

Directors as Professionals

By Donald Nordberg

When you want to understand something, the dictionary is often a good place to start:

"Director: member of a group of persons chosen to control or govern the affairs of an institution or corporation."

"Professional: characterised by or conforming to the technical or ethical standards of a profession; engaged in one of the learned professions." Is it surprising that the only words those definitions have in common are "a", "of", "to", "or" and "the"?

This definition of "director" arises from the title as recognized in law. And in law almost anyone can become a director. Start a company, and you're a director. Get the board to nominate you, and you're a shoo-in. You don't have to pass any **tests**, swear any **oaths** or even risk any **sanctions from peers** that would disqualify you from getting work as a director somewhere else. If you live in a jurisdiction that prohibits frauds and felons from serving on boards, you can probably find another where the ruling won't apply.

It's different if you're a member of the "learned professions". Lawyers, doctors, accountants and actuaries risk their future livelihoods if they fail to adhere to the codes of ethics or other standards of their professions. That's why we're supposed to trust the view of the auditors – more than the directors – about the state of a company's finances. It's not surprising, therefore, that in the wake of the governance failures that brought on the collapse of one of the world's largest professional services firms that we hear calls now for **directors**, too, to become **professionals**.

Part of it is an expedient: to fill the perceived gap in the number of people willing to sit on the boards of listed corporations, now that – post Sarbanes-Oxley – it's deemed to be a hazardous occupation. Eugene Fram, the J. Warren McClure Professor at the Rochester Institute of Technology in New York, thinks we ought to look at the notion of professional directors. Writing in the *MIT Sloan Management Review*, Fram identifies a new source of board members to provide the right independence of mind, strength of character and business acumen: someone who undertakes the role of outside director as a full-time profession.

He specifically doesn't mean the academics, lawyers or others who currently serve on several boards alongside their other activities. Fram's professional directors are likely to come from three sources:

1. Mid-career executives – in their 40s – who opt to work in a more consultative and less operational way.
2. Late-career executives – perhaps 10 years older – with sufficient financial resources to scale back from managerial stresses as a prelude to retirement.
3. Former partners from big accountancy practices with more than 30 years experience in the things boards most need: audit and internal control.

"Candidates from these three categories, in addition to another group of retired senior managers, could greatly alleviate the growing shortage of qualified board directors," he says.

It's a notion that seems at first glance to rely on a rather different definition of what it means to be a professional: "one who earns a living in a given or implied occupation, as in: **hired a professional to decorate the house.**" Altogether too many directors – including a lot of politicians and diplomats – earn their living by fulfilling largely decorative roles on corporate boards.

But short of requiring a formal qualification and adherence to a code of conduct, we could at the very least ask whether candidates for the board meet still another definition of what makes someone professional: "having or showing great skill; expert, as in: **a professional repair job.**"

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