

Boards and Morality- the role of structure

Over the past several decades, a significant amount of corporate scandal has erupted in the United States. Each decade brings more impactful scandals on the population; either through personal financial loss and/or through a growing distrust of corporate America. The latest scandals in the financial sector rippled across the globe creating havoc in many economies outside of the US. It is time to look at the determinants of morality at the board level.

In many cases of scandal, there is evidence of a charismatic and visionary CEO or ED left to their own devices with little oversight of the board. Many boards seem to be asleep at the wheel, as [reported about Wells Fargo](#). Many directors have strong social ties to the organization's leader and don't ask the 'hard questions'.

So how do we deal with what many are calling a moral crisis? Pinpointing the cause of scandal to a single factor is at best naïve due to the complexity and multitude of elements that affect and support the scandals. In the US, however, it is without a doubt the board of directors that has legal accountability and ultimate responsibility for the firm's success, whether profit or nonprofit.

Much of the research to date has been the structural elements that are linked to firm performance. Enron had one of the most financially qualified and independent boards on paper. And yet, the US Senate found the Enron board "failed to safeguard Enron shareholders and contributed to the collapse of the seventh largest public company in the United States...". That was 2003... and still we have many of the [same issues happening today](#).

Governmental regulations focusing on inputs to the governance process seems reasonable. Yet the results of the current regulations haven't proven to bring about proper behaviour and oversight on the part of boards.

There are also legal levers- things like independent directors to reduce conflicts of interest, mandating an audit committee of independent directors with financial competence and requiring codes of ethics. These legal regulations should lead to more ethically disciplined boards but so far, they have not been able to prevent poor ethical behavior and decisions.

My experience and research leads me to believe that boards must go beyond legal compliance and commit to identifying and implementing governance elements that can lead to behavior and decisions that define ethical performance.

Structural elements certainly have a role to play. But that is just one piece of the puzzle. It takes a concentrated effort utilizing a myriad of good governance practices and tools to create and maintain an excellent board of directors.