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Government Must Make Consequences Clear

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Government must make consequences clear

With false-profits mania reigning supreme on Wall Street, Congress needs to establish an academy of corporate responsibility and integrity under the Securities and Exchange Commission. This executive training center would have as students the chief executives and financial officers and boards of directors of the nation's publicly held companies. Senior partners at accounting companies need to be included in this back-to-school group, too. The enforcement-savvy teachers for this two-week academy would be lawyers and accountants from the commission and the Justice Department.

The case-study and hypothetical-laced curriculum would include seminars on conflicts of interest, accounting methods, troubleshooting financial reports, insider trading, federal sentencing guidelines, corporate governance and interpreting the myriad of new corporate anti-crime legislation.

With Aug. 14 looming, it is imperative for and incumbent upon the government to train chief executives on how to troubleshoot financial reports. By then, the SEC has demanded that the chief executive and financial officers of most of the nation's largest public companies personally swear that the numbers in their companies' recent financial reports are correct and complete. Civil penalties or jail time could await those whose arithmetic turns out to be bogus. The new commission order applies to 947 public companies, which must comply by their next financial filing. For most of the companies that will be Aug. 14, scant weeks away. A pending commission rule soon may apply these affidavit-like requirements to filings for all public companies.

Some very frightened executives are losing copious amounts of sleep over these new certifications. What's urgently needed is something that will immediately enhance the accounting and financial literacy of chief executives. Enter the proposed academy. The SEC must teach executives how to troubleshoot their financial reports. As executives ultimately are responsible for the financial health of their companies, they cannot pass the buck to their financial officers in maintaining the corporate books. Enron's former chairman, Kenneth Lay, found out the hard way. Neither can chief executives rely on the integrity of their outside auditors, as Arthur Andersen's recent criminal conviction for obstruction of justice demonstrates.

Lamentably for America's 85 million investors, many chief executives come to the corporate suite with résumés heavy on sales and marketing experience but light on finance. This glaring deficiency all too often causes a convenient abdication of fiscal

responsibility to financial staffers and a convenient amnesia of book-keeping numbers. Most financial-crime experts agree that this abdication and claim of accounting ignorance are the reasons why

few chief executives ever see a prison cell for securities fraud. Federal juries struggle with finding clear-cut criminal intent when some chief executives, devoid of finance backgrounds, cry "the CFO did it, not me."

Again, enter the academy to help the justice system bring clarity to complex corporate crime. The academy would serve as a sort of pre-emptive driver's education course. In a classroom setting, executives and directors would interact with voice-of-authority professors - SEC and Justice Department enforcers. For these corporate students, this would truly be an unforgettable learning experience. An executive's attendance would be evidence in a potential prosecution. Jurors would look upon a chief executive's claim of corporate-books ignorance with a very skeptical eye. Jurors fairly could hold chief executives responsible to the same standards as their financial experts. Convictions would be easier to get and uphold on appeal.

Congress should encourage enrollment by calling on the U.S. Sentencing Commission to modify the sentencing guidelines for criminal fraud. Specifically, if officers and directors attend the academy, judges should use it as mitigation factor in criminal sentencing. As a potential windfall, companies could gain a competitive advantage in investor confidence if they sent their senior executives to this unique training ground. Corporate investor-relations departments could have a welcome bonanza.

President George W. Bush recently called for a "new ethic of personal responsibility in the business community." CEO should also stand for chief ethics officer. Executives and directors need to go back to school to increase their financial and ethical literacy. Such an academy uniquely would meet this need and restore confidence in our capital markets. **IB**



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