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Reader Profile

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*Editor's note: Each month, we ask a **Directors & Boards** reader to comment on critical issues facing directors today. If you'd like to participate in this section in the future, please email Scott Chase.*

As an independent director and audit committee member for three large companies, what value -- if any -- has Sarbanes-Oxley brought to the corporate governance venue?

It has always been my belief that Sarbanes-Oxley would be no more than an inconvenience to the well-run and effectively governed company. After all, when boiled down, Sarbanes-Oxley only asks that a company report correct numbers, have proven systems to make sure the numbers are accurate and information regarding the company is provided to everyone in the same manner and timing. These are certainly laudable objectives. For the most part, my experience has confirmed the initial feeling. Certainly Sarbanes-Oxley is an inconvenience for everyone involved with compliance, but it has forced even the best-run companies to take a serious look at the way their business is conducted and accounted for. I have seen management, accounting, the audit function and information technology areas go deeper than ever before in understanding and verifying the performance of responsibilities to management and the shareholders. In the vast majority of the cases no errors or wrongdoing have been discovered by this Sarbanes-Oxley audit exercise, but potential "weaknesses" in the process have been identified and corrected. This is a positive for all concerned.

Again, as an independent director and audit committee member, what do you see as the most significant "downside" to the implementation of Sarbanes-Oxley?

Aside from the tremendous increase in man-hour requirements and virtually runaway accounting expenses, for me the most disturbing impact of Sarbanes-Oxley has been the change in the various relationships that deal with corporate governance. When I was active as CEO of a public company the relationship between the management of the company and the independent auditor was one of "dynamic positive tension." My personal view of the independent auditor was as an asset to help me better run the company. I relied on them to either confirm the quality of information reported or identity potential issues. Once issues were identified (either by the company or the auditors) then management and the auditors would work to arrive at a reasonable solution, bearing in mind that the auditor always had the final say. Today that relationship cannot exist. Sarbanes-Oxley has created a "Hell with the women and children! Every man for himself" attitude. The relationship between the management of a company and the auditor has become a "dynamic negative conflict." Auditors are wary that any action taken in conjunction with management will lead to litigation and thus seem to view action of any sort as a potential threat. Management is reticent to be open with the auditors on any issue for fear of being tagged with a "material weakness" or "significant deficiency." In the long run, my fear is that this changed relationship between management and the external audit function will do more to hinder achieving the objectives of Sarbanes-Oxley than it will to help.

Do you have any concerns as a director on a personal basis regarding the impact of Sarbanes-Oxley?

Only the concern that Sarbanes-Oxley requires directors -- particularly audit committee members -- to certify knowledge of what is impossible to know. In an effort to sweep up all the loose ends and put them in one basket, Sarbanes-Oxley requires directors to become "the buck stops here" backstop for all issues. This is a time-constrained, intellectual and physically impossible situation for directors. To sign off on company activity with no reservations all directors would need to be top-flight managers, extreme legal eagles and highly proficient forensic accountants. The reality is that few if any directors have the time, access, intimate knowledge and expertise needed to comply with the specific obligations and responsibilities required under Sarbanes-Oxley. As a result, after all that can be done, when directors sign off on compliance it still comes down to trust in the management and the audit processes. The director has to say for sure something is true about something you can never for sure be sure is true. And, that's the simple truth of the Sarbanes-Oxley act.

Robert W. MacDonald entered the financial services field in 1965 as a life insurance agent for New England Mutual Life in Los Angeles, and retired in 2002 as CEO of Allianz Life of North America and as its chairman in late 2003.

In between, MacDonald, 61, built a successful sales agency for Jefferson-Pilot, served as director of marketing support for State Mutual of America, and was chief marketing officer, chief operating officer, then president and CEO of Minneapolis-based ITT Life. As president and CEO of ITT Life Insurance Corporation, he became one of the best known, most influential and controversial leaders in the life insurance industry. After seven years as chief executive of ITT Life, MacDonald struck out on his own to form a new life insurance company, LifeUSA, also in the Twin Cities.

As founder, chairman and CEO, MacDonald led LifeUSA as it became one of the fastest growing, best-known and most successful companies of the 1990s. From a start up in 1987 to the time Allianz AG of Munich, Germany acquired LifeUSA in 1999, the company developed into a profitable, publicly traded company with sales exceeding $1 billion, assets of more than $6 billion and over 80,000 agents contracted to represent the company.

In a transaction valued at $540 million, the financial giant Allianz AG acquired LifeUSA and merged it with the larger Allianz Life of North America. MacDonald was asked to continue on as CEO of the merged companies. Under his direction, Allianz Life virtually doubled in size and became a star performer in the Allianz worldwide group. Today, though retired from the day-to-day management of the company, MacDonald continues to serve as a director and member of the Allianz Life audit committee. In addition, he provides strategic marketing and management consulting to Allianz AG.

Along the way, MacDonald was the author of a book on the life insurance industry, Control Your Future *(National Underwriter Press). A second book,* Cheat To Win – The Honest Path to Success in Business and Life, *is to be published in 2005. He has been a speaker before over 100 organizations, written scores of articles dealing with management and the financial services industry and has been interviewed on countless television and radio shows. MacDonald and his philosophy has been profiled in scores of local and national publications, including* The Wall Street Journal, USAToday, Forbes, Business Week, American Banker *and* Institutional Investor. *MacDonald was the first person to be twice recognized as "Entrepreneur of the Year" in Minnesota.*

Mr. MacDonald holds a BSL degree from Western College of Law (Anaheim, CA) and the chartered life underwriter (CLU) designation from The American College (Bryn Mawr, PA).