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Chris Mumford and Elie Milky investigate the evolution of boardrooms in the public domain

Fun and board games

Being in the public eye these days seems to attract a lot of unwanted pressure and attention. I am referring not to the 'stress' of newly-found 15-minute fame experienced by some wannabe expelled from the *I'm a Celebrity Get Me Out of Here* jungle but to the reality of being a public company in the post-Enron era.

In addition to trading at a discount to their net asset value, public companies today face increasing reporting and regulatory demands to keep up with current corporate governance requirements. The Sarbanes-Oxley Act of 2002 has created such burdensome disclosure requirements and compliance costs that, not only are many public companies regarding their private sector cousins with envy, but firms are actually taking the steps to go private. Going private typically involves a major change in the company's ownership composition through a transaction such as a leveraged or management buy-out.

Private equity seems to dominate the business press these days and has certainly provided an attractive haven for many a CEO fed up with the quarterly earnings calls and demands of public life.

Alternatively, a company can simply voluntarily opt-out of being public through a delisting or deregistration. Companies making the news in the past couple of years for public to private transactions have included Pandox, Queens Moat Houses, Gresham, Jurys Doyle, Kerzner, and Fairmont. And it looks likely that they will soon be joined by Four Seasons.

But what about those companies which remain public? How are they faring under the microscope? With increased shareholder demand for transparency and interest in board makeup and compensation, public companies have a great deal of compliance to attend to.

HVS looked at 20 publicly-listed hotel companies throughout Europe and analysed their public documents from 2005 in order to rate each one in the following four areas:

- Size, makeup and independence of the board
- Individual committee structure and effectiveness
- Presence of interlocks, insider participation, and related transactions
- Commitment to pay-for-performance in compensation philosophy.

For example, points were awarded in relation to how many times the audit committee met, or for the absence of interlocks, or for the ratio of executive to non-executive directors on



Too many companies reported an even number of board members, making resolving stalemates difficult

Increased shareholder demand for transparency means public companies have a great deal of compliance to attend to

the board, or for the inclusion of shares in the directors' compensation.

Some of the general trends we observed are as follows:

- 36% of board committees were comprised of an odd number of members;
- It is generally agreed and recommended by governance experts that a board's size should be between seven and 11 members and should be an odd number in case of tied votes. Most companies studied had an appropriate number of board members but too many reported an even number of board members which makes one wonder how stalemate issues are being resolved in Europe's boardrooms.
- 24% of board chairmen were also the CEO; Furthermore, the board should have no more than two or three executives holding seats and the chairman should be independent. It is still often the case in Europe that the chairman and chief executive is one and the same person.
- Three year terms were the norm in 68% of companies;
- Attendance rate among boards stood at 72%;
- Only 40% of audit committees met more than three times in a year;

It was good to see that many companies' boards meet very regularly with some getting together on

average more than once a month. Committee meetings however were less well attended with the audit committee signing the attendance register more often than the remuneration or nomination committees. Committees should comprise non-executive board members and thankfully we only found one company with an executive on its remuneration committee. Only 28% of boards met a minimum of four times in a year.

More companies however should seek to establish a governance committee.

- Two of the companies had a dedicated Governance committee within the board.

Board interlocks (you sit on my board and I'll sit on yours) were almost non-existent as was insider participation. Governance experts are proponents of pay-for-performance and the alignment of management's and shareholders' interests and goals. A well-designed programme includes a clearly structured compensation philosophy, competitive salary levels, quantifiable bonus metrics, performance based long-term incentives, and a competitive benefits package. The company with the highest rating in our study of 2005 corporate governance was Jury's Doyle Hotel Group. Interestingly in this era of public-to-private, Jury's Doyle Hotel Group de-listed in early January 2006 from the UK and Irish stock exchanges and re-registered as a private company two months later. Other top performers were InterContinental, CHE Hotel Group and Whitbread. We will see in the next few months whose corporate governance practices have improved in 2006, unless of course they have gone private.

This article was co-authored by Chris Mumford, managing director of HVS Executive Search and Elie Milky, MBA student, IMHI-ESSEC