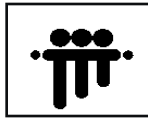


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BOARDS OF DIRECTORS IN
FAMILY BUSINESSES:
WORKING AND COMPOSITION.
LEVELS OF USEFULNESS

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**BOARDS OF DIRECTORS IN FAMILY BUSINESSES:
WORKING AND COMPOSITION.
LEVELS OF USEFULNESS**

Abstract

This research paper brings new insights into the topic of Boards of Directors (BDs) in Family Businesses, including an analysis of the level of usefulness of BDs as assessed by the Board members themselves.

More than 32% of the FBs in the sample do not have any body of governance at all because they consider it unnecessary. Of the 151 FBs surveyed, only 37 do have a BD, which is perceived as a very useful body of governance.

The success of BDs does not depend simply upon their fulfilling the rules of composition and functioning described in many recent studies. These rules may be considered «necessary conditions», but they need to be supplemented by other characteristics to ensure that «sufficient conditions» are met for the Board's success.

BOARDS OF DIRECTORS IN FAMILY BUSINESSES: WORKING AND COMPOSITION. LEVELS OF USEFULNESS

Introduction (*)

The functions of the Board of Directors (BD) as the company's main governing body, the relationships between its members, its rules of procedure and the results achieved by the company, the BD's responsibilities to shareholders and society in general: these and many other issues have been a perennial subject of research ever since Mace's initial work (1971).

In recent years, there has been particular emphasis on analyzing possible relationships between the way in which the BD is organized and the company's effectiveness (Demb & Neubauer, 1992; Brewster & Mizruchi, 1993; Lorsch, 1989; Zarha & Pearce II, 1989), and on how the degree of involvement of the BD in decision-making can contribute to increasing the company's value (Judge & Zeithaml, 1992).

Taking as a basis the «Resource dependence» approach, various models for the composition of the BD have been proposed (Boyd, 1990). Using «Agency theory», the management results achieved with the help of independent directors have been compared with those achieved by companies whose directors have large equity holdings (Rediker & Seth, 1995). The advisability of separating the figure of the Chairman of the Board from that of the company's Chief Executive Officer has also been discussed (Boyd, 1995; Firstenberg, 1994).

There has also been increasing concern in recent years about the BD's accountability (Kesner & Johnson, 1990; Sahlman, 1990). Codes of conduct have been proposed regarding the best practices (The Committee on the Financial Aspects of Corporate Governance and Gee and Co. Ltd. 1992. «A New Compact for Owners and Directors», 1991).

In turn, there is a growing interest in Family Business (FB) as such, and in studying and debating its specific problems (Aronoff & Ward, 1991; Wortman, 1994).

Within the research carried out in the field of Family Business, several authors have specifically analyzed the performance of BDs in family firms. Notably:

(*) Professor J.E. Ricart, Professor F. Prosper (President of Idom) and research assistant Yago Gallo have contributed very significantly to the performance of this research. The company Idom provided the financial resources.

- After examining the practices adopted by 147 FBs as regards the size of their BD, its membership, the frequency and duration of Board meetings, the directors' remuneration, and the previous experience of outside directors, Ward & Handy's study (1988) analyzes the companies' assessment of their BD's performance, and closes with a recommendation to include independent, outside directors.
- After analyzing, in a sample of 262 FBs, the attitudes of the company's Chief Executive Officer towards the BD's internal and external members, Schwartz and Barnes' study (1991) concludes that it is preferable that there be more outside directors than inside directors, so long as the CEO is in favour, chooses the outside directors carefully, and has realistic expectations about what they can contribute.
- Ward (1991) uses the typical stages of development of the FB and the changes in the needs of both management and owners as a basis for advocating the creation of a «true» BD that can act as the company's governing body, made up of owners and independent external directors, and that follows certain precise, formalized rules of procedure.

Businesses, a questionnaire (1) was sent to the group of 800 FBs that kept in touch. With a view to improving our knowledge about Boards of Directors in Family with the Chair of Family Business at IESE. In all, 151 companies (19%) returned the questionnaire, although not all of them answered all the questions.

