

Transparent and Ethical Meetings

PMM5 Postscript™ Number 47

Background Information: In Chapter 39 of *Professional Meeting Management*®, fifth edition, author Tyra Hilliard broadly discusses ethics. In that chapter she:

- Explains why a code of ethics is important in the meeting industry
- Applies ethical principals and tests to meeting industry practices
- Analyzes the role of ethics in establishing best practices
- Assesses the ethical foundation of common meeting scenarios

One piece of legislation addressed within that chapter is the Sarbanes-Oxley Act (Hilliard, 2006, pp. 597-598).

PMM5 Postscriptä Use: The conduct of senior executives from WorldCom, Enron, and Tyco became the impetus for the Sarbanes-Oxley Act of 2002. Sarbanes-Oxley or SOX was designed to protect investors by requiring accuracy, reliability and accountability in all corporate information — especially financial information. That proper conduct extends to meetings and the management of meetings. This PMM5 Postscript™ offers meeting managers additional information about Sarbanes-Oxley. The PMM5 Postscript™ also includes additional group discussion or research projects to supplement the PMM5 chapter.

Learner Outcomes:

At the completion of this reading, you should be able to:

- Describe the Sarbanes-Oxley Act.
- Identify the implications for meetings and events.
- Organize board meetings to comply with Sarbanes-Oxley.
- Organize investor meetings to comply with Sarbanes-Oxley.
- List the five components for internal controls.

Related PMM5 Chapter:

Chapter 39, Ethics
Author: Tyra Hilliard, JD, CMP



Sarbanes-Oxley Overview

Sarbanes-Oxley was designed to protect investors by requiring accuracy, reliability and accountability in all corporate information — especially financial information. Meetings and the management of meetings is included in tracking and maintaining information. Sarbanes-Oxley is a long and complex law and even when referred to by its nickname, SOX, may seem a bit overwhelming. This introduction, which by no means constitutes legal or accounting advice, pares down SOX into manageable chunks.

Overview

The 2002 Sarbanes-Oxley Act became a law as Congress' attempt to rebuild public confidence in the way corporate America governs its business activities. The backdrop to the act was many corporate and accounting scandals including Enron and WorldCom. This law, passed by Congress in 2002, sets a new precedent for the way in which public companies function and insists that they comply with rigorous corporate governance requirements.

There are two areas of the law that are worth understanding: Section 302 and Section 404.

Section 302

Section 302 imposes much greater responsibility on top executives at public companies. Section 302 has the most profound impact for upper levels of management of public companies. Chief Executive Officers (CEOs) and Chief Financial Officers (CFOs) are now required to certify the financial statements as well as the internal controls of their company not just annually, but quarterly. This means they must take much greater responsibility than before to ensure that the company's annual and interim financial statements are fairly represented.

Section 404

Section 404 requires companies to gain an intimate understanding of their internal controls and their effectiveness. Companies are required to disclose publicly all significant deficiencies and material weaknesses relating to their internal controls in their periodic financial reports.

SOX Implications

Overall Impact

Senior management is accountable for financial reporting. CEOs and CFOs are now required to certify the financial statements as well as the internal controls of their company not just annually, but quarterly. If CEOs or CFOs misrepresent financial statements or the internal control environment, their personal assets are at risk, and they may face fines and/or imprisonment.

Companies must also publicly attest to their internal controls and their effectiveness. Companies are required to disclose publicly all significant deficiencies and material weaknesses relating to their internal controls in their financial reports. Companies must show that they establish, maintain and evaluate controls. Internal controls must be documented, tested and approved.

Meeting and Travel Impact

Companies must demonstrate the "business purpose" behind travel, meetings and even meals in restaurants. This requires much tighter documentation.

Contracts and obligations related to future meetings will be reported. One corporate meeting planner must report all contacts over a certain level for inclusion in the company financial statements. Also the potential expense of canceling contracts must be factored into the financial forecasts.

Purchasing departments will face much tighter controls on how they procure meeting space, hotel rooms, airline tickets, food and drink, and other related services.

