

## CEO's Web-Guide To Corporate Governance

Kim Nguyen, 06.12.03

**Scandals? Book-cooking? Self-dealing? Cover-ups? Judging by recent media coverage, it would seem that we have reached a new low in corporate behavior. Fortunately, reform school is a click away.**

It's a scary world out there for CEOs. From Sarbanes-Oxley to shareholder activists and ruthless class-action lawyers, the once-safe path of toeing the corporate line has turned into a minefield. One false step could wind up putting you on the wrong side of a nasty SEC investigation or, even worse, behind bars. It's open season on corporate yes-men, so it is no surprise that more than a few top managers are scrambling to bolster their firm's grounding in corporate governance issues. If you or your company can afford \$5,550 tuition, Wharton, University of Chicago and Stanford Law School offer a three-day program called the [The Directors' Consortium](#). In order to participate you need to spend a weekend at one of these prestigious schools, attending classes and discussing topics like "How to Spot Early Warning Signs of Management Problems." The course-work is intensive and you get to mingle with the leading thinkers and practitioners in governance, from Stanford's Bernard Black to Credit Suisse First Boston vice chairman, Steven Koch.

But the Directors' Consortium is limited to current board members or executives recommended for the program by directors of their company. That rules out most of the frontline managers actually making day-to-day operating decisions. For them, there are a host of easily accessible and often free Web resources designed to illuminate the latest important issues facing the executive suite: Is your company Section 302 compliant? Did you know that firing an employee who is deemed to be a whistleblower can result in ten years behind bars for you and members of the board?

If you are at all fuzzy about the new rules of operating in this post-Enron environment, then you owe it to yourself and your shareholders to hit the Web. If the subject is Sarbanes-Oxley, a quick Google search will yield over 70,000 hits. Many of the sites listed merely post a PDF of the 130-page document; others are selling compliance software for IT departments or accounting offices. We found [PricewaterhouseCooper's sub-site](#) devoted to the topic particularly useful. There are a number of free downloads of recent articles and white papers on topics like "What corporate dealmakers (and those who rely on them) need to know about Sarbanes-Oxley." There is also a downloadable 56-page document that every investor-relations professional should study. It is filled with hundreds of potential questions investors might ask at shareholder meetings: Everything from "Does the company monitor human rights in the countries that it operates in?" to detailed financial questions like "Has the company re-examined its accounting for special purpose or variable interest companies?"

Other essential bookmarks in the area of corporate governance are [The Corporate Library](#), a Web site from a Portland, Me-based governance research firm led by shareholder activists Robert Monks and Nell Minow, and [Corporate Governance](#), a treasure trove of links on the subject. The Corporate Library gives you a blow-by-blow of all the latest news touching on shareholder rights and governance issues, from scandals like **HealthSouth** (otc: [HLSH - news - people](#)), **WorldCom** (otc: [WCOEQ - news - people](#)) and **Kmart** (nasd : [KMRT - news - people](#)) to boardroom changes, like the overhaul currently going on among NYSE-listed firms. Current and aspiring board members should tour the [Corporate Scandal Quick Sheet](#) to find out how not to behave in the corner office. There is also a [Study Center](#), which spotlights important topics like splitting the Chairman and CEO role and an area called [Best Practices 2003](#) which offers PDF downloads of the policies set forth not only in Sarbanes-Oxley, but by the NYSE, The Business Roundtable and the Council of Institutional Investors.

Corporate Governance is one of the oldest sites on the Web devoted to the topic. It is a chore to scroll through, but its links are comprehensive. They range from research reports like a recent study by Harvard and Wharton on corporate governance and equity prices to news and listings of upcoming conferences devoted to governance. There is also a Web site put out by the publishers of *Corporate Board Member* magazine ([www.boardmember.com](#)). Along with Nasdaq, it has created a series of ten-minute Web videos devoted to corporate governance where you can hear experts from the likes of Weil, Gotshal & Manges, AIG, PricewaterhouseCoopers, and SpencerStuart talk about things like D&O insurance policies and recruiting directors.

Within the next 18 months, many board seats may be up for replacement. The NYSE and NASDAQ recently revised standards for board independence, requiring listed companies to have a majority of outside versus insider board members.

[BoardSeat.com](#) has a compilation of articles that serve as a basic guide to strategically building a board. [BoardMember.com](#) maintains a premium service that has a searchable online database of directors for publicly traded companies. While on the subject of directors, The Corporate Library also has a fee service aimed at analyzing company boards and their effectiveness. For \$10,000 per year you can get the scoop on CEO compensation and director ratings for 1,700 companies. There is even a tool that analyzes interlocking relationships of directors and boards.

If you would like to find out how your company or your investments measure up relative to the competition in the area of corporate governance, there are several options. The Corporate Library just introduced A to F grades for board effectiveness. Who got Fs? **Citigroup** (nyse: [C - news - people](#) ) and **Disney** (nyse: [DIS - news - people](#) ), for starters, mostly because of the actions or inactions of their unresponsive, autocratic CEOs. We also recommend [www.governancemetrics.com](#), a relatively new ratings site from this New York City-based company. It is geared toward institutional investors and has corporate governance ratings on over 750 global companies. The basic reports, which cost \$18,000 for an annual subscription, are broken into seven categories: Board Accountability, Financial Disclosure and Internal Controls, Shareholder Rights, Market for Control, Remuneration, Ownership Base and Potential Dilution, and Corporate Behavior.

**Siebel Systems** (nasdaq: [SEBL - news - people](#) ) scores a below-average 3.0 (of 10), for example, because its potential dilution from generous options grants is over 80%. Similarly, Lucent spin-off **Avaya** (nyse: [AV - news - people](#) ) is penalized because its consulting fees to PricewaterhouseCoopers were six times what it was paying for auditing services. By the end of the summer, GovernanceMetrics expects to add 300 European companies to its ratings, which already include members of the S&P 500, the Nikkei 225 and Australia's ASX 50. Unlike its controversial competitor, [Institutional Shareholder Services](#), GovernanceMetrics does not accept fees for consulting work for the companies it rates.

Finally, if you just want to sound off about the latest governance scandal, **Martha Stewart** (nyse: [MSO - news - people](#) ) news or Warren Buffett's recent confession to letting down shareholders by staying silent on many of the 19 boards he has sat on, then check out [ERaider's](#) forum on corporate governance and shareholder rights. Then, after you confess to your own management sins, don't forget to delete the evidence.

For more details, go to *Best of The Web's* picks for [corporate governance](#), as well as our reviews of [top business school e-zines](#) devoted to management topics.