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Introduction

This chapter provides an overview of how the Boards of U.S. public corporations operate today and are changing in light of new legislation, regulations, and guidelines. We begin by providing an overview of the key elements of governance reforms. We then present a framework, derived from the literature on group effectiveness, to analyze the key elements needed for creating a successful board. The main body of the chapter is devoted to analyzing the results of the 2004 version of an annual survey of the directors of US public companies that we have been conducting since 1998 that gathers data on each of the categories in the board effectiveness framework. We conclude by analyzing the likely impact of these reforms on the effectiveness of corporate governance in the US.

US Corporate Governance Reforms

The Sarbanes-Oxley Act (SOX) was enacted quickly in 2002 to try to restore public confidence in the governance of public corporations. SOX was introduced quickly following a spate of high-profile corporate governance -- Enron, Worldcom, Tyco International – to try to restore some public and investor confidence in America's public corporations. It established a new Public Accounting Oversight Board, imposed new regulations regarding the auditing of public corporations, and instituted a number of new requirements for public company boards. The main changes are: all members of the Audit Committee must be independent directors; at least one member of the Audit Committee must be a "financial expert;" loans from the company to any director or executive are prohibited; any transactions relating to the company by directors must be disclosed.

In 2003, both the NYSE and NASDAQ adopted new corporate governance rules. The substance of these two sets of reforms is very similar, so we will summarize them together. First, listed companies must have a majority of independent directors. 'Independence' now means that individuals have "no material relationship with the company" – that is, that they are not recent employees, family members, nor part of interlocking directorships. Second, a number of practices related to board committees are mandated: for example, charters for nomination and compensation committees, and annual evaluations of committees; audit committees must establish an audit function, and all of their members be financially literate; only independent directors can serve on nominating and compensation committees; shareholders must be given an opportunity to vote on equity-compensation plans; boards must hold regular executive sessions with non-management directors; the full board must approve compensation packages and director nominations; corporate governance guidelines and a code of business ethics must be adopted; and boards must include training for directors and annual board evaluations.

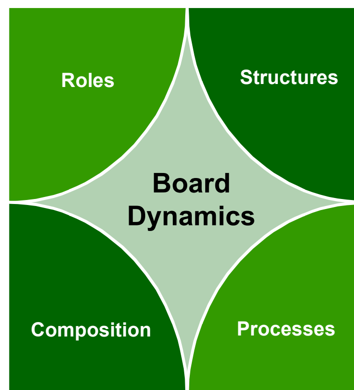
The common theme in these reforms is an agency-theory perspective that, by increasing the independence of directors, seeks to strengthen the role of the board as the representative of the company's shareholders. Though the reforms' emphasis on the monitoring function of boards aligns with the agency-theory focus of much of the board literature, it stands in contrast to the conclusions of most of the experts on corporate governance – i.e. Zahra and Pearce (1989), Johnston, Daily and Ellstrand (1996), Conger, Lawler and Finegold (2000) – who stress the multiple roles that boards play.

A comprehensive review of the last 15 years of research on corporate boards and company performance (Finegold, Hecht and Benson, forthcoming) finds that another common element in these reforms is that there is little evidence to suggest that any of the new practices

have had a demonstrably positive effect on corporate performance. This is not to say that they will be ineffective, but rather that none of these practices appear to have been derived from, nor to have received clear support from, corporate governance research.

Board Effectiveness Framework

To judge what impact these reforms are likely to have, it is important to understand the key element that shape how boards actually operate. Our work over the last decade has applied insights from research on knowledge work teams to the highest level group in an organization: the corporate board. We identify five organization design features that interact to impact governance effectiveness: roles, composition, structure, processes, and dynamics (see Figure 1).



Roles: This refers to the role the Board plays in key activities, such as providing strategic direction and counsel, monitoring financial performance of the corporation, evaluating and rewarding the CEO, planning for CEO and senior management succession, and preventing and managing crises. One of the key aspects in defining the Board's role lies in developing an understanding of the boundary between the Board and the management of the organization.