Some companies now require more/multiple signatures on a contract. Signing authority may be established for certain dollar levels for meeting expenditures.

The concept of "internal controls" is embodied in a standard meeting policy. A study by Windward Marketing Group found that 42% of companies surveyed intend to create a meetings policy with 20% citing "reduced exposure to financial and security risk" as the reason (Sturken, 2004).

Due to their unique owner/manager split, many hotel companies will review their management contracts insuring transparency of their own internal controls. Hotels and leisure businesses must properly account for fixed assets under the SOX. These assets include real estate to beds, linen and crockery. Hotels must also show contracts booked with them as revenue. This means that hotel may be less willing to grant a cancellation without incurring a cancellation fee.

Meetings a Tool for Transparency

One of the underlying principles of SOX is to create a more transparent environment. Companies should not "hide" information. Many managers have committed to a new level of transparency in their business practices. Prompted by SOX and greater concern for business ethics, they've vowed to be open and offer full disclosure.

Meetings are one conduit for transparency. The challenge is what to convey and how. Create transparency by assessing:

- What are the key interests? In many cases, a company has a duty to both its staff and its business.
- What are the interests of the audiences who will hear this information? When it comes to staff, they'll want to know most concretely how the news might affect their livelihood. As much as is possible, they'll want to know what the future holds.
- What are some options for meeting those interests?
- What are standards of legitimacy?

Paul Michelman, editor of *Harvard Management Update* and author of the article "Sharing News That Might Be Bad" offers this advice, "If you don't take the offensive and word gets out on its own (and you know one day it will), you'll destroy all the trust and goodwill you've built" (Michelman, 2004).

SOX offers meeting planners yet another reason to follow the cycle of measurement: By setting appropriate outcomes, measuring results and communicating those results, a meeting manager will create transparency and accountability around meeting expenditures.

Building a Better Board/Board Meeting

The Sarbanes-Oxley Act has also redefined the role of the board directors. But a study by RHR International and The Directorship Search Group shows that implementing these new roles will take time and effort. Despite regulations laying out new and stricter responsibilities for board directors, many are still exhibiting pre-Enron behaviors.

"It's clear that not all board directors are fully engaged," says J.P. Donlon, editor-in-chief of Directorship. "For example, almost one-fourth do not visit with employees, customer or suppliers, which means their only source of information is what management tells them."

In many ways, the boardroom remains closed and clubby. Some examples from the survey (Bliss, Gouverneur & Associates, 2004):

- 94 percent of board members surveyed say they are confident in the judgment of their fellow directors. Just two-thirds say they do any evaluation of individual board members. And only 34% of directors report any intense dissent at regular board meetings.
- Only 30 percent of board members feel they have adequate time to prepare for meetings.
- Less than one third of board members meet four times per year without the CEO of the company present.
- 95 percent of board members say they are "mostly" or "absolutely" confident in the current CEO and nearly half say they have no succession plan in place.

Implications for board meetings:

- Encourage discussion and candor. Avoid groupthink.
- Allow board members adequate time to prepare.
- Create an evaluation process of board meetings.
- Schedule open and closed board meetings so that the CEO or in the case of associations, Executive Director, is not present.

Building a Better Annual Meeting

Annual shareholder meetings are attracting attention. Originally the annual shareholder meetings functioned as a part of company bylaws. However, the flavor of shareholder meetings have changed with:

- Global shareholder bases
- Large institutional investors
- Need for transparency
- Tight regulations regarding disclosure of information

A Conference Board study finds a general belief that annual general meetings need to be changed. The Conference Board's Global Corporate Governance Research Center convened global corporations and investors for a summit. Among the major suggestions for change presented by participants at the Corporate/Investor Summit held in London in May 2005 (Sarbanes Oxley Compliance Journal, 2005):

- Create a series of alternate forums where investors and corporate management can examine critical, long-term issues. Formal annual meetings do not lend themselves to serious, informal discussion.
- Allow shareholders to direct questions to the board but assure the process is orderly by having questions submitted prior to the meeting. This, it's suggested, would allow chairmen to run meetings more smoothly and avoid redundant questions and windy speeches.
- Establish virtual online annual general meetings with full voting rights for shareholders.

