A Modest Proposal

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In a period of just ten days in March 2008, the giant investment bank Bear Stearns collapsed and was forced to sell itself off to JP Morgan Chase for one-tenth of its market value. Just one year earlier, *Fortune* magazine had dubbed the bank "America's most admired securities firm." Going from "most admired" to out of business in less than a year is quite a dubious achievement, but Bear Stearns was only the first domino in the line to fall. Many other giant financial institutions in the United States and Europe were subsequently shaken, if not broken.

The immediate causes of this liquidity crisis – and its resulting impact on the world-wide economy – already have been the subject of much analysis. Liquidity concerns, driven by large positions in mortgage-backed securities, especially sub-prime loans, and the widespread trade in credit default swaps, eventually led to the collapse. No doubt much more will be written about this tangled mess even while economists and politicians try to unravel it.

The problems, as pundits have said, have spread from "Wall Street to Main Street." Organizations of all types are facing tough times today. Businesses are seeing their revenues drop along with demand and are cutting back on budgets and workforces. School systems and municipalities face declining tax revenues. Hospitals are beset by problems from all sides, with calls for both improved quality and lower costs. These effects are rippling throughout the economy, touching nearly every one of us. Welcome to today's reality.

While much is being discussed about how we got into this situation, the underlying reasons are receiving little, if any, attention. That raises the concern that history could repeat itself if the root causes are not addressed and corrected. What are these underlying causes? It doesn't require a detailed 5 Why analysis to uncover several of the most blatant factors: a desire to bend, if not avoid altogether, basic rules and regulations; lack of transparency in operations; a short-term focus; and, certainly, personal character flaws, especially hubris and greed. In short, most of the root causes tie back to a lack of effective corporate governance.

Although many of the factors that contributed to the current malaise are beyond the control of most organizations, the lesson to be learned is that executives and their Boards need to ensure that their own house is in order. So, allow me to offer a modest proposal: This is an appropriate time for Boards of Directors and senior executives to perform a governance review. Even the smallest organization can benefit from an evaluation of their governance policies and procedures. Some questions that Board members and the CEO should ask include:

- How does the Board make sure that executives and management are held accountable for their decisions and actions? How does the Board ensure that it is independent and not subjected to undue executive influence?
- How does the Board evaluate and improve its own performance?
- How does the organization foster transparency in all of its operations to ensure that all stakeholder

interests are considered and protected?
- How does the Board ensure that policies for fiscal responsibility are established? How do senior leaders and all managers ensure these policies are followed by everyone in the organization?
- Do we follow established best practices for selecting Board members and disclosing potential conflicts of interest of Board members?
- Do the Board and senior leadership take immediate corrective action on audit findings to ensure there is no recurrence of problems?
- Do we have methods to proactively address any negative impacts of our products, services and operations, both current and future? Do these methods include a review of the risks of these impacts, both to our organization and to customers and society as a whole? How do we mitigate any identified risks?
- Do we have strong policies in place to foster and reinforce ethical behavior in all interactions? Have these been communicated, both to our own people, as well as to our customers, suppliers and others outside of the organization? What avenues do employees, customers and suppliers have to report possible breaches in ethical behavior? Do we have methods to respond to breaches in ethical behavior?

In Chinese, the word for danger is *wei xian* and the word for opportunity is *ji huay*. Westerners have seized on the coincidence that the Chinese word for crisis is *wei ji,* seemingly a combination of the words and characters for "danger" and "opportunity." While linguistically incorrect, this notion does have some value in addressing the present state of affairs. Leaders have an opportunity to use the lessons learned from the current situation to assess their organization and, if needed, implement meaningful changes to help ensure that they have a strong foundation of responsibility and accountability. The Baldrige Criteria, especially as they relate to governance and societal responsibility, provide an excellent framework for leaders to help them ensure integrity, ethical behavior and sustainability for their organizations.

"It amazes me that U.S. businesses spend so much money on 'how-to' books and coursework to teach leaders how to build successful organizations. My recommendation: implement the Baldrige-based Criteria in your business. No other single document can help build a long-term successful organization."

Jerry Rose, Former President
Sunny Fresh Foods, Inc.
Baldrige Award Recipient

Joe Muzikowski is a member of the Quality Texas Board of Governors. He also currently serves as a Judge for the Veterans Administration's Carey Award and is an alumnus Examiner for the Baldrige Award program. He is the co-author of the book, Journey to Excellence: Baldrige Health Care Leaders Speak Out, to be published this spring by ASQ Press.