A valuable appendage

Clearly, the role of the executive committee has diminished substantially for a number of reasons, including the improvement in telecommunications (making more people available for emergency conversations), the greater accountability assigned to each individual member of a board, and the declining size of boards. While I would never want to serve on a board that had a two-tier structure ("some members more equal than others"), this was never a circumstance I encountered.

Augustine: Important in times of true crisis.

I do believe there continues to be a role for executive committees, albeit a much diminished one. I also believe that they should contain no inside members other than the CEO. The executive committees on which I serve very rarely meet, and it would be my expectation that they would do so only under rather special circumstances.

Principal among these would be a case where there was an administrative action to be taken that did not warrant "assembling" the entire board. One example would be where the board itself had approved — contingent upon some administrative matter occurring — a transaction that was to take place before the next board meeting. In this case the executive committee would, in effect, be delegated the authority of the board to take the formal approval action.

The other important role that I see for an executive committee is to act not on behalf of the board, but in support of the board, during times of true crisis when meetings are often taking place virtually every day. Having been with a company that survived a hostile takeover attempt against it and two companies that were involved in mergers of equals, I have some appreciation of the amount of work that must be accomplished which in no way usurps the authority of the board as a whole. Whenever a truly significant decision is to be made, the entire board can and should, of course, be gathered.

In short, rather than viewing the executive committee as the vestigial appendage, I would view it as a valuable appendage — with the important caveats noted above. But I would emphasize that the role of the executive committee is an extremely limited one and indeed is diminishing in the post-Sarbanes-Oxley era.

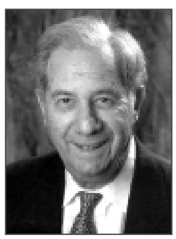
Interestingly, while the demands on board committees are certainly increasing, as everyone expected, so too is the interest of all board members in being involved in the key actions of those committees.

— Norman Augustine, chairman of the executive committee, Lockheed-Martin Corp.

New power centers

I have not seen any data, but my limited experience and gut feel is that, in the typical case where a board still has an executive committee, it is not active. I know of several executive committees that have not held a single meeting in the last few years.

There are a few reasons. The first involves technology and precedes Sarbanes-Oxley. It is so easy for the full board, on short notice, to have a telephonic (or even video) meeting. By fax, e-mail, or FedEx, all of the key materials can be distributed in advance of the meeting. Secondly, some of the larger boards have reduced their membership, so the entire board is the counterpart of the old executive committee.



Weidenbaum: Not a single meeting held.

Moreover, in the last few years, new power centers within the board — the audit and governance committees — have replaced the executive committee's key roles.

— Murray Weidenbaum, honorary chairman of the Weidenbaum Center on the Economy, Government, and Public Policy, Washington University, St. Louis.

Taking on added importance

Despite the rat's maze of activity needed to comply with the reporting elements of the Sarbanes-Oxley Act, SOX is really no big deal, especially if the CEO knows the company always does the right thing all of the time. In reality, SOX was designed to help those who don't know if their companies are doing the right thing and to identify those who don't want to do the right thing. The brute simplicity of SOX is the desire to hold the CEO of a company liable for the things a CEO should be liable for.

Boiled down, SOX asks those in charge (mainly the CEO) of governing a company to certify three things: 1) the financial numbers issued by the company are as accurate as they can be, 2) there are controls and a process in place to assure the numbers issued are as accurate as they can be, and 3) all of the numbers and information issued are available to all interested parties on a uniform basis.

MacDonald: A useful 'kitchen cabinet.'

With this mandate, the executive committee may, in fact, become more important to corporate governance under SOX.

Modern communication technology makes it just as easy for the entire board to become involved with an issue. Despite the technology capabilities, the busy pace and time constraints of most directors make it extremely difficult, if not impossible, to deal with each and every detail of a company. Nor should they be expected to do so. An efficient, well-balanced, and properly used executive committee can be an effective tool not only to approve management actions between board meetings but also to assist management as decisions are made and actions taken. Experience has shown that an executive committee can be a useful "kitchen cabinet" for the CEO and senior management of a company.

The reality is that an effective executive committee will make it easier to comply with the intentions of SOX. Of course, if management and the board do not use the executive committee efficiently and effectively, then maybe it should be revamped or eliminated. But, that should be done for the reasons of good management, not out of fear of or to act in accordance with artificial, man-made compliance guidelines. Good management makes good laws, not the other way around.

— Robert W. MacDonald, president, CTW Consulting, Minneapolis, and retired chairman and CEO of Allianz Life.