- Composition: The mix of skills and experience among Directors will influence the Board's ability to work effectively on different problems. It should align closely with the organization's strategy so that Board members can deal effectively with the challenges

their company is likely to face. A company that experiences growth through acquisition strategy, for example, needs a Board whose members have experience with integrating mergers and acquisitions, while a company looking to expand globally may place greater emphasis on Director awareness of foreign markets and cross-cultural issues. The extent to which Directors share common values and perspectives will significantly influence their interactions. Board composition issues also include Director term and age limits, and restrictions to serve on other Boards.

- Structure: This refers to how the Board is organized to carry out its work, including Board size, leadership, and committee structure and composition. There are some limitations on Board structure imposed by statute, stock exchange regulations, and even by a company's by-laws.
- Processes: These involve the mechanisms by which the Board does its work and include the meeting structure, agenda management, pre-readings, presentations, and process for making decisions. Board assessment – one key process – is now required by the New York Stock Exchange (NYSE) for all companies listed on the exchange.
- Dynamics: The dynamics of the Board members' interactions are represented at the center of the figure above because they impact the overall effectiveness of the Board. Are Board discussions open and candid or secret and perfunctory? Do all Board members participate in decision-making, or does the Board tend to polarize into opposing camps? It's vital for the Board to identify the patterns of behavior that are critical to its effective performance.

Research Methods

In order, to identify how US firms have responded to these governance reforms, we have worked with Mercer Delta to survey board practices. We sent a survey to all of the directors on the boards of public *Fortune 1000* in 2003 and again in 2004. Directors who sit on more than one Board were asked to fill in the survey for the largest U.S. company on which they serve as a Director. In 2004, we received responses from 221 Directors, from approximately 200 different firms. Twelve percent (12%) of the respondents are CEOs/Chairs, 3% inside Directors, 72% outside Directors, 4% CEOs/Non-chairs, 3% non-executive chairs, 5% lead directors and 2% other. Directors serve on an average of 2.5 boards.

Most of the questions were answered on 1-5 Likert scales. To simplify the reporting of the results, choices 4 or 5 on these 5-point scales are treated as a "favorable" response.

Board Roles and Effectiveness

In response to the many new governance reforms, boards in the United States appear to be focusing more on monitoring the financial accounting and ethical behavior of their companies, with less time to devote to the many other ways in which boards can add value. This reinforces the historical trends within US boardrooms, as directors indicate that monitoring has always been the area where their boards are most effective.

The vast majority (91%) of the Directors rated their boards highly on overall effectiveness, but gave much higher scores on monitoring than other board roles (see Table 1). Boards were seen as most effective at providing fiduciary oversight (94%), with slightly lower, but still very positive ratings (87%) on monitoring ethical behavior. In contrast, only 63% of the Directors responded favorably when asked to rate their Boards' effectiveness in shaping long-term strategy. This is an improvement over the 2003 results (55%), but still a low number. The

results are similar for identifying threats and opportunities. CEO succession is another area where boards could strengthen their involvement, although there was a significant improvement from 2003 (up from 50% to 69%).   In particular, only 26% of the Directors responded favorably when asked to rate the extent to which their Boards participate in the development of internal candidates for future senior management positions. This is only slightly better than the 2003 results of 21%.

The good news appears to be that the greater focus on boards monitoring management does not appear to have undermined their ability to work well together Despite greater focus on board independence, only 8% of respondents felt that it had become much "more difficult for outside Directors to work in close partnership with management."

