

Management and Board Governance: A Look Ahead

By Robert L. Pearson

CEO and founder, Pearson Partners International, Inc.

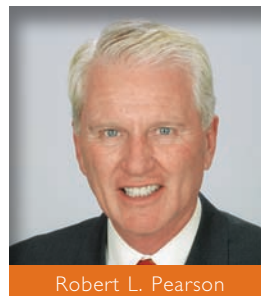
The School of Management's Institute for Excellence in Corporate Governance (IECG) has formed an alliance with Pearson Partners International, Inc., executive search consultants, to identify and evaluate trends in business and governance. Information produced by this alliance will be disseminated to corporate directors and executives.

The alliance started with a meeting last October between three SOM professors, Drs. Mark Anderson, Constantine Konstans and Suresh Radhakrishnan, and prominent business leaders who are members of Pearson Partners' advisory board. Participants were asked to consider how the roles of CEOs and board members would change in the next three to five years given the business outlook and major risks facing their companies. Discussion evolved around risks and opportunities posed by information technology and funding constraints.

Boards of directors of many major companies are woefully uninformed about

information technology and the effect technology can have on risk management in such areas as data security, the group concluded. Participants agreed that the Internet and social networks are having and will continue to have a major effect on how businesses market their products. Regardless of segment, most businesses are being deeply impacted by electronic commerce. Updates on and awareness of technology-related issues should be a part of every board's continuing education program, they said.

Those meeting also discussed how a major risk facing boards today is the unpredictability of the availability of cash. It is unlikely, they agreed, that the majority of board members have a full appreciation of the risk behind the large number of loans over the last several years that have payment-in-kind (PIK) terms. A PIK loan is typically structured to accrue a high compound-interest rate. In addition, PIK loans carry sub-



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stantial refinancing risk, meaning that the cash flow of the borrower in the repayment period will usually not suffice to repay all monies owed if the company does not perform exceptionally well.

The professors and business leaders concurred that the economy still faces strong headwinds—with the possibility of more bank failures. Small business will be hit hardest by the loss of more failed banks, the group predicted, because they rely on banks for their lines of credit and for their SBA loans.

From an education perspective, there is a growing need for compliance officers, risk-management officers and ethics officers. The School of Management is ahead of the curve, participants said, because it offers courses in corporate governance, risk management, ethics, compliance and regulation.

For more information on IECG, visit <http://som.utdallas.edu/centers/iecg/>.



A Closer Look at Public-Private Cooperative Efforts

A recent workshop the Center for Finance Strategy Innovation held to explore the arrangements, responsibilities, risks, benefits and other aspects of ventures jointly undertaken by private businesses and government entities drew 80 participants to The School of Management March 25. Randolph Moravec (left), chief financial officer for the Town of Addison, Texas, talked to CFSI Director and SOM Finance Professor David Springate, at the "Financial Tools and Public-Private Partnerships" event, which featured two panel discussions, one addressing best practices for large infrastructure projects and a second session on non-traditional partnerships. CFSI has attracted administrators, policymakers and corporate executives alike to its recent forums in search of innovative and more productive economic development and finance solutions across markets. For more information, consult <http://som.utdallas.edu/centers/cfsil/>.