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WILLIAMS CALLS FOR PRIVATE SECTOR ACTION TO ESTABLISH CORPORATE ACCOUNTABILITY STANDARDS

PITTSBURGH -- Chairman Harold M. Williams called on the corporate community today to use imagination and initiative in devising parameters of conduct and accountability for corporate management.

Williams renewed his call for strengthened corporate accountability in a paper prepared for delivery as part of the Fairless Lecture Series at Carnegie-Mellon University in Pittsburgh, Wednesday evening. He outlined voluntary action which the corporate community could engage in as a means of defusing efforts to have the Federal government regulate the corporate governance mechanism.

"The private sector can provide more and stronger leadership for itself through its own existing organizations -- such as the Business Roundtable and the Conference Board -- or new ones especially formed for the purpose," Williams said. "... To the extent that the private sector can establish

the bench marks of what is right or wrong, it is more likely to be able to prevent legislation of the type on which the public will insist if self-policing is perceived to be ineffective."

"Business leaders," he continued, "should encourage the stock exchanges and other formal self-regulatory bodies to continue to provide leadership regarding minimum standards of accountability...Although there is tremendous potential, there has not been enough systematic focus in the corporate community on the role which self-regulatory bodies could take in pre-empting the need for legislation.

"In fact, the time may arrive to create a new private sector self-regulatory body with the enhancement of accountability and the articulation of the minimum norms of corporate conduct as its exclusive function."

Williams said that such a "corporate accountability body" might be an effective means "to return the initiative to business."

"Lest the reports of this talk characterize me as advocating a formal self-regulatory body to regulate corporate conduct, let me make it clear that that is not my objective. I am trying to stimulate the ingenuity of the private sector -- which will be brought to bear once it is convinced that a problem exists that needs solving -- to devise creative

and effective institutional methods to assist in achieving the desired result. Ultimately, I hope that, through these efforts and others, we can reach a point, where, for example, the meaning and importance of what constitutes an independent board is well-established, and its significance so clear that a company will be compelled to respond to its peers, investors, lenders, analysts, and others if it does not appear to conform to the prevailing standard."

Williams reiterated his opposition to Federal controls over corporate management, but expressed the fear that unless public perceptions about management accountability change, demand for such controls could increase.

"What is missing from this (corporate) environment is a force that has the practical capacity to effectively oversee management and, if necessary, make timely changes," Williams said. "To the extent that the public perceives this accountability gap -- and concludes that it has suffered serious consequences because of it -- the pressure mounts for government to step in. I have little confidence, however, in government's ability to be prescriptive concerning corporate mechanisms without also being so oppressive as to destroy them. Thus, in looking for solutions, we need to concentrate on improving the overall effectiveness with which the present system functions rather than experiment with a

totally new system of accountability. The issue is how to preserve the advantages of a strong management-based corporate system and still be assured of effective institutional discipline. In my view, the answer is to be found in the corporate boardroom."

The corporate board of directors, Williams said, "can serve to institutionalize effective accountability without bringing the hand of government down upon the corporate structure.

"In order to fill its role," he continued, "the board needs to focus on the sociology of the boardroom and to re-examine the role of the board and the individual director...If the mood -- the social ethic -- is one of disinclination to criticize, if directors are expected to ratify management decisions, and if inquisitiveness is interpreted as distrust of the chief executive and a violation of good corporate manners or protocol, the system breeds a tendency to rubber-stamp management, make comfortable decisions, and avoid confronting significant issues as long as possible.

In order to overcome those obstacles to effective board performance, Williams said, boards should be dominated by directors independent of management; the chief executive officer should not be chairman

of the board; and the board's audit, nominating and compensation committees should play active roles in assessing and shaping corporate policies and practices. However, he said he would oppose any Federal legislation or regulatory action to dictate board structure, "or even impose my own suggestions."

"My goal is to underscore the responsibilities of corporate boards and how they might better carry them out so as to strengthen the case against legislation, and make it unlikely -- not to hasten its passage," Williams declared. "While some apparently believe that legislation is the key to reform, I am concerned that Federal encroachment into the boardroom would likely cripple rather than strengthen its functioning."

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