

Reader Profile



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Executing in a Post-Sox World

It's been shown that robust internal controls and good corporate governance improve operational effectiveness and profitability. What are the core elements of robust internal controls?

I believe it all starts with the "Tone at the Top." The Executive Management of the company needs to be committed to transparency and quality. If the Chief Executive Officer views internal controls as a Sarbanes-Oxley imposed necessary evil and is not committed to quality it won't happen. A second element is a governance structure to oversee internal controls. We found that a Steering Committee of senior executives not only helps to establish priorities and keep things on track, but reinforces the value of the effort. Third, there needs to be appropriate funding to make the effort meaningful. Fourth, there needs to be a desire to eliminate any deficiencies that are discovered.

How does an outside director and more specifically, a newly elected or appointed director, ascertain that such controls are in place?

I don't believe there is a more effective approach than talking to people at various levels of a company and asking them direct questions about their practices. If the answers coming back from a mid-level accountant or regional operation don't mirror those of the senior executives, it's time to dig deeper. Another approach is to ask what specific deficiencies or weaknesses have been identified in the past and what was done to improve the organization's performance. The director may want to also speak with the Company's outside auditors.

What are some measurements that permit a quick due diligence check of a company's internal controls?

A prospective Director might start with information that is publicly available. I would suggest three additional checks. First, ask for copies of the most three most recent internal audit reports to assess whether the internal audit function is meaningful or superficial in scope. Second, review Audit Committee minutes to determine the priority given to internal control discussions. Third, ask the Chief Executive Officer or Chief Financial Officer about what their goals are relative to improved internal controls in the current year. Fourth, review the list of control deficiencies documented during the SOX 404 testing.

How do you determine ROI related to good corporate governance?

It's tough. Good corporate governance is a cultural issue. It is reflective of company values and evolving thinking, internally and externally, about what constitutes effective oversight. An organization committed to continuous improvement and quality looks at it's investment in corporate governance more like an investment in training or quality management than an expense like advertising or new product development. It's a challenge to numerically link improved financial outcomes to good governance. It's easy to look in the rear view mirror and see what might have been done to avoid a problem.

When you look at the company from the perspective of maximizing corporate profits what are the positive attributes realized from good corporate governance and robust internal controls?

We recently launched a governance initiative related to the delivery of information technology services to our internal business and service units. Our goal is to deliver information technology solutions more quickly and cost effectively. This required us to re-visit our procedures for proposing and obtaining approval for new projects; develop better methods for tracking internal costs for application development and maintenance; and seeking commonality of platforms for our architecture. While in the short term this initiative led to an increase in spending for information technology, I am confident that the returns will be substantial in terms of more efficient application development and shortened time to market for new initiatives.

How does robust internal controls and good corporate governance improve shareholder value?

One of the greatest threats to financial performance is a negative surprise. Good corporate governance creates a culture that aggressively seeks to identify and mitigate potential sources of surprise. For us, it was a logical development to move from the internal control requirements of Sarbanes-Oxley to a broad and strategic enterprise risk management program. By creating a structure that seeks to identify the dynamic risks to organizational performance, senior management can create a culture that proactively addresses the sources of earnings volatility.

Stan Galanski is President and Chief Executive Officer of The Navigators Group, Inc., a global specialty lines insurer headquartered in New York City. The Navigators Group, Inc. provides a variety of specialty insurance products to publicly traded and privately held companies, including Directors & Officers' Liability Insurance. Navigators was recently identified as one of the ten most profitable commercial lines of insurance over a six year period by a leading insurance industry periodical. Mr. Galanski is a graduate of the University of Pittsburgh. Prior to joining Navigators in 2001, Mr. Galanski had been President and Chief Executive Officer of Intercargo Corporation and held management positions with American International Group and the Chubb Group of Insurance Companies.