

THE CORPORATE GOVERNANCE ALLIANCE DIGEST

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SPECIAL REPORT : **FUND MANAGERS PROVIDE** **VIEWS ON BOARD AND** **GOVERNANCE ISSUES FOR** **2003**

Published by: John M. Nash and Eleanor Bloxham. (John M. Nash is the founder of the corporate governance movement for independent directors, as founder, in 1977, and President emeritus of the National Association of Corporate Directors. Eleanor Bloxham is a pioneer in the area of economic value management and its application in good corporate governance, founder and President of The Value Alliance, and author of the book "Economic Value Management", published by John Wiley and Sons. Both Eleanor and John are Principals of the Corporate Governance Alliance.)

The Corporate Governance Alliance surveyed the State Retirement Funds, including Teachers Funds, to get their views on board practices and the important corporate governance issues in 2003.

THE GOOD NEWS

Over 70% of the Funds responding 'think boards will be more effective as a result of Sarbanes-Oxley and the new exchange rules' while less than 10% do not think so and the rest do not know.

2003 PLANS

Nearly 60% of the Funds 'plan to strengthen their review of corporate board practices when making investment decisions in 2003;' approximately 1/4 do not plan to and the rest do not know.

30% of the Funds do not 'plan to take advantage of the access to audit committees afforded under Sarbanes-Oxley in order to raise issues of financial reporting or disclosure'; while over 40%

responded 'yes, as needed' and the rest 'did not know.'

PRIORITIES IN 2003

The Funds provided their views on how important the following were to them, ranking each item on a scale of 1 to 10, where 1 is not at all important and 10 is extremely important/"top priority"

(1) FINANCIAL DISCLOSURE received an average score of 9.9.

(2) BOARD CULTURE, PROCESS AND EDUCATION received an average score of 7.8. (1/3 gave it a 10.)

(3) PAY FOR PERFORMANCE received an average score of 7.3. (Almost 40% gave it a 9 or 10; and nearly 30% gave it a 10.)

SEPARATION AND INDEPENDENCE

A full 70% 'believe a board with a separate CEO and Chairman and composed of independent directors (besides the CEO) would be more effective' overseers. Approximately 20% did not and the rest do not know.

THE CFO AND THE AUDIT COMMITTEE

Almost 50% think 'it would be useful to have a dotted line relationship between the CFO and the audit committee' while 1/3 do not know and less than 20% do not think so.

SKILLS IMPORTANT TO THE AUDIT COMMITTEE

The Funds believe the following skills are 'important for audit committee members' Over 90% believe accounting and risk management skills are important Nearly 90% believe auditing, business management and finance skills are important, and 42% think economics is an important skill.

RECOMMENDATIONS FOR BOARDS'PRIORITIES IN 2003

Suggestions reiterated the importance the Funds placed on financial disclosure, pay for performance, and board culture, process and education.

The comments emphasized transparency and integrity in reporting, review of existing pay programs, the need for independence and separation of roles, and board focus not only in meeting legal requirements, but also on ethics and the appearance of impropriety. The recommendations included hiring suggestions such as 'don't hire rock star CEO/CFO/COOs' and the need for board and CEO evaluations. Other suggestions included ensuring that the board insists upon getting the information it needs, a focus on long term results and plans, and the establishment and re-evaluation of appropriate educational and governance programs.

As a director, do you have 10 questions to ask - and only time to ask 2? We help boards put in place straightforward processes to get the answers to the other 8, efficiently, so the remaining 2, which are also critical can be answered in committee and board sessions. Implementing strong processes can help prevent liability issues and concerns. For more information, please call, email or visit

www.corporategovernancealliance.com