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Scandals prompt changes in corporate boardrooms

It is uncertain, however, how much better public companies govern themselves

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A year has passed since regulators told U.S. businesses the old style of corporate governance couldn't continue in the face of scandals at Enron, Tyco, WorldCom and elsewhere. Directors of these companies had missed or ignored the problems, some of which involved fraudulent accounting schemes.

The Sarbanes-Oxley Act, signed into U.S. law last July 30, along with rules proposed by o U.S. stock exchanges, have spawned dozens of overhauls for publicly traded companies. They include more separation of the jobs of chief executive officer and chairman, and the appointment of more independent directors who don't have business ties to the company.
Board audit committees, which are supposed to monitor a company's books, must now have at least one financial expert or explain why they don't. The full audit committee must review financial statements every quarter after the company's CEO and chief financial officer certify them.
It is far from certain, however, how much better public companies govern themselves than they did before the reforms.

Certainly, Sarbanes-Oxley has raised awareness of honest procedures and the criminal liabilities of not following them. The changes may finally put an end to the country-club atmosphere of boards, where members care more about their resumes and networking than about guarding against corruption. And they have shifted some power from CEOs to boards by requiring outside — or non-management — directors to hold frank discussions privately.
Still, critics say the new regulations have buried directors in extra paperwork while failing to address the issues close to the heart of the average investor: overgenerous executive pay, little evaluation of directors' own performance on the board, and a feeling among shareholders that they are left out of the director selection process.

And there still isn't an easy way for corporate whistleblowers to communicate directly with board members.
Some also worry that if boards and management focus primarily on compliance, companies will become risk averse. It will result in fewer strategic questions being asked, such as, "What makes your company distinct and why do you think you can achieve your strategy?" says Steven Reinemund, chairman and CEO of PepsiCo Inc.

Here are some critical areas where overhauls have been sought.
• **Audit committees:** SarbanesOxley has prompted greater vigilance by the audit committees that oversee a company's accounting practices. Many audit committees are spending far more time than they used to reviewing financial statements and overseeing auditors, meeting 10 or 11 times a year, up from three or four times.
Other audit-committee heads are trying to avoid accounting problems by supervising outside audit firms more scrupulously. Sarbanes-Oxley says audit committees must change their auditors' lead audit partner every five years.
Yet numerous audit-committee members lack sufficient knowledge to review financial statements, says Roman Well, an accounting professor at the University of Chicago's Graduate School of Business.
At recent governance seminars jointly sponsored by Chicago and two other universities, 70 per cent of about 500 participants who took Mr. Weil's test of basic accounting principles got a failing score.
Many were top executives serving on audit committees, Most didn't understand how to question auditors. "The only thing certain on a balance sheet is the date," Mr. Weil says. "Everything else is a judgment."
• **Shifting power to boards:** Not surprisingly, many corporate boards are hiring lawyers and consultants to advise them on their expanded duties and liabilities under current and pending reforms. But they sometimes find themselves spending too much time listening to advisers, rather than attending to the company's business.

Nevertheless, the pending stock-exchange requirements that outside directors meet separately from management is prompting more assertiveness.
To gather more information, separate from what they are told at board meetings, more directors are visiting company locations. Among the corporate governance changes General Electric Co. initiated this past November is the requirement that directors visit two GE businesses each year without the presence of corporate management.

That is a start, but Iikely won't yield enough information, says Paul Lapides, head of the Corporate Governance Center at Kennesaw State University in Marietta, Ga., and a director at Sun Communities Inc., Farmington Hills, Mich.
He says he would understand the real estate investment trust company better if he visited between six and 12 of its 130 manufactured-housing communities every year. He currently visits one property a year.
"You can't ask tough questions if you don't know what to ask because you don't know the people" below senior management, Mr. Lapides says.