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The Caux Round Table Self Assessment and Improvement Process: A Transcultural Tool for Creating Corporate Conscience[1]

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by

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The SAIP: Strengths, Weaknesses, Opportunities, Threats

Among the basic strengths of the SAIP, we can mention four. First, the deliberate modeling of the SAIP on the Baldrige process is a powerful and *practical foundation*. Recently, Jeffrey E. Garten, Dean of the Yale School of Management wrote in his book *The Politics of Fortune: A New Agenda for Business Leaders* had this to say about the Baldrige process and ethics (subsequent to the SAIP development indicated above):

> **American presidents bestow the Baldrige Award to companies that demonstrate the highest quality of products and services. Why not similar accolades for business leaders of character? The media fixates on CEOs whose share prices soar; why not give more attention to those whose ethical values are models for others? These and similar suggestions no doubt sound mundane, mechanical, and perhaps Pollyanna-ish. A commission looking into possibilities for promoting more integrity in the business culture may have much better ideas. But the essential point should not be lost: The more complex the markets become, the more the integrity of its leaders matters, and the less likely that higher prescriptive laws and regulations will really matter.**[2]

Second, the fact that the Caux *Principles* are the content platform for the SAIP inventory matrix affords it a significant level of *global credibility*. The CRT Principles were developed *by* business leaders *for* business leaders, facilitating their acceptance (and translation into 12 languages). Thus it is no accident that during the beta testing phase for the SAIP, enthusiastic efforts to translate and test the inventory were forthcoming from both European and Asian companies.

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[1] These remarks are selected from a larger presentation delivered in New York City, May 13, 2004 at the Baruch College Conference on *Voluntary Codes of Conduct for Multinational Corporations*.
[2] *Harvard Business School Press, 2002, p. 85.*

A third – and related strength – is the *comprehensiveness* of the SAIP inventory, rooted as it is in the comprehensiveness of the CRT *Principles* themselves. Unlike various auditing tools that might have special purposes, e.g., to scan environmental or labor practices, the SAIP provides an overview of a company's ethical posture as well as its attitudes toward compliance with law and regulation. This allows boards of directors and senior executives to respond constructively, especially in the US context, to recent legal (*Sarbanes-Oxley*) and regulatory (*Revised Federal Sentencing Guidelines*) initiatives (see below).

A fourth strength of the SAIP is *adaptability*. This strength manifests itself in four ways that are likely to appeal to business leaders and boards. As we have seen, the SAIP inventory, because it is designed with three levels of specificity, can be used by an organization *gradually*. It allows for the management of the costs of executive time. Another form of adaptability comes from the possibility of applying the SAIP inventory to *specific business units* within large global organizations, rolling it out to the whole organization if the smaller-scale application warrants it. Third, the SAIP inventory is currently being translated and adapted to *other cultural settings* in Europe and Japan. Finally, the SAIP, even though it was designed for use with the CRT *Principles for Business Conduct*, is adaptable for use with *other norms and codes* that align well with the CRT *Principles*, such as the *UN Global Compact* and the *OECD Corporate Guidelines*.

There are two weaknesses of the SAIP inventory that merit our attention. The first is simply that it is *not yet widely adopted* and so it does not yet provide the kind of global business standard that will give companies the confidence they need to "join the party" so to speak. Beta-testing on three continents so far gives reason for optimism about overcoming this weakness. A second weakness is *methodological*. As it is currently conceived, the SAIP is essentially a private tool for companies to use, without oversight if oversight is not desired. This fact reduces barriers to using the inventory due to apprehension about both public relations and competitive advantage. On the other hand, the privacy of the SAIP's use raises questions about the objectivity of self-scoring (not present, we may note, in the context of the Baldrige process because it called for an external panel to do the scoring for the *awards* process). [3]

As to opportunities, several have already been anticipated. From the point of view of public policy, the SAIP might eventually provide a powerful *template for ethical reporting and comparisons* among companies. Indeed, beyond regulatory interests, such as the SEC and other agencies, there are the interests of "social investors" who would benefit from reliable quantification of corporate ethical values.

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[3] Garten, *The Politics of Fortune*, p. 144. Jeffrey Garten, quoted above, might as well have been referring to the SAIP when he wrote: "The next stage in corporate citizenship – indeed, it has already arrived – is for companies to allow their community and social policies to be audited by represented third parties. This will require the development of a common framework for how to measure different kinds of progress, in place of the wide variety of measurement techniques that companies use now."

From the point of view of the companies actually using the SAIP, of course, there are other opportunities. First among them is *self-awareness* leading to *self-improvement*. But there are also the newly-mandated requirements of the *Sarbanes-Oxley Act* and the revised *Federal Sentencing Guidelines* (2004). Sarbanes-Oxley calls not only for expanding the roles of corporate Audit Committees, removing conflicts of interest on the part of external auditors, and new duties for analysts and attorneys.[4] It also establishes new executive responsibilities and restrictions for CEOs and CFOs. These include, among other things, responsibility for establishing and maintaining the company's internal controls and demonstrating "that the internal controls have been designed, established, and maintained for the purpose of providing material information to them about the company and its subsidiaries." The SAIP is a tool that could play a significant role in such a demonstration – both to corporate officers and boards of directors.

