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CEO and CFO Fiduciary Responsibilities

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Corporate officers and managers are directly responsible for the preservation of the shareholders' investment in a company. Unfortunately, many leaders have not taken their fiduciary responsibilities as seriously as previous laws have required conditions which have moved Congress to enact the Sarbanes-Oxley Act to counter corporate malfeasance in the future. Although there are many concepts on how corporate reform should be structured, numerous citations indicate that current corporate reform measures enacted by the Sarbanes-Oxley Act may have some unintended consequences.

Research conducted on Fortune 500 companies between 1995 and 2000 by Sanford Bernstein found that approximately 33 percent of all corporate profits during this time span were due to one accounting scheme, namely stock options. Statistically 33 percent of prestigious corporate leadership may be involved in accounting malpractice in some form. The primary area of failure recognized today in U.S. corporations is segregating or insulating the financial department of a corporation from the actual operations of the organization itself. Lack of accountability by corporate officers, directors and managers with respect to the financial operations of the corporation has also been asserted as the reason for Sarbanes-Oxley. Until recently, regulatory efforts have been focused on the accounting professions, instead of who is directly responsible: the corporate chieftains. Sarbanes-Oxley was enacted to tighten corporate reform, reassure investors and strengthen the economy, but the regulatory controls may be short-term solutions that will not create a system that effectively works until more thorough research has been conducted on the implementation process.

With the collapse of some of the world's largest corporations and the scandals of today's corporate leaders revealed on a seemingly daily basis, the issues of leadership, organizational change, financial failure, ethics and integrity have been brought to center stage. As Sarbanes-Oxley finalizes all implementation dates, there is a growing pressure on corporations to find financially competent CEO's and CFO's, but efforts by senior-level executives capable of moving into leadership positions of small publicly traded entities may be thwarted by the projected costs and legal liabilities imposed on them. The avarice, lack of integrity and failure of many executives may have been factors leading to the creation of one of the most restrictive Acts created in corporate America since the Securities and Exchange Act of 1934. How corporations will deal with these issues, and regain the public's faith in the future will be key to the recovery and growth of the economy.