what benefits it offers, and choose the type of membership that's best for you. As an AGI member, you gain exclusive access to AGI publications and our global standards, networking options with our global chapters and online communities of practice, and career opportunities. AGI also offers a comprehensive authentic governance certification program for accountants, financial consultants, corporate governance practitioners and organizations globally. You will demonstrate your expertise and your commitment to the authentic governance profession with an AGI certification.

This book is an essential reading for executives and managers in all industries, not only in the banking business. We therefore welcome the global publication of this book by Springer USA. Thanks are due to Abdullah Wallace for his editorial assistance. We also would like to express our thanks to our families, who have inspired and stimulated us to take this challenge to write this important book. We hope you will enjoy this new governance concept as much as we love bringing it to you. Your feedback is welcome via h.rampersad@authenticgovernance.org and sh@shcbahrain.com.

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Authentic Governance

Aligning Personal Governance with Corporate
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