Similarly, the newly-revised *Federal Sentencing Guidelines for Organizations* (FSGO) call for changes that the SAIP could in fact help to bring about. For example, the report of the *Ad Hoc Advisory Group on the Organizational Guidelines* (October 7, 2003) suggests the following modifications and additions, among others, to the original 1991 *Federal Sentencing Guidelines*:

- **Emphasis on the importance within the guidelines of an *organizational culture* that encourages a commitment to compliance with the law;**
- **Specification of the *responsibilities* of an organization's *governing authority and organizational leadership* for compliance;**
- **Addition of "*periodic evaluation of the effectiveness of a program*" to the requirement for monitoring and auditing systems;**
- **Inclusion of the phrase "seek guidance about potential or actual violations of law" within the criteria in order to more specifically encourage *prevention* and *deterrence* of violations of law as part of compliance programs;**
- **Provision for the conduct of *ongoing risk assessments* as part of the implementation of an "effective program."**

Because the SAIP represents – ultimately – a cultural discipline within an organization, it can provide an *implementation vehicle* as well as an early warning system for many of the items listed above, especially where I have added emphasis using italics.[5]

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[4] The *Sarbanes-Oxley Act* was signed into law by President George W. Bush on July 30, 2002. The *Act* is named after Sen. Paul E. Sarbanes (D-Maryland) and Rep. Michael R. Oxley (R-Ohio), who helped shape the bill's content and guided it through Congress.

[5] The *Ad Hoc Advisory Group* continues: "These proposed changes are intended to eliminate ambiguities revealed by twelve years of sentencing experience and to describe more fully those essential attributes of successful compliance programs revealed by many years of program development and testing. They are also designed to respond to the lessons learned through the experience of national corporate scandals over the last two years and to synchronize the organizational sentencing guidelines with new federal legislation and emerging public and private regulatory requirements."

Charles M. Denny, former CEO of ADC Telecommunications, Inc., summarized the opportunities afforded by the SAIP eloquently:

> **The only way a director can totally understand the behavior of a company is to shake it from top to bottom, by means of a thorough and systematic assessment like the SAIP. Performing just such an assessment is critical if directors are to assure themselves that the company for which they are responsible is performing as they believe it should.[6]**

. . .

Finally, as to threats, perhaps the most significant lies with a problem identified in the revised FSGO as the *"litigation dilemma."* This threat comes not from a conflict *within* the organizations to which the FSGO apply, but from *outside.* In the words of the *Ad Hoc Advisory Group*, the dilemma arises in this way:

> **[T]he institution of truly effective programs, the auditing and monitoring that such programs require, and the training and internal reporting systems that such programs contemplate, all create a real risk that information generated by these admirable practices will be used by other potential litigants to harm the organization. This situation is often referred to as the "litigation dilemma," and it is recognized as one of the major greatest impediments to the institution or maintenance of truly effective compliance programs.**

What a paradoxical situation we have created in our society – a situation in which organizations seeking to develop information to improve their behavior have to fear that such information might actually be used against them! An incentive *not* to be responsible – at least not in a systematic way that could be effective, such as the SAIP. If an "examination of conscience" is an effective tool for self-assessment and improvement – and it is – then we have to find a way to remove the hazard of "discoverability" from such examinations. The *Ad Hoc Advisory Group* acknowledged (a) that this threat was real, and (b) that it would probably take the US Congress to remove it:

> **Recognizing that the litigation dilemma cannot be resolved within the organizational sentencing guidelines themselves, the Advisory Group is compelled by practicality to signal the pivotal role that the organizational sentencing guidelines play in this dilemma. Consequently, the Advisory Group recommends that the Sentencing Commission initiate and foster**

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[6] As quoted in Goodpaster, K.E., Maines, T.D., & Weimerskirch, A.M. "Creating a Corporate Conscience," *Minneapolis Star-Tribune*. (December 1, 2003).

> **further dialogue toward a resolution of the "litigation dilemma" with appropriate policy makers, including Congress . . .**

Conclusion

No tool, including the SAIP, can guarantee responsible corporate conduct. But it seems reasonable to suggest that honest, forthright application of the SAIP could help to uncover behavior and tendencies like those which undermined Enron, Andersen, and other companies. Let me conclude with a final quote from Jeffrey Garten:

> **. . . CEOs and their boards need a "true north" – a clear sense of who they are, what their company stands for, and what obligations it has, not only to shareholders but also to stakeholders around the world. These views should be clearly articulated to all constituencies – not as rhetorical mush, but as guidelines for operations. The purpose is to set realistic expectations for all concerned. (Garten, p. 142)**