Table 1
Board Roles and Effectiveness

Rate the effectiveness of the Board on the following areas:	Very Ineffective	Ineffective	Somewhat Effective	Effective	Very Effective	% Favorable (% of Directors who responded Effective/Very Effective)
Overall, how effective do you consider the Board to be?	1%	0%	8%	60%	31%	91%
Monitoring the firm's financial performance	1%	1%	4%	41%	53%	94%
Representing the interest of shareholders	1%	0%	5%	45%	49%	94%
Advising during major decisions such as mergers or acquisitions	1%	1%	10%	41%	46%	87%
Ensuring ethical behavior within the company	0%	1%	11%	51%	36%	87%
Shaping long-term strategy	1%	6%	29%	47%	16%	63%
Identifying possible threats or opportunities critical to the future of the company	0%	4%	31%	46%	18%	64%
How effective is the Board in planning for CEO succession?	3%	5%	23%	47%	22%	69%

Responsibility to Stakeholders

One of the major distinctions between European and U.S. models of governance is whose interests boards are serving. Although most U.S. states, like European countries, have laws that indicate boards should take into account the interests of all relevant stakeholders when overseeing the company, in practice, as our survey show, most U.S. public companies put a much greater emphasis on the interests of the owners than other stakeholders (see Table 2). Interestingly, directors draw a sharp distinction between long-term shareholders, who they feel they owe the "most duty to" (62%) and institutional investors (24% owe most duty to). One quarter (25%) of Directors feel they owe the most duty to employees and less than one quarter to other stakeholders.

Table 2
To Whom Are Boards Responsible?

As a Board member, how responsible to the following groups do you feel?	Owe No Duty To		Owe Some Duty To		Owe Most Duty To
Long-term shareholders	0%	0%	7%	31%	62%
Institutional investors	1%	2%	18%	54%	24%
Employees	0%	1%	19%	55%	25%
Government/regulators	1%	10%	31%	40%	19%
Communities where company operates	1%	13%	41%	35%	10%
Top management team	0%	10%	31%	40%	19%

Board Composition

The average size of US Boards is 10.6 members. The average number of inside Directors is 2.2 and the average number of outside Directors is 8.4. Despite the emphasis in recent reforms on increasing director independence, the size and composition of the average board has not changed significantly from 2001. While the average large US company board includes only one

other company executive besides the CEO, members of the top management team regularly participate in board meetings, with the CFO and Chief Counsel most likely to attend.

Table 3
Top Management Participation in Board Meetings

How often do the following Non-Directors attend Board meetings?	Never	Rarely	Sometimes	Often	Always	On Board
Chief counsel	1%	3%	4%	7%	85%	3%
Business unit heads	0%	4%	22%	43%	31%	0%
Head of HR	6%	19%	35%	22%	19%	1%
CFO	0%	0%	1%	8%	91%	7%
CIO	8%	28%	40%	15%	9%	0%
Head of Marketing	10%	29%	37%	15%	9%	0%
Other executives	0%	10%	51%	28%	11%	1%

The reforms are having an impact on the ability of boards to recruit new members (see Table 4). Over one-third of the Directors said that it is more difficult to recruit qualified Directors and over half of Boards are significantly broadening their search for individuals to serve as Directors. Thirty percent (30%) of Directors also suggest that they are now considerably more hesitant to be on a Board. A growing percentage (74%) feel their Boards have an effective process for selecting new members, an increase from 62% in 2003.

Table 4
Recruiting Directors

As the result of the changes in corporate governance, to what extent is each of the following statements true?	To a Very Small Extent	To a Small Extent	To Some Extent	To a Great Extent	To a Very Great Extent	% of Directors who responded To a Great Extent/To a Very Great Extent
It is more difficult to recruit qualified Directors	14%	14%	35%	28%	9%	37%
Boards are broadening their search for individuals to serve as Directors	1%	7%	38%	44%	10%	54%
I am more hesitant to be on Boards than I was before	21%	18%	36%	14%	12%	26%
Does the Board have an effective process for selecting new members?	2%	5%	19%	47%	27%	74%

Even though it is getting harder to attract qualified directors, companies are imposing more limits on who can serve on their boards. The large majority of Boards surveyed (74%) have age limits for Directors, and a few have term limits (82% report that they do not have term limits for Directors). Although term limits are not a common practice, the number of Boards imposing them has more than doubled from 9% in 2000 to 18% in 2004. Interestingly, 36% of Directors said that their Boards had considered it and decided not to adopt term limits.