Ethics Noted

All meetings from board meetings to incentive meetings fall under the SOX legislation. The experience of Securian Financial Group is noteworthy because of its spill-off to meetings.

The commission and incentive practices of insurance companies came under Elliott Spitzer's scrutiny in 2004 and 2005. Securian Financial Group Inc. was praised for its refusal to do business with certain brokers because of concerns about undisclosed compensation (any form of compensation, including sales incentives, not made public to consumers). Recognition program along with incentive conferences are critical in this industry. Koleen Roach, director of recognition and conference planning, had been heavily involved in overhauling Securian's entire recognition program in light of new NASD rules regarding noncash compensation. When the rules were first published in 1998, she says, "we didn't spend much time thinking, 'How do we keep our existing programs exactly the same but still remain compliant?'" The fact of the matter was, we couldn't keep things the same" (Hall, 2007).

Creeping SOX

Although Sarbanes-Oxley governs only public companies (those registered with the Securities and Exchange Commission), it will soon evolve into a best practice for all companies. According to PricewaterhouseCoopers, Trendsetter Barometer, in a January 2006 survey of the CEOs of "fast-growing" private companies, 27% said their companies had adopted Sarbanes-Oxley best practices in areas such as governance and transparency (Savich, 2006).

A study by Foley & Lardner finds private firms are feeling the pressure to conform to the new standards. As of 2005, private firms are making the following moves (Foley & Lardner, 2005):

- 78 percent have self-imposed company governance reforms, up from 60 percent in 2004.
- 97 percent of non-profit organizations plan to implement audit committee oversight.
- 59 percent of non-profits plan to implement restrictions on executive compensation.

New Ways of Working

A survey from Accenture suggests that more firms are beginning to outsource their finance functions — with positive results.

"The findings show that executives increasingly believe that the outsourcing of the finance function can enhance an organization's ability to ensure effective governance and compliance," says Barbara Duganier, vice president at Accenture Finance Solutions. "We believe that this significant shift in mindset is led by companies that have already outsourced their finance functions. As companies seek to achieve high performance in their business, we expect that trend to continue." (Accenture, 2005)

Hotels may be one company that seeks to change its operational practices through outsourcing. Those hotel companies who have implemented a 'shared service center' model to manage activities such as accounts payable and receivable, and cash management are already starting to reap the rewards, not simply in terms of cost savings, but also in their ability to demonstrate Sarbanes-Oxley compliance.

Controls and Meeting Management Policies

When writing a Strategic Meetings Management Policy, meeting managers can adapt the 'Internal Control Integrated Framework' from The Committee of Sponsoring Organizations (COSO). This group publishes a generally accepted universal framework for assessing controls.

The COSO framework identifies five components of control, which when integrated and operating within an organization, will help achieve internal control objectives:

- Monitoring
- Information and communication
- Control activities
- Risk assessment
- The control environment

It also categorizes internal control objectives into:

- Efficiency and effectiveness of operations
- Financial reporting
- Compliance with laws and regulations

The PMM5 Postscript™ Number 7 addresses creating a Strategic Meeting Management Policy.

Summary

Sarbanes-Oxley affects meeting managers in two ways. First, meeting managers must run their meetings area (department, group, etc.) with the necessary controls. Secondly, the meetings themselves must be conducted above board. Meetings must be transparent. Meetings must be justified as a business expense.

SOX offers meeting planners yet another reason to follow the cycle of measurement: By setting appropriate outcomes, measuring results and communicating those results, a meeting manager will create transparency and accountability around meeting activities, expenditures and outcomes.

Adhering to the spirit and letter of the law behind SOX will allow a meeting manager to effectively manage their department and serve their organization for the long-term.

