Speaker: Corporate board members given 'roadmap'

By Brad Carlson
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In the wake of the corporate accounting scandals, many board members have been preoccupied with governance and accountability issues, but they shouldn't lose sight of corporate "tone" and overall business strategy.

That's the message Hal Shear, senior advisor to the National Association of Corporate Directors, delivered at a Boise forum sponsored by law firm Hawley-Troxell, commercial insurance broker Marsh, Boise State University and the University of Idaho College of Law.

A board may do well at oversight, and in making sure the company has the right executives and a good succession plan, he said. However, "it doesn't matter if you have the best CEO and the best system to prevent fraud; if you don't have a winning strategy, you won't be successful," he said in an interview.

"If you don't understand how the company operates and how it deals with industry competition, it is impossible for you to govern," Shear said.

Next year and beyond, he expects boards to place greater emphasis on strategy.

The "tone at the top" of a company is key, Shear said.

"We're seeing a lot more attention paid to the tone," he said "The (highly publicized) abuses that took place generally took place because the tone at the top was inappropriate."

Most CEOs of successful corporations with a good 'tone' communicate openly with board members, steer clear of unnecessary or inappropriate expenditures, and own up to mistakes, Shear added.

Board members have logged many hours in the past two years, largely focused on governance and oversight issues. Shear believes the effort will benefit boards in the long run.

Shear, president of corporate governance consulting firm Board Assets Inc., Boston, spoke to about 57 entrepreneurs and board members at the Dec. 3 forum at the Boise Centre on the Grove

"It's as if now boards have a roadmap." – Hal Shear

"It's as if now boards have a roadmap," he said of new governance and oversight standards. "It makes it much clearer what has to be done, and yes, it takes much work to get there."

Board members from businesses of all sizes and types, including nonprofits, have shown much greater interest in governance issues in the last 24 to 30 months, Shear said. This has occurred even though the Sarbanes-Oxley Act of 2002 applies mainly to large, publicly traded companies

Some companies had to comply with Sarbanes Oxley by Nov. 15, but principles that the act outlines ultimately will impact businesses of all sizes, Shear said.

"Good governance works," he said, and the practices that lead to it "are as applicable to Albertsons as they are to a technology startup."

Sarbanes Oxley sets strict governance standards that broaden board members' roles in overseeing financial transactions and auditing. The act created the Public Company Accounting Oversight Board, an entity set up to enforce auditing standards.

The act outlines how corporate audit committees must be formed and how they must document their activities. Each member of the audit committee – which hires, oversees and pays the auditor – must be on the board of directors and independent.

The act says 'independent' members don't get paid for professional consulting service and aren't on the company management team.

Shear said that for small and startup businesses, the presence of independent board members enables the founders to benefit from different objective points of view as the enterprise grows.

The number of publicly traded companies with independent board chairpersons has approximately doubled, he said. This essentially separates running the board from running the company. "And since that is a corporate-governance best practice, not required by law, it says people are paying attention to and acting on it as a best practice," Shear added.

The National Association of Corporate Directors, based in Washington, D.C. has grown to about 9,000 members compared to 1,400 in 2000. Entire boards represent about half the membership.