Imposing limits on the number of other Boards on which the Directors can serve is still not a popular practice, but it is rapidly increasing. Fifty percent (50%) have limits on the number of Boards CEOs can serve on, up from 28% in 2001. Thirty-seven percent (37%) have limits on the number of Boards outside Directors can serve on, which represents a major increase from just 3% in 2001. Among those who said they have no limits, the majority indicated that their Board has never considered this practice for either the CEO or outside Directors.

In addition to recruiting new members, the other way that boards can add to the capabilities of their directors is by investing in training and development. Interestingly, although Director roles and responsibilities and governance requirements have been transformed in recent

years, only 68% of the respondents said they have any form of regular training. Seventeen percent (17%) report they began the training in the last year.

Table 5
Board Composition and Capabilities

	YES		NO			
Please indicate whether the Board currently has the following practices:	Yes, has for more than a year	Yes, have adopted in the last year	Adoption is currently being considered	No, considered and decided not to adopt	No, never considered	No, had it and decided to eliminate
Term limits for Directors	16%	2%	1%	36%	43%	2%
Age limits for Directors	74%	3%	2%	6%	14%	1%
A limit to the number of other Boards on which the *CEO* can serve as an outside Director	39%	11%	7%	14%	28%	0%
A limit to the number of other Boards on which *outside Directors* can serve	23%	14%	7%	20%	35%	1%
Regular education and training for Directors	51%	17%	14%	4%	14%	0%

Board Leadership

One of the main factors that has historically distinguished US corporate boards from their counterparts in most other countries is the much greater power that resides in the CEO, who also serves as Chair of the board in the large majority of firms. While this concentration of power has not been directly challenged by recent US governance reforms, we are witnessing significant shifts to providing greater independent leadership for the board as more firms split this role (29% have non-executive chair) or appoint an outside director to serve as a lead or presiding director (up from 21% in 2001 to 75% in 2004) (see Table 6). For those firms that have a Lead or Presiding Director our survey revealed, that just over one-third of boards rotate this position. The most common roles played by lead directors are chairing executives sessions and communicating with the CEO between meetings, while they are much less likely to set the

agenda, preside at board meetings or communicate with other leaders in the firm between meetings (see Table 7).

Our analysis of the data revealed that Boards with a separate, non-executive Chair or a Lead or Presiding Director are significantly more likely to adopt a series of good governance practices that help build board capabilities, including:

- Evaluations of the Board and individual Directors
- Training for Directors on their role and the firm's strategy
- Annual strategic retreats and regular executive sessions
- Having Board committees, rather than the CEO, control the selection of new Directors and committee members

Table 6
Board Leaderhsip

Please indicate whether the Board currently has the following practices:	YES		NO			
	Yes, has for more than a year	Yes, have adopted in the last year	Adoption is currently being considered	No, considered and decided not to adopt	No, never considered	No, had it and decided to eliminate
Non-Executive Chair…………………….	23%	6%	1%	33%	30%	6%
An independent Director who provides leadership to the Board (e.g., lead Director, presiding Director)	65%	10%	3%	10%	11%	1%

Table 7

Roles of Lead or Presiding Directors

If the Board has a Lead Director, Presiding Director, or Non-Executive Chair, please indicate what role this person plays:	% Yes
Chairs executive sessions	64%
Communicates with CEO between meetings	55%
Leads the Board in the event of a crisis	41%
Mentors the CEO	38%
Communicates with outside Directors between meetings	35%
Communicates with other company leaders between meetings	22%
Sets the meeting agenda	22%
Presides at Board meetings	12%
Represents the Board in external communications with the media, shareholders, etc	9%
Other	2%

Committees

The growing time demands on boards resulting from the reforms have forced them to rely more heavily on committees. The vast majority of directors agree that committees are becoming more important (77%) and doing more work (84%) and in general they are very positive about the role these Committees play. Nearly all directors believe their boards have the right committees in place (96%) and that committee assignments utilize the skills and experiences of Board members (95%).

