

REFLECTIONS ON GOOD CORPORATE GOVERNANCE

THE BOARD AND I



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When something goes wrong in a company, we tend to point the finger at the board of directors. Beyond codes of good governance, what can help boards to function better is the honesty of its members.

Our society has become a culture of blame. For obvious reasons, we tend to seek a “culprit” for every mishap, and companies are no different; undesired outcomes invariably result in finger-pointing.

Not so long ago, when an investment failed, investors would assume the responsibility. Over time, we came to blame the company’s auditors for not warning us about what might happen, even when this isn’t their job. More recently, and in the absence of anyone else to blame, we have begun pointing a finger at the board of directors. Now, the first thing we hear is, “Who took the money?” as if business in itself did not involve any risk.

Codes of good corporate governance have been developed, both in Spain and in other countries, to reflect the duties and obligations of board members. According to Spain’s *Unified Code of Good Governance for Listed Companies* (latest edition, February 2015), the goal of these codes is “to ensure the proper functioning of the organs of governance and administration of Spanish companies in order to lead them to the highest levels of competitiveness; generate trust and transparency for shareholders and investors [...]; improve internal regulation and corporate responsibility [...]; and ensure the adequate separation of functions, duties and responsibilities...”

I couldn’t agree more with the general objective: leading Spanish (or other) companies to the highest levels of competitiveness. My problem with the rest of the paragraph is

that it gives the impression that this can be achieved with transparency, trust and the separation of functions. Success, value and competitiveness are achieved through good management, and the mission of the board is to contribute to proper management. Transparency achieves... transparency. But transparency doesn’t necessarily imply good management.

Good management involves having good business ideas and creating value with them. It means deploying these ideas effectively and efficiently, thus fulfilling obligations to all stakeholders.

The problem with codes of good governance is that sometimes we take compliance with a code for good governance, and they are not necessarily the same. Beyond the codes, there are other principles that are worth remembering, even if they may be obvious: the independence and honesty of board members.

It is not easy to define what makes a board member independent. It’s true that if compensation for board membership is a significant part of the member’s income, he or she will tend not to be independent. Rather, the member will tend to align him or herself with whomever has the most power in appointing board members.

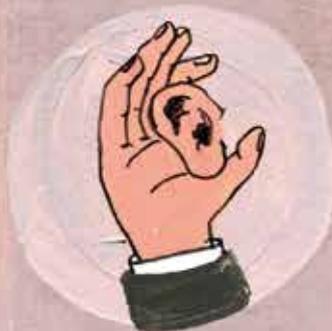
Likewise, a member who is in the “network” of board members will also have little independence. Factors such as these can help “measure” a member’s degree of independence, but they remain mere approximations. What makes a board member really independent is honesty. We set “objective” standards to be able to tell if we’re honest or not, but we forget that the rules are only a means to an end. They are not ends in themselves.



1 *Being honest*



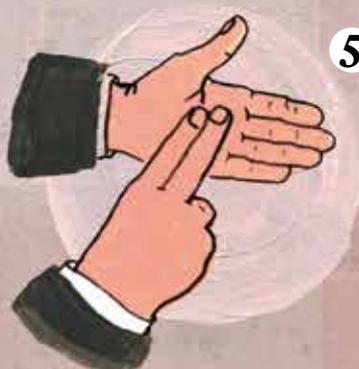
2 *Clear reasoning*



3 *Listening*



4 *Working together*



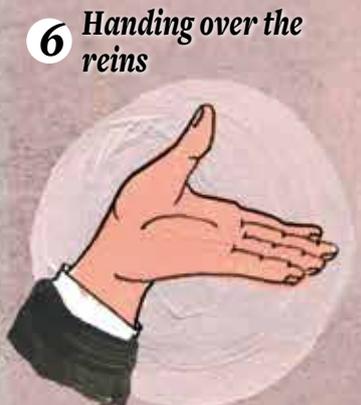
5 *Having one's own opinions*



8 *Respecting others*



7 *Learning*



6 *Handing over the reins*

A BOARD MEMBER NEEDS TO ADVANCE THE INTERESTS OF ALL STAKEHOLDERS, REGARDLESS OF WHO PROPOSED HIS OR HER MEMBERSHIP ON THE BOARD. THAT'S WHY WE NEED HONEST PEOPLE.

What we really want are honest board members. That is, people who are faithful to the responsibility that our system charges them with. This responsibility consists of protecting the interests of society in a company; society is represented by shareholders, employees, customers, suppliers and the community at large. A board member needs to advance the interests of all stakeholders, regardless of who proposed his or her membership on the board. And that's why we need honest people.

A board needs competent people with values. People with a broad view of the world, who join a board to work hard and not merely to waste everybody's time. And, of course, people without conflicts of interest. It helps if they know something about the industry and the company, but they can acquire this knowledge over time.

With all this in mind, I would like to propose some standards of personal conduct that boards of directors should keep in mind:

1 Acknowledge your limitations. Being honest includes admitting our ignorance. A board member isn't necessarily qualified to give an opinion on every subject. On the board of directors, we need a range of voices, representing different knowledge and skill sets. Admitting that we aren't qualified to give an opinion is a valid option.

2 Share anecdotes only when essential. All too often we hear "When I..." as an opening, and this sometimes hides insecurity in expressing an opinion. As the saying goes, comparisons are odious, and two sets of circumstances are never identical. That's why clear reasoning is preferable to comparisons – although sometimes we can use comparisons effectively to help get our point across.

3 Listen. Board meetings are often plagued with interruptions and a lack of attention. Every member has to be able to express an opinion and be heard by the others. But listening doesn't always imply understanding what has been said. We are all aware of how difficult it is to explain our thoughts on complex situations. A

useful rule of thumb is to begin the response with a clarifying question; this way you can be sure that you have understood the true meaning of a colleague's remark.

4 A change of opinion is not a weakness. No one arrives at a board meeting in possession of the absolute truth. The goal is to work together to decide what is best for the community. This means exchanging ideas and having permission to change our minds. Changing an opinion doesn't mean losing face. Other members also have valid opinions that don't necessarily coincide with the first ideas they expressed. It's not about being right, but rather about expressing ideas and developing them together.

5 Don't be fickle. While flexibility is a virtue, "flip-flopping" in order to keep one's views aligned with those of the person in power is not. Nor is suddenly reversing a position so that it coincides with the winning idea. Being independent means having one's own opinions.

6 You don't have to have an opinion about everything. There is no need to dominate the meeting. There is no reason to pontificate about all the agenda items. Other members might have better-formed opinions; it's a good idea to hand the reins to whomever is best suited to take them.

7 Learn. If a person is serving on a board of directors, one would hope that it's because he or she is qualified for the position. Therefore, the views of a board member are always relevant. It's important to learn from colleagues on the board, discover how they think, and maintain that curiosity that keeps our minds open and, above all, allows us to listen.

8 Respect other board members. If you don't, you won't realize when they're making valuable contributions.

No, my intention wasn't to reach the magic ten; eight is enough. Nor was I setting out to solve this complex problem in a single article. I simply wanted to reflect on how we can use our individual professionalism and responsibility to improve the boards we serve on.