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News

Corporate governance: Dunn's HP role rare for asset managers; Some in industry see chairman post as flash point for conflicts

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1,231 words
21 February 2005
Pensions & Investments
3
Volume 33; Number 4
English
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The rise of Patricia C. Dunn to non-executive chairman of Hewlett-Packard Co. is a rarity in the money management industry. The jury is still out, however, on whether that's good or bad.

Ms. Dunn, who was named an HP director in 1998 when she was chairman and chief executive officer of Barclays Global Investors, San Francisco, was elected by the HP board after Chairman and CEO Carleton S. ``Carly'' Fiorina stepped down Feb 8. Robert P. Wayman, HP's chief financial officer, was named interim CEO.

Part of Ms. Dunn's duties will be to lead a search for a new CEO. HP hired Russell Reynolds Associates Inc. to recruit candidates. Andrea Redmond and Charles Tribbett III, co-leads of the Russell Reynolds' CEO/board services practice and based in Chicago, will lead the search

Ms. Dunn currently is vice chairman of BGI. An HP spokesman said Ms. Dunn wouldn't be interviewed for this story.

``I can't think of another money management executive becoming a chairman,'' said Debra Brown, senior member of Russell Reynolds's investment management practice and based in New York.

Praise from some

Some industry watchers praised Ms. Dunn's appointment. ``It is no surprise she was named chairman,'' said **Peter** D. **Crist**, president, **Crist Associates** LLC, an executive recruiting firm based in Hinsdale, Ill. ``Is (her appointment) investment-management sensitive? I think it is because she was the chief of something.''

Others, however, said it's inappropriate for Ms. Dunn or any other money management executive to be a director or an officer.

``I would not recommend anyone in money management as a director,'' including Ms. Dunn, said David A. Morris, managing partner in the Houston office of executive recruiter Heidrick & Struggles International Inc. The reason: There's a potential conflict of owning stock in a company where the person has inside information.

BGI is the third largest holder of HP stock with 127.5 million, or 4.22%, of the outstanding shares.

A director ``has privileged information,'' Mr. Morris said. ``You put yourself in a situation where you can't act on that information'' as a money manager whose portfolio holds the stock. ``Anytime you are forced to recuse yourself, that is a systemic problem. These are no small dollars.''

Nell Minow, chairman and founding principal of The Corporate Library, Portland, Maine, an investment and corporate governance research firm, said she is concerned ``about Dunn's continuing role at Barclays. If she intends to serve as chairman for more than a very brief transitional period, she must resign from Barclays.''

Ms. Minow took issue with Ms. Dunn's appointment. ``The HP board has performed very poorly, and Dunn, as a longtime member of that board, has a heavy burden of proof to demonstrate that she and the rest of the board are up to the challenge,'' Ms. Minow said. ``They were bamboozled by Fiorina for too long, and they let her do too much damage and leave with too much money.''

Other money managers

A few other money management executives serve on corporate boards:

* John C. Bogle, founder and retired senior chairman of Vanguard Group and president of the Bogle Financial Markets Research

Center, has been a director of Instinet Group Inc. since 2001.

* C. Kim Goodwin - who was chief investment officer-equities at State Street Research & Management Co. until she left Jan. 31 after the firm was acquired by BlackRock Inc. - has been a director of Akamai Technologies Inc. since 2004.

* Robert C. Pozen, non-executive chairman of MFS Investment Management, has been a director of Bank of New York Co. Inc. since 2004, and BCE Inc., the parent of Bell Canada, since 2003. Mr. Pozen is a former vice chairman of Fidelity Investments and president and CEO and CIO of Fidelity Management & Research Co.

* Elizabeth A. Monrad, executive vice president and chief financial officer of TIAA-CREF, has been a director of Colgate-Palmolive Co. since last year.

* Steven L. Scheid, chairman and CEO of Janus Capital Group Inc., has been a director of Autodesk Inc. since 2002.

* Gerald B. Smith, chairman of Smith Graham & Co., has been a director of Cooper Industries Inc. since 2000 and Pennzoil-Quaker State Co. since 1998.

* Thomas W. Jones, who was chairman and CEO of global investment management of Citigroup Inc. until he left last October, has been a director of Altria Group Inc., the parent of Philip Morris Inc., since 2002.

* Sheryl K. Pressler, former CIO of the California Public Employees' Retirement System and then CEO of Lend Lease Real Estate Investments Inc., is a director of Stillwater Mining Co. since 2002. She was a director of Nuevo Energy Co., until it was acquired by Plains Exploration & Production Co. in 2004, after serving on the board since 2002.

* W. Allen Reed, president and CEO of General Motors Asset Management Corp., has been a director of Temple-Inland Inc. since 2000. He is a special case among money-manager directors, working for both a pension sponsor and a money manager, which oversees GM pension fund investments and offers investment management for external clients.

``If a board is looking to add independent directors with strong finance, accounting and investment experience, the logical place to look is people in the money management industry - and specifically people who held senior investment management positions managing the firm, not just investments,'' Ms. Pressler said.

Charles M. Elson, law professor and director of John L. Weinberg Center for Corporate Governance at the University of Delaware, Newark, said it was ``a good idea'' to have money managers as directors. ``They are representatives of the interest of holders. Who would have better incentive'' to monitor management and promote shareholder value ``than those whose livelihood is based on generating good returns from the companies you own?''

`Confidence builder'

Patrick McGurn, special counsel and vice president and director-corporate programs, Institutional Shareholder Services Inc., Rockville, Md., called the placing of money managers on boards a confidence builder in the investment marketplace.

``Institutional investors represent a phenomenal untapped pool of directors,'' said Howard Sherman, chief operating officer of Governance Metrics International, New York, a corporate governance research and advisory firm.

``It's extremely rare'' for a money manager to be a corporate director, ISS' Mr. McGurn added. ``It's disappointing, especially when more investors are putting an emphasis on corporate governance.''

Money managers' reluctance might be the reason corporations have few of them on boards.

``Once you're there (on the board) you limit your liquidity,'' Mr. Elson said. ``BGI is an index manager,'' so it may largely avoid that problem. ``But it still could be a liability issue. If you represent a fund and if something goes wrong, you are a potential deep pocket.''

Added Mr. McGurn: ``Most (money mangers) view board service as a nuisance because it restricts trading because of insider information. ``That's the main thing that keeps people away. It's really not liability.''

Photo Caption: One of Patricia C. Dunn's primary duties will be to lead the search for a new CEO to replace Carly Fiorina. ; ISS' Patrick McGurn called the lack of money managers as corporate directors ``disappointing.'' Photo Credit: Michael A. Marcotte (2nd caption)

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