Table 8
Board Committees

To what extent:	To a Very Small Extent	To a Small Extent	To Some Extent	To a Great Extent	To a Very Great Extent	% Favorable (% of Directors who responded To a Great Extent/To a Very Great Extent)
Do committee assignments effectively utilize the skills and experience of Board members?............	0%	0%	5%	55%	40%	95%
Does the Board have the right committee………..	0%	0%	3%	40%	56%	96%
Committees are doing more work………………….	1%	2%	13%	47%	37%	84%
Committees are more important……………………	3%	3%	18%	43%	32%	7%

Time Spent on Board Matters

One of the most direct impacts of governance reforms and the new environment in which Boards are operating is to increase the time directors are spending on Board activities. The average estimated time directors spent on Board matters (including review, preparation time, meeting attendance, and travel) was 188 hours in 2004, up from 156 hours in 2001. When asked to compare the time they spent last year with the previous year, 62% said it was more, 36% said it was about the same, and only 1% said it was less. As a consequence, Directors are serving on fewer board, with the average director serving on two public Boards.

Board Information and Communication

One of the ways in which CEOs have historically often controlled their boards is to limit the flow and timing of information they receive, often giving them a stack of materials just before a meeting, with insufficient time for Directors to analyze it well and ask penetrating questions. Thankfully this pattern of behavior seems largely to be a thing of the past, as directors generally expressed very positive views about the information that they receive from management (see Table 9). One practice that may have contributed to better informed directors is conducting an annual retreat in which the Board and top management can discuss the

company's strategy in much greater detail than is possible in a typical board meeting, a practice now adopted by two-thirds of Boards, including 11% which have held their first retreat in the last year. In addition, 65% of Directors said that Board members and the CEO communicate between scheduled meetings to a great or very great extent. Few boards, however, have gone the next step and developed channels of information about the company's operations and management that are independent of the CEO (only 27% of firms) or instituted a requirement that directors regularly visit company operations (46%).

Table 9
Board Information

To what extent:	To a Very Small Extent	To a Small Extent	To Some Extent	To a Great Extent	To a Very Great Extent	% Favorable (% of Directors who responded To a Great Extent/To a Very Great Extent)
Does the Board receive sufficient information to carry out its responsibilities?	0%	0%	5%	45%	50%	95%
Does the CEO keep the Board informed about significant matters affecting the company?	0%	0%	4%	33%	63%	96%
Is the Board kept informed of key risks facing the company?	0%	0%	11%	43%	46%	89%
Do Board members and the CEO communicate between scheduled meetings?	0%	6%	29%	43%	22%	65%
Does the Board have independent information channels that provide useful information about company operations and management practices?	3%	24%	46%	20%	7%	27%

Board and Individual Director Evaluation

We have argued for many years that conducting a regular evaluation of the board and its members is one clear mechanism for fostering the continuous improvement of governance within a firm (Conger, Lawler, and Finegold, 1998). At the end of 2004, NYSE's new governance rules went into effect, requiring boards listed on the Exchange to conduct a regular self-evaluation of the performance of the Board and its committees. Seventy one percent (71%) of the Directors

responded favorably when asked to rate the effectiveness of the Board evaluation process employed by their Boards. Directors are far less positive about the evaluation of individual directors. This may reflect the lack of a formal process for evaluating individual directors in most firms (only 19% had one in 2003), and the frequent reliance solely on self-evaluation among those firms that do individual director evaluations.

Table 10
Board and Director Evaluations

Overall, how effective is the…	Very Ineffective	Ineffective	Somewhat Effective	Effective	Very Effective	Don't have one	% Favorable (% of Directors who responded Effective/Very Effective)
Board evaluation process?	1%	6%	22%	49%	22%	0%	71%
Evaluation of individual Directors?	5%	13%	38%	34%	9%	19%	43%

CEO and Board Performance Management and Compensation

Boards in the US finally appear to be responding to the growing public and investor pressure to crack down on excessive CEO pay that is poorly linked to individual or company performance. The days of doling out large reward packages that are not benchmarked to clear performance targets may be numbered, as signaled by bell weather companies like General Electric, which announced in 2003 that it was replacing all stock grants and options in Jeff Immelt's compensation with "performance share units." These units vest in five years base on two metrics: 50% based on meeting or exceeding the overall shareholder returns of the S&P 500 and 50% based on average annual operating cash flow growth exceeding 10%.

