

Board set to walk the HardiPlank

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As the dust begins to settle in the wake of David Jackson's report into the James Hardie asbestos mess, a major issue emerges relating to how to deal with the very real issue of the management changes that must be made.

There have been numerous calls for the heads of senior management — many of which have come from those with axes to grind. But talk to any senior lawyer or chief executive around town and all agree that the two most senior managers in this organisation — chief executive Peter Macdonald and chief financial officer Peter Shafron, have untenable positions.

The commentary on the behaviour of both from Jackson relating to their honesty and their behaviour as witnesses together with recommendation for criminal charges against Macdonald leaves the new Hardie chairwoman, Meredith Hellicar, with absolutely no choice but to work on their exit strategy.

And it must be added that the stern words from Jackson were contained in a report that was for the most part temperate. It was a report that while damning of certain behaviour, was in no way littered with gratuitous criticism.

Jackson's firm and clear views on the actions of management were the most salient aspects to the report.

In view of the current wave of public criticism of Hardie and its management, there will be enormous pressure to clean up the upper echelon of management — sooner rather than later. But there are some huge problems for Hardie in pursuing this strategy. The first is that it probably doesn't have any real replacements.

Phillip Morley, who was chief financial officer until a couple of months ago, has retired. He was the most senior operative after Macdonald.

After that, the talent in head office is getting pretty thin.

What Hardie needs to avoid is the National Australia Bank experience, where following the foreign-exchange scandal earlier this year, chief executive Frank Cicutto and chairman Charles Allen were dealt out shortly after the debacle emerged.

It's interesting that NAB this week won an award for crisis management at the annual Investor Relations function.

But in hindsight, the removal of Cicutto, and particularly Allen, so early in the drama meant that as the problems unfolded over the next couple of months, those in the firing line had disappeared and the market and media had to find additional scalps.

They looked to the rest of the board and as the various reports emerged from internal investigations and outside authorities, the ammunition mounted for a further assault on NAB.

This, combined with a dose of paranoia from Catherine Walter and some ego from replacement chairman Graham Kraehe meant that the board essentially imploded,

resulting in a massive board and management overhaul.

While the combination of Wesfarmers' outgoing boss Michael Chaney as chairman and John Stewart as chief executive is considered a potent combination, it's fair to say that this degree of change in such a short time would put pressure on any organisation.

And this does not even take into account the new layer of senior managers that Stewart has installed.

At least NAB had a replacement at the ready when Cicutto was forced to leave. It won't be so easy for Hellicar at Hardie.

And as the mess unfolded over months at NAB, so it will at Hardie as the Australian Securities and Investments Commission looks into the actions of management.

And if these investigations end up in court, then the pressure will start to mount on any board member or officer of the company not considered a clean skin.

This could include any current board member who was around at the time of the establishment of the underfunded medical foundation and the controversial cancellation of the partly paid shares.

It maybe won't come down to what they knew but what they should have known. This bunch has not shown itself to be the savviest bunch of corporate gurus.

So Hellicar has a tough task ahead of her. She and the board stated their support for Macdonald at the annual meeting a couple of weeks ago but that was before the Jackson report had been released.

In the light of its findings, she would have to recognise that finding a new tier of top management is her major priority.

The stockmarket is certainly suggesting that the troubles are behind Hardie and large shareholders have been pouring into the stock and pushing the price up.

They are doing so based on the fact that there is nothing wrong with the fundamental business and they now have a clearer picture of potential liabilities. Sure the underlying business is sound but the potential liabilities have shown themselves to be a moveable feast.

But it will be a while yet before anyone wearing a management hat at James Hardie will be able to focus on company strategy.