



Financial Literacy 101

Following the passage of the Sarbanes-Oxley Act, Sempra Energy was one of many companies to reassess its corporate-governance practices. Our review confirmed that our practices were, on the whole, very good and in compliance with the new regulations.

Sempra Energy has a strong system of internal checks and balances, which includes a separate internal audit-services staff and a board of directors that is mostly independent. We employ a rigorous code of business conduct and compliance policies, as well as compliance-training programs for employees covering a broad range of subjects.

During our governance-practices assessment, however, we identified a crucial issue — the matter of financial literacy. Even finance experts disagree on the meaning of the term “financial literacy.” Yet the New York Stock Exchange requires that a board’s audit committee members be financially literate.

The more we considered this issue, the more it made sense for every one of our board members — not just those on our audit committee — to have a good grasp of corporate finance and accounting. Establishing this common foundation would help encourage each board member to speak the same language and use the same terminology.

Although it was a logical idea in theory, we were unsure how our directors would react. We have a wide range of financial expertise on our board, which includes former CEOs, business executives, community leaders and academics. Regardless of their level of financial acumen, our board members didn’t just accept the idea; they embraced it.

We designed our own training program aimed at improving understanding of specific financial issues germane to our industry and our company. Our business involves many complex issues, ranging from regulated utility operations to energy-infrastructure investments and energy trading.



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With the help of an outside management consultant and former Stanford Graduate School of Business professor, who taught the class, we drafted a comprehensive curriculum. Then we invited our board of directors back to school for three days. The course was informal and comfortable, but serious.

We used a university-level accounting and financial management textbook and other reference materials. All materials were closely connected with real business issues. We used our own energy-trading case studies and previous deal evaluations, which added to the hands-on experience. We included Sempra Energy’s code of business conduct and our philosophy for managing risk.

Board members left the workshop feeling more in touch with our business. They said they felt more capable of weighing any new investment opportunities and more comfortable with how accounting decisions affect the company’s financial statements. Now, when the time comes to rotate committee members, all our directors can serve effectively on any of the board’s committees.

I believe many more companies will be asking their directors to return to school. The time and effort we took to create a customized educational experience has already paid dividends in two ways: In boardroom discussions, our directors’ questions are more probing, and board meetings flow more efficiently. We can advance the board’s agenda at an accelerated pace.

In fact, we have been so pleased with the results of the board’s financial literacy training that we have extended the same program to our entire senior management team. ▢

Stephen L. Baum is chairman and CEO of Sempra Energy (SRE), a San Diego-based energy-services holding company with reported 2003 revenues of \$7.9 billion. The nearly 13,000 employees at the Sempra group of companies serve more than 10 million customers worldwide.