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Lifting the Lid: Some boards still shy about meeting

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By Brendan Intindola

NEW YORK (Reuters) - Corporate boards are meeting more often and working harder as companies clean up their governance after last year's wave of Enron-type scandals.

But while most boards are taking their roles more seriously, a minority continue doing business as usual -- limiting their oversight duties to little more than an annual gathering.

Take apparel-brand licensing company Cherokee Inc., whose board met just once during the year ended Feb. 1.

Kyle Wescoat, the chief financial officer of the Van Nuys, Calif.-based company, said that the full board usually meets in conjunction with the company's annual meeting.

The rest of its business is conducted through what he described as "minutes of action" -- with the five directors mulling decisions through written exchanges by mail.

Corporate governance experts say some of the disastrous corporate scandals were due to a lack of board oversight and the glare of negative publicity has led boards to take their positions more seriously. The average number of board meetings in 2002 grew to seven from six in the prior year, according to an analysis of nearly 1,900 proxies by research firm Equilar for Reuters. Audit committee meetings grew even more, to an average of six from four. The uptrend is seen continuing this year.

How often should a corporate board get together to conduct business?

Richard Breeden, a former U.S. Securities and Exchange Chairman appointed by a court as a post-scandal monitor for WorldCom, ordered the company's new board to meet eight times annually, twice as often as previously.

The former SEC chief slammed WorldCom's previous directors' for their "inadequate time commitment." The group "spent as little as three to six hours per year in overseeing the activities of a company with more than $30 billion in revenues."

In another such case, Spiegel Inc.'s board was still meeting just twice a year while the venerable catalogue retailer was in the process of going bankrupt. In March, the U.S. Securities and Exchange Commission charged Spiegel with securities-law violations for "failing to disclose advice from its auditors that Spiegel may not continue as a 'going concern'" according to a report on what happened that was ordered by a U.S. District Court.

Just as important as the frequency of meetings is the quality of oversight, corporate governance experts say.

Worldcom meetings "were largely filled with formal presentations and other routine exercises, including (former CEO Bernard) Ebbers' opening prayer," said Breeden. The company's eventual failure, the biggest in corporate history, cost investors billions of dollars.

But the "rubber stamp" board appears to be fading into history. Directors now spend about 250 hours a year on board work, double the amount in 1999, according to Roger Raber, president of the National Association of Corporate Directors.

Increasingly, boards are emphasizing critical analysis of company strategy, with fewer one-sided presentations created to push through management plans. And directors are communicating more often "off-line" -- outside of regular meetings.

"The board is allowed to see the information analysis, and there is more discussion of issues," said Richard Steinberg, of Steinberg Governance Advisors, Westport. Conn.

"The agendas have gotten a lot bigger and more expansive," adds Ralph Ward, author of "Saving the Corporate Board: Why Boards Fail and How to Fix Them."

Still, some companies like Cherokee shy away from more frequent meetings. Reuters contacted several companies with a history of few board meetings. They are shoe company Skechers U.S.A. Inc , sporting-goods and office-products maker Escalade Inc., biotech company Indevus and Spanish Broadcasting System Inc. .

Things are changing at Escalade and Indevus. But the record elsewhere is mixed at best.

At Wabash, Ind.-based Escalade, chief financial officer Terry Frandsen said the audit committee's one meeting per year "has obviously changed since Sarbanes-Oxley," referring to the landmark federal law passed last year that spelled out company governance issues. The law tightens controls over audit committees, financial reporting and relationships with accounting firms, among other changes.

Escalade's audit committee now meets quarterly and again at the end of the year, Frandsen told Reuters. As such, the maker of pool cues, darts and basketball hoops is expected to hold five audit committee meetings this year.

At Indevus, previously known as Interneuron, CFO Mike Rogers told Reuters the audit committee is now meeting more frequently than the one time in fiscal 2002, as reported in the proxy of the Lexington, Mass. company.

Manhattan Beach, Calif.-based Skechers, which warned in July that it could lose money in the third quarter, has a board that met once last year and once this year. But Skechers general counsel Phil Paccione says that the more important audit committee, made up on independent directors, meets quarterly and has been "very active."

Spanish Broadcasting, of Coconut Grove, Fla. held one board meeting last year. It did not return calls seeking to find out how many times it plans to meet this .

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