Specialists tapping governance gusher

Clients hire lawyers, accountants, others to ensure compliance

BY VICTORIA RIVKIN

New York City has a new, billion-dollar growth industry: corporate governance.

Companies from across the nation are increasingly tapping into the city's vast pool of experts for help in sorting through the labyrinth of new rules and regulations designed to prevent a recurrence of scandals such as the ones at Enron and WorldCom.

Compliance with the most far-reaching of these new measures, the Sarbanes-Oxley Act, will cost companies $5.5 billion this year alone, according to a recent report from AMR Research. A good chunk of that will be spent in New York.

Many tasks mandated

To rewrite ethics codes, rewrite employee handbooks, design new accounting systems, and ferret out independent directors for their boards, companies are flocking to town. They are hiring not just accountants and lawyers but also consultants, headhunters and other specialists.

Right in the midst of newfound plenty, some experts wonder if all this time and money is well-spent. "Sarbanes-Oxley will not deter future Enrons or WorldComs from occurring," says Joshua Rosen, professor of accounting at New York University's Stern School of Business. "Sarbanes doesn't change anything."

Bureaucratic costs

He and others note that no matter how much money is spent on preventing corporate crime, the problem will never disappear. At the same time, they fear the costs of that effort are becoming increasingly burdensome, especially for small companies.

At this point, though, there is no time to worry that the pendulum may have swung too far in favor of regulation. Today, accountants and lawyers have no choice but to help their clients do what the new rules demand. Public companies are racing against a year-end deadline under phase two of Sarbanes-Oxley. The law requires that outside accountants certify the effectiveness of the control and audit procedures for some 12,000 publicly held corporations.

Lawyers are also gearing up to bring

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their public clients into compliance by the end of 2004. Platoons of securities and general corporate lawyers are being drafted to revise board committee charters in order to create new responsibilities for committee members. Lawyers are also codifying companies' disclosure and internal reporting controls as well as writing official rules of conduct.

Accounting firms, though, are bearing the brunt of the tidal wave of client calls for help. To cope with it, the firms—especially midsize ones—are reorganizing their corporate practices and adding staff. In some cases, the firms are also raising fees.

"We are making a lot more money, but also operating in an era with a lot more risks," says Glenn Davis, a Manhattan-based partner of Roseland, N.J.-based accountant J.H. Cohn.

Mr. Davis predicts that this year, J.H. Cohn's corporate governance group will bring in $10 million, a sum equal to nearly 10% of the firm's total revenues last year. Not bad for a unit that did not even exist two years ago.

Another midtier firm on a tear is Manhattan-based Eisner. In January, it hired KPMG partner Neil Goldenberg to build Eisner's new corporate governance department. Mr. Goldenberg now heads a group made up of three partners and five managers. He plans to hire six more professionals this year.

Getting a foot in the door

For midsize firms, the new laws have created a huge new opportunity to get a foot in the door with giant corporations that traditionally only worked with the Big Four. New conflict-of-interest rules require that corporations use different accounting firms for different functions, such as auditing and corporate governance.

"There is a great deal of work coming from the big accounting firms," says J.H. Cohn's Mr. Davis, whose firm has been inundated with calls from corporate boards seeking independent advice. "Last year, a Fortune 500 company would have had a relationship with only one accounting firm."

This year, he notes, the same company might be using three different accounting firms.

That shift is also being felt at the level of the Big Four firms, which find themselves sharing more clients, and in the process competing more directly with each other than ever before. Still, the growth in corporate governance has been such that it has become an important source of income for even the largest firms.

At KPMG, revenues grew by 11% last year to $3.8 billion. Robert Arning, KPMG's New
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York office managing partner, says that much of that increase came from burgeoning demand for corporate governance services.

Rich pickings

While corporate governance has not been quite as big a windfall for lawyers, the pickings have nonetheless been rich.

"There is a lot more work in this area," says Roger Witten, senior litigation partner in the New York office of law firm Wilmer Cutler Pickering.

That is an understatement. Midsize publicly held companies expect that their annual legal fees will nearly double to $404,000 from $212,000 as a direct result of the Sarbanes-Oxley legislation, according to a recent survey by Foley & Lardner, a Chicago-based law firm.

For global corporations, the increase could easily stretch deep into the millions.

The boon is now affecting a broader slice of the legal community as well. "It used to be only corporate attorneys, but now litigators are getting called in," says Stephen Younger, a securities and commercial litigator with New York-based Patterson Belknap Webb & Tyler.

For the lawyers' and accountants' clients, the new rules and regulations all add up to one certainty: bigger advisory bills. At this point, clients can only hope that the huge new investments will pay off in the form of fewer costly misdeeds.

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