In our survey, 97% of Directors reported that they have a formal process for evaluating the CEO's performance in 2004, up from 79% in 2003 and 67% in 2001. Furthermore, as shown in the table below, when asked to rate the effectiveness of the CEO's compensation plan and the

process for evaluating the CEO's performance, Directors responded favorably (88% and 80% respectively). Directors were slightly less positive about the Board's compensation plan (77% favorable ratings), despite the fact that average compensation for an individual director has climbed to close $110,000/year.

Table 11
CEO and Board Performance Management

	Very Ineffective	Ineffective	Somewhat Effective	Effective	Very Effective	Don't have one	% Favorable (% of Directors who responded Effective/Very Effective)
Overall, how effective is the CEO performance evaluation process employed by the Board?	0%	2%	17%	40%	40%	3%	80%
How effective is the company's compensation plan for its CEO?	0%	1%	10%	52%	36%	NA	88%
How effective is the Board's compensation plan?	0%	1%	21%	55%	22%	NA	77%

Board Dynamics

Director Independence

A common objective underlying all of the recent governance reforms has been to try to increase the power of Boards relative to management. Our survey results suggest that most US Directors (93%) already feel that their Boards are very independent from management, and that this independence has been growing, up from 86% in 2003. In addition, 87% of Directors responded favorably when asked to rate the extent to which their Board members act with courage and take appropriate action as needed, compared to only 70% who felt their Board members voice opinions that conflict with the CEO's view. Through the Nominating or Governance Committee, the Board is now exercising greater control over the choice of new directors and committee chairs, although the CEO/Chair has significantly more influence over

the latter decision. One practice that has contributed to board independence is having regular executive sessions where only outside directors are present (a requirement in the reforms that 95% of firms had adopted by 2004) and holding an their Boards highly when asked to evaluate the extent to which their Boards are independent of management.

Table 12
Board Independence

To what extent:	To a Very Small Extent	To a Small Extent	To Some Extent	To a Great Extent	To a Very Great Extent	% Favorable (% of Directors who responded To a Great Extent/To a Very Great Extent)
Is the Board independent of management?	1%	2%	5%	28%	65%	93%
Do Board members act with courage and take appropriate action as needed?	0%	1%	11%	56%	31%	87%
Do Board members voice opinions that conflict with the CEO's view?	1%	4%	25%	46%	24%	70%

Table 13
Influence Over Board Staffing

Who has the most influence in determining…	New Directors	Committee Chairs
Nominating/Governance committee	71%	43%
CEO	14%	30%
Full Board	8%	8%
Non-Executive Chair/Lead Director	5%	16%
Shareholders	1%	0%
Other	1%	2%

Changes in Board Dynamics, Practices, and Perceived Effectiveness

In addition to documenting the effects the corporate governance reforms are already having in US boardrooms, we also asked Directors their opinions of the likely impact that these reforms would or have had on Board effectiveness (see Table 14). Those that were thought to be having the most positive impact were: having a majority of independent Directors, Having a

financial expert on the Board, and having only independent Directors on the Compensation and Audit Committees. In contrast, proposals to increase the ability of shareholders to nominate Directors was perceived to have a negative impact on corporate governance.

Table 14
Perceived Impact of Governance Reforms

How do you think the following practices impact corporate governance?	Very Negative	Negative	Neither Negative nor Positive	Positive	Very Positive	% of Directors who responded Positive or Very Positive
Having a majority of independent Directors	0%	1%	6%	28%	65%	93%
Having a financial expert on the Board	0%	0%	19%	50%	31%	81%
Having only Independent Directors on the Audit committee	0%	2%	12%	44%	42%	86%
Having only Independent Directors on the Compensation Committee	0%	1%	13%	46%	40%	86%
Increasing the ability of shareholders to nominate Directors	16%	42%	33%	8%	1%	9%

On the hotly contested issue of whether to separate the roles of Chair and CEO, requiring a non-executive Director was seen as likely to have a slightly negative effect on board and company performance. Directors felt it would reduce CEO power and make it harder to attract a good CEO.

