



Corporate Board Member

What Directors Think: Special Issue 2003

Feature Story: Life On The Wire

What's The Greatest Challenge Facing Directors Today? Sarbanes-Oxley, sure. But the real challenge is learning how to oversee stricter governance without micromanaging.

SURVEY SAYS HELP!

20.7% of directors surveyed by *Corporate Board Member* believe their boards will need outside experts to help them fulfill the new governance requirements.

Handling the increased responsibilities under new regulations—and balancing them so larger strategic issues receive adequate attention.

John W. Madigan, 66

Chairman, Tribune Co., Chicago

Outside directorships: AT&T Wireless, Morgan Stanley

The greatest challenge for all directors today is realizing that what you don't know can hurt you. Board members must be informed, involved, and aware of business transactions, accounting issues, and governance standards. The second big challenge remains being clear on what the company ultimately wants to become through long-term strategic planning.

Shelley Thomas, 52

Senior Director of Communications and Public Affairs and Director, Huntsman Cancer Institute at the University of Utah, Salt Lake City

Zions Bancorp

You've heard of LIFO [last in, first out] and FIFO [first in, first out]? Well, there's another one in corporate governance called NIFO—nose in, fingers out. Because Sarbanes-Oxley has forced us to become more aware of the internal workings of the company, there's a danger we might violate the NIFO rule. We have to be careful we don't get into micromanagement.

Thomas T. Farley, 69

Senior Partner, Petersen & Fonda, Pueblo, Colorado

Health Net

We can't lose sight of the fact that shareholders expect companies to increase earnings and shareholder value—that's why they invest. Therefore the biggest challenge is unchanged: Directors are expected to provide insight, guidance, and oversight that will help management increase shareholder value.

Charles J. Thayer, 59

Chairman and Managing Director, Chartwell Capital, Fort Lauderdale, Florida

Republic Bancshares

I spent 32 years in operational roles where you're in charge of something, you work for someone, you're held accountable for your work. On a board of directors, it's a weird combination of accountability and just being an adviser. I'm not used to having my suggestions

ignored occasionally, but in point of fact you are just offering advice. However, now there's greater accountability and liability. Hypothetically, you could have a situation where, say, the board is contemplating selling something to China and you're not sure whether you'll be paid. Do we recognize it as revenue or wait until we're sure we're getting paid? In three months you'll know the outcome. You can argue that if you don't claim it as revenue, the IRS will come after you. But if you do claim it as revenue and you then don't get paid, the Securities and Exchange Commission will accuse you of cooking the books. Everyone from the SEC to the IRS to the Justice Department can look backwards. There's a certain absurdity to it. They can always say you should have known, but most of the time we live with quite a bit of uncertainty and just make the best decision we can.

Gerry Parker, 59

Retired Executive Vice President, Intel, San Jose, California
Applied Materials, FEI Co.

The biggest challenge is getting a truly independent board with the right mix of experience. Boards are thinking a lot more about their composition and the right skill sets. Every board needs a financial expert, and those boards that are the most prudent will go for a current or retired CFO or public accounting partner. You're also looking for someone who's either a current or retired CEO in a related but not competitive industry. And it's clear that other directors are looking to the chairman of the audit committee to wear that great big bull's-eye on his shirt. I'm the chairman of five audit committees, and we spend more time at all of them worrying about accounting issues than ever before. I'm a CPA and retired CFO from Cisco Systems, so I'm not necessarily troubled by serving as audit chairman—not as long as I have confidence in the operations. Well, even with that said, maybe I am a little troubled.

John C. Bolger, 57

Consultant and Private Investor, Santa Clara, California
Integrated Device Technology, JNI Corp., Mission West Properties, Sanmina-SCI Corp., Wind River Systems

Clearly, the greatest current challenge to directors is to maintain a sense of proportion and balance in discharging their fiduciary responsibilities. The self-appointed pundits who are preaching their own interpretation of the Sarbanes-Oxley bible are doing so with messianic zeal. But they are often lacking in common sense. Their all-too-common one-size-fits-all solution ignores the difficulty of the smaller public companies in securing directors experienced and knowledgeable in their respective markets or functions.

The largest of America's corporations may be able to survive the extreme demands of this new business bible, but the average-size and smaller public companies will soon be looking for a safe harbor or a way around the excesses of the more extreme Sarbanes-Oxley interpretations, possibly by going private—and maybe that is what they should do. It will be interesting to watch the flow of events, but it's clear that not all corporations can afford the more extreme demands being promulgated by the parade of self-ordained new experts currently vying for center stage on this topic.

Bernard J. Kennedy, 72

Chairman Emeritus and Director, National Fuel Gas Co., Buffalo

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