

Governance Consulting Grows

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By Frank Lee

Corporate Governance Issues Have Benefited From High-Profile Business Scandals And Mismanagement That Have Made Enron Corp. And Worldcom Inc. Front-Page News

"There's a general concern for boards and directors to do the right thing in the area of corporate governance, and that, in itself, has caused more need for legal counsel," said Jones Day attorney Richard Koppes of San Francisco.

Questionable business practices have caused increased scrutiny of corporate pitfalls, such as chief executives running roughshod over boards of directors, excessive executive pay packages, and turf wars between managers and board members.

Jones Day, which consists of more than 2,200 lawyers in 29 locations, acts as principal outside counsel to, or provides significant legal representation for, more than half of the Fortune 500 companies.

Mr. Koppes, who serves on the boards of directors for Apria Healthcare Group and Valient Pharmaceuticals Inc. of Orange County, CA, said that his "board members are relying more on inside and outside counsel than ever before."

Indeed, everyone from attorneys to retired chief executives are passing themselves off as experts on cracking down on corporate malfeasance.

"About eight years ago, in terms of conferences held on corporate governance, there were 89 conferences in 1997 in 10 countries all around the world," said Stephen Davis, president of Davis Global Advisors Inc.

"This year, there will be 600 in nearly 50 countries," said Mr. Davis. His independent, privately owned consulting firm specializes in global corporate governance, with a recent list of clients that include Chase Manhattan New York and Merrill Lynch New York, London.

Governance Metrics International claims to be the world's first global corporate governance ratings agency. The New York-based company began rating U.S. companies two years ago.

Last month, GMI released its ratings of 2,588 global companies. Twenty-six companies, including Coca-Cola Co. and General Motors Corp., received scores of "10," GMI's highest rating.

GMI's rating system takes into account board accountability, financial disclosure and internal controls, executive compensation, shareholder rights, ownership base and takeover provisions, plus corporate behavior and social responsibility.

"Moody's (Investors Service) and GMI are both highly sophisticated. My advice to companies is to not overreact to these grades but be aware of them and find out what's behind them," Mr. Koppes said.

Davis Global Advisors provides research to GMI. Subscribers to GMI are able to view a company's overall rating, section ratings and several pages of written

analysis.

"Everything we use (in the scoring) is based off of publicly disclosed information. Every fact we collect about a company is sent to the company for verification," said Gavin Anderson, president and chief executive officer of GovernanceMetrics International.

The enactment of Sarbanes-Oxley corporate-reform legislation in 2002, which called for public companies to state whether at least one person on their audit committee is a "financial expert," has helped boost the GMI ratings of U.S. companies.

"In Japan, there's no disclosure about individual executive compensation," said Mr. Anderson, former chairman and chief executive officer of Gavin Anderson & Company, a global corporate, financial and investor relations firm.

"When I first entered this field 18 years ago, I most certainly didn't understand it or cared about it, and that has changed," Mr. Koppes said.

"Most boards and directors are seriously trying to do the right thing, and that creates more work for lawyers, more need for good legal counseling in this area."