Group Discussion or Projects

1. Can a meeting manager justify a luxurious meeting site for a meeting? How?
2. Many public companies have adopted a code of ethics in the wake of SOX, and have made them applicable to all employees — not just financial executives, as the law requires. A code of ethics may deal with situations such as whether employees may accept gifts or benefits from suppliers. How would this impact a meeting manager?
3. Sarbanes-Oxley entails closer scrutiny of meeting costs. How should a meeting manager prepare for this?
4. How might a meeting manager substantiate FAM trips and site-selection visits as a necessity? Explain how an auditor might perceive these trips.
5. What policies should a meeting manager encourage (or put in place) to adhere to Sarbanes-Oxley?

References

1. Accenture Press Release. (2005 February 9). Outsourcing Finance Functions Can Improve Control Over Governance and Compliance. Retrieved May 2007 at http://accenture.tekgroup.com/article_display.cfm?article_id=4187
2. Bliss, Gouverneur & Associates Press release. (2004, November 15). Sarbanes-Oxley Compliance Costs Average \$16 Million Per Company, According To Study By RHR International. Retrieved May 2007 at http://64.233.167.104/search?q=cache:0WKb_Kz8Op0J:www.rhrint.com/files/Directorship%2520Board%2520survey.doc+RHR+International+%22The+Directorship+Search+Group+%22+donlon&hl=en&gl=us&ct=clnk&cd=1.
3. Foley & Lardner Press Release. (2005, March 10). Foley & Lardner Study Finds, Despite Intentions of Public Company Governance Reforms, Many Private and Nonprofit Organizations Continue to be Impacted Study Reveals Significant Impact on Nonprofit Organizations; Increasing Pressure From Customers and Insurance Providers to Comply. Retrieved June 2007 at http://www.foley.com/news/news_detail.aspx?newsid=1150.
4. Hall, A. (2006, March 1). Model Citizens. *Meeting News*. Also retrieved June 2007 at http://meetingsnet.com/strategy/cases/insurance_model_citizens/
5. Hilliard, T. (2005). Ethics. In G. Ramsborg (Ed.), *Professional Meeting Management* (5th ed.), pp. 591-602. Dubuque, Iowa: Kendall/Hunt Publishing Company.
6. Michelman, P. December 13, 2004. Sharing News That Might Be Bad. *Harvard Business School Working Knowledge* newsletter. Retrieved May 2007 at <http://hbswk.hbs.edu/item/4538.html>.
7. Sarbanes Oxley Compliance Journal, 2005-01-06 Conference Board: Annual Meetings are Still Relevant. Retrieved May 2007 at <http://www.s-ox.com/news/detail.cfm?articleID=358>.
8. Savich, R. (2006, June). Cherry Picking Sarbanes-Oxley: Provisions that deserve a second look. The American Institute of Certified Public Accountants. Retrieved May 2007 from <http://www.aicpa.org/PUBS/jofa/jun2006/savich.htm>,
9. Sturken, C. (2004, January). Policy Points. *Meetings and Conventions*, pp. 58-62. Also retrieved in May 2007 online at <http://mcmag.texterity.com/mcmagazine/200501/?pg=88>.

10. The Committee of Sponsoring Organizations of the Treadway, Commission Internal Control - Integrated Framework Executive Summary, Retrieved May 2007 from the Committee of Sponsoring Organizations of the Treadway website at http://www.coso.org/publications/executive_summary_integrated_framework.htm.
11. Tinnish, S. (2005, March). Transparent and Ethical Meetings. *Tips for Innovative Meetings and Events*. Retrieved May 2007 from <http://www.suetinnish.com>.

Copies of *Professional Meeting Management*®, fifth edition, may be purchased through the PCMA Bookstore at [PCMA Bookstore](#) or http://www.pcma.org/store/index.asp?DEPARTMENT_ID=3.

Copyright 2007, Sue Tinnish. All rights reserved. The information contained in PCMA's PMM5 Postscript™ is based upon *Tips for Innovative Meetings and Events*. You are invited to become a subscriber to *Tips for Innovative Meetings and Events* by contacting Sue Tinnish at 847.394.9857, sue@suetinnish.com or at <http://www.suetinnish.com>.