

FT Comment & Analysis

## **Boardroom culture must embrace directors**

**By Peter Weinberg**

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As the Hewlett Packard boardroom spying affair was unfolding, I actually sympathised with the instinct of Patricia Dunn, the then chairman, to investigate directors who were suspected of having unauthorised conversations with members of the media. A board cannot operate effectively without complete confidentiality.

I also understood the thinking behind Apple's desire richly to reward talented business leaders through a number of different mechanisms, including "in the money" options. Best-in-class leaders need to be, and should be, well compensated.

However, both companies accomplished their objectives without full regard to proper legal, accounting and ethical practices. Something went wrong somewhere. It is surprising because these companies have traditions of high integrity that the recent attention devoted to good corporate governance by regulators, practitioners and academics should have reinforced.

On one hand, the dramatically increased focus on corporate governance has indeed proved to be a remarkably positive force. Separation of the roles of chairman and chief executive officer continues to be the subject of an active and constructive debate, particularly in the US. Conflicts of interest are viewed under a much harsher microscope. Relationships that would have gone unnoticed a few years ago, such as auditors acting also as consultants or CEOs heading each others' compensation committees, are no longer tolerated. No chairman wants to be singled out for failing to avoid conflicts of interest. In addition, the composition of boards has improved due to regulatory requirements and a heightened focus on quality and independence.

On the other hand, why do these two great companies and many others find themselves in positions that violate the basic tenets of corporate governance? I believe these events were caused by an inadequate board environment and poorly understood responsibilities of the directors.

The environment in the boardroom should encourage and embrace directors' involvement. The senior executives must provide opportunities for each director to learn about the business and be kept up to date on material developments. The meetings must leave time for and encourage questions of any kind. Boards should be regarded by the management team as the ultimate representatives of shareholders; not an interference or a burden.

I sit on a board of a public company that requires and encourages full access to information and transparency, especially when problems arise. As a result, the board attracts candidates who feel they can make an impact; and allows directors to feel that they have access to the raw material from which they can make prudent judgments.

Directors serve to represent shareholders and other important constituencies. Their duties of care and loyalty are to fulfill these responsibilities to the absolute best of their abilities.

While this means different things to different people, directors must spend enough time to understand the company's businesses and be fully prepared and informed prior to each board or committee meeting; or they should not take on the responsibility. They should add value in whatever field they represent. They should ask the same tough questions that any investor would ask if he or she were in the room. Directors have the luxury of being outsiders, not bogged down by the details of the business, and are ultimately accountable for prudent and ethical behaviour.

There has been a recent outcry suggesting that companies replace the current system of electing directors with a process in which they are chosen directly by investors. But that cry is coming more from corporate governance campaigners than investors. Large shareholders, in particular, generally do not have the time or inclination to propose and choose directors and should be able to entrust that task to a conscientious chairman. This is not the problem.

Serving on a board is like taking on a position in public service. It is not (and should not be) a wealth creation opportunity but a chance to play a role in the proper workings of our marketplace. But before taking a position on a board, make sure the environment allows you to fulfil your responsibilities. Before a board takes on a new director, it must make sure the candidate truly understands and can fulfil the duties of loyalty and care. In many of the recent scandals, either one or both of these factors were missing.

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