Factors Related to Board Effectiveness

In addition to wanting to identify what current trends Directors perceive will have the greatest impact on corporate governance, we also wanted to understand what current board practices and dynamics make for a more effective board. Board members rated the following practices and processes as being significantly related to greater board effectiveness:

- Requirement that outside Directors visit company operations during the year
- Regular executive sessions for outside Directors

- Requirement that Directors purchase company stock
- Holding an annual strategic retreat
- Regular education and training for the Board
- Independent legal counsel for Directors
- Board has its own outside consultants/advisors
- Board has good process for monitoring non-financial performance of company
- Board has "good information" - i.e. informed about key risks, maintaining independent communication channels with operating company
- Leadership role of the Chair - i.e. Chair encourages "frank and open exchange of ideas during Board meetings"
- Board has power relative to CEO - i.e.Board influences meeting agenda and Directors feel able to "voice opinions that conflict with the CEO's view"
- Board feels responsible to non-owner stakeholders (employees, communities, regulators, management)
- Board has power relative to CEO in making committee assignments and appointing new Directors

- When combined in a regression analysis these processes and practices explain over half (51%) of the variation in perceived effectiveness across boards. The most significant explanatory factors, in order of importance, were:

- The quality of information available to the board

- Having consultants/advisors to the board
- Strong leadership from the Chair

Conclusions

Evidence from the 2004 Board Survey clearly indicates that regulators' efforts to increase the power of boards relative to management appear to be paying off. The changes in the boardroom - such as requiring a majority of independent Directors, increased use of executive sessions and mandating responsibility for director nomination to a committee comprised of independent Board members- are all contributing to greater Board independence. Directors indicate, for example, that they have significantly greater influence over the meeting agenda and the nomination of new board members and committee Chairs than in 2003.

The good news is that despite Boards' greater influence and independence, a large majority of Directors (70%) do not feel it is becoming more difficult to work in close partnership with management. Given the time spent on complying with the new reforms, it is not surprising that Directors rate their boards as far more effective at the monitoring function than in helping to shape strategy or plan for CEO succession. However, it is encouraging that perceived effectiveness in both of these areas has improved in the last year given their relative importance, suggesting that Boards are now feeling comfortable in the area of compliance and are turning greater attention to the more critical aspects of governance.

The increased time demands and liability risks for Directors, along with growing company efforts to limit the number of outside Boards that their CEOs can sit on, however, are making it much harder to recruit new Directors. Companies have responded by increasing Director compensation and broadening their search criteria for new Directors.

One final point, the first Bush Administration (2000 to 2004) struggled to create new, high-paying jobs in the post-9/11 economy. One successful stimulant was the passage of a piece of legislation that was never intended to be about job creation. SOX might have been aptly named "The Financial Service Job Creation Act of 2001", since an unintended consequence of SOX's new requirements has been to generate thousands of new jobs for accountants and consultants. SOX and the ensuing governance reforms enacted by the New York Stock Exchange (NYSE) and NASDAQ, as well as changes instituted by the SEC, have created a lucrative new line of business, as large public companies have spent $5-8 million on average to come into compliance with the new regulations. Consultants have been spending thousands of hours putting in place and/or documenting existing systems and processes to detect any financial or ethical improprieties so that the CEO and CFO can personally certify that the audit of their firm is complete and accurate, resulting in an average increase of over 100% in the audit revenues of the Big Four accounting firms (Parker, 2005). Executives have a strong personal incentive to invest heavily in documentation of these monitoring practices since they face personal imprisonment if unethical behavior occurs and adequate controls are later shown not to have been in place.

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