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IN DEPTH: BOARD GOVERNANCE

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Sarbanes changes the way directors view their work

Some say new rules are turning involvement into a full-time occupation

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Special to the Journal

The average director puts in about 200 hours annually on board business these days, surveys indicate. For audit committee members, the demands are even more exacting, with the average committee chair putting in 250 hours.

But it's not just the time commitment that has increased for board members. In the wake of corporate scandals that brought down highflying companies two years ago, the level of responsibility and the amount of scrutiny associated with board involvement have also jumped significantly. Regulations and best practices governing board members have intensified, as well.

All this has come together to change the composition of boards. Active CEOs are cutting back on the number of boards on which they sit, while marginally qualified individuals are departing altogether.

On the other hand, directors who have a full-time schedule to commit to board duties seem be in higher demand. Board work can be an intense few days of work followed by a month-long lull punctuated by only a last-minute meeting. But, put several boards' worth of work together and the time quickly adds up.

Life after retirement

For Wayne Wilson, it's meant something of a career change.
"It is my sense that you will see more people in my age bracket who have had careers in other professions who decided to make a change," said Wilson, 54. "There's now a desire to have people who can commitment more and greater and flexible amounts of time, so you'll see people who are looking at this as a next career."
Wilson retired as president and chief operating officer of PC Connection Inc. a year ago. He now sits on the board of directors for Cytyc Corp. and Edgewater Technology Inc., both Nasdaq-traded public companies.
Wilson says he plans to join additional boards in the future. He had been considering such a professional move well before the 2002 passage of the Sarbanes-Oxley Act, which increases the rules and regulations related to board governance. A former partner at the accounting firm Deloitte & Touche LLP, he had audited numerous public and private companies and is well aware of board dealings.

"I've always been interested in boards and how they work," he said. He added that board work is a way to stay active in the business community while pursuing his other venture -- he advises middle-market companies on growth-related issues.
"Given the environment, many companies were looking for people with financial experience to serve or chair their audit committees," said Wilson, who serves as chairman of the audit committees for the two boards on which he serves.
But while Wilson started board work at a time when directors received almost unparalleled internal and external scrutiny, he said the increasing pressures on boards did not deter him from moving forward.
Rather, he made sure he did his due diligence: "Is this a business I understand? Does the company appear to have good growth prospects? Is it financially sound? Does the management have a reputation for integrity? Is the board primarily composed of independent directors as opposed to insiders? Is there an opportunity for me to make a contribution to the company's success?"
"So when you ask those questions and you find all the answers are positive, it's like anything else, you make an assessment, you assess the risk, and if you believe it's a good trade-off, you do it," Wilson said.

Flight to quality

Hal Shear, president of Board Assets Inc., a board advisory firm based in Boston, also sees shifting dynamics on boards of all sizes.
"We do see people who are overworked leaving boards," said Shear, who sits on the boards of two for-profits and two nonprofit organizations. Many active CEOs, for example, are limiting their service to one or two boards, "which is really all that an active CEO can do well."
Meanwhile, increased regulations have also prompted others who weren't the best qualified -- family members, insiders, suppliers -- to step down from boards, creating even more vacancies, said Shear, chairman of the New England chapter of the National Association of Corporate Directors.
At the same time, Shear said he's seeing the number of individuals who can commit full time to serving as directors increasing. Often they're executives who are retiring from one career but aren't ready to step out of business completely.
"These are not exactly the retired cadre that most people think of when they think of retired executives or businesspeople," he said, adding that many are in their late 40s or early 50s with a wealth of experience and vision to contribute.

Skittish about demands

While some say that full-time directors might become more common following the board related scandals a few years ago, others are unconvinced that there's a strong movement in that direction.
"I know of some people whom you could consider full-time board members, but I don't see that that often," said Jim O'Hare, counsel with Boston law firm Kirkpatrick & Lockhart LLP.
In fact, he said the demands placed on boards these days will mean individuals will most likely sit on fewer boards -- not more. Boards now have a "much more active role than prior to Sarbanes-Oxley." The number of meetings is up, and so is the quality of preparation required for those meetings.
On the other hand, O'Hare said he could see the requirements on audit committees possibly creating the need for more full-time directors who can fill those specific spots.
"The financial expert is the category of director that's in greatest demand and also under the greatest scrutiny," he said.