This paper presents the results of the survey. It consists of the following sections:

1. Characteristics of the sample.
2. Whether or not the companies have a BD and how this relates to some of their positional dimensions.
3. General characteristics of the companies' BDs.
4. The perceived usefulness of the BD and how this relates to the companies' positional dimensions.
5. The perceived usefulness of the BD and how this relates to the «Membership» and «Rules of Procedure» variables.
6. The perceived usefulness of the BD and how this relates to the «Time spent» variables.
7. Concluding remarks.

The main results of the survey indicate that:

- A company's position in its industry, its size and age, succession between generations, the number of shareholders, and the extent to which ownership lies outside the family all have a significant influence on whether or not the company has a Board of Directors.

- BDs in Family Businesses have difficulties in making major changes to their membership and tend to oppose discussions aimed at preparing for succession.
- The FBs that consider the BD a very useful institution tend to be larger companies in terms of number of employees and turnover.
- The usefulness of the BD does not depend on the characteristics of its members or the rules of procedure analyzed in this study. However, the number of hours spent in Board meetings does affect its usefulness.
- The amount of time spent by BDs in companies that consider the BD to be of little or no use is closer to what might be expected of a Family Council and is not really appropriate to a company's governing body.

1. Characteristics of the sample

The questionnaires –which in most cases were answered by the company's Chief Executive (Exhibit 2)– correspond to a sample of 151 companies with the following characteristics (Exhibit 3):

- An average turnover per company of 7.2 billion pesetas. 67% of the sample billed more than 1 billion pesetas in 1992 (2). The combined turnover of the companies in the sample is slightly over one trillion pesetas.
- The average number of employees per company is 445. 59% of the sample employ more than 100 people. All together, the companies in the sample employ more than 65,000 people.
- 59% of the companies are in the top 10 in their industry.
- The average age of the companies is 48 years (3).
- 45% of the companies have already reached the third generation or more. Only 10% of the companies have not yet reached the second generation (4).
- In 30% of the companies, a single shareholder holds more than 50% of the capital. In 20%, two shareholders between them hold more than 50% of the capital. On average, the family holds more than 90% of the capital.
- There are few companies with publicly held capital, and even fewer with foreign shareholders.

Given the process used to select the FBs to which the questionnaire was sent, the sample should be considered an «opportunist» sample. It is impossible to say to what extent it represents the universe of FBs.

Nevertheless, the data discussed in this section do enable us to affirm that it is a group of relatively large, long-established FBs, occupying leading positions in their respective industries (5). Consequently, we can safely say that a large number of the companies in this sample have overcome the early crises that FBs typically go through

(Ward, 1986), that they have successfully completed the generational succession processes, and that, compared with Spanish FBs as a whole (Gallo & García Pont, 1989), they have achieved significant growth.

2. Whether or not the companies have a Board of Directors and how this relates to some of their positional dimensions

In the group of 151 FBs that make up the sample, there are 104 (69%) that *do* have a BD and 47 (31%) that *do not* have a BD.

Tables 1, 2, 3, 4 and 5 below show the mean values of the dimensions «Year of foundation», «Latest generation to join the company», «Turnover», «Number of employees», «Position in industry», «Ownership structure», «Number of family shareholders» and «Number of family members» corresponding to the two subsamples (with and without BD), and the results of applying the «measurement comparison» or, where appropriate, the chi-squared (X^2) test:

Table 1

Mean Values	DO NOT have a BD	DO have a BD
Year of foundation*	1952	1942
Latest generation to join the company**	2	3
Turnover in 1992 (million ptas.)	3.855	8.726
Total number of employees in 1992	385	473

* $p < 0.05$

** $p < 0.01$

Table 2. Position in industry (Percentage of companies)

	Top 10	10 - 50	50 - 100	> 100
DO NOT have a BD	30%	40%	14%	16%
DO have a BD	72%	9%	11%	8%

$p(x > X^2) < 0.0001, df=3$

Table 3. Ownership structure (*)

Mean values	DO NOT have a BD	DO have a BD
Owned by the family	98%	91%
Owned by partners who are considered as being “part of the family”	45%	25%
Owned by the general public (stock market, third parties, etc.)	---	25%
% capital held by foreigners	---	38%

* Percentage capital held by each type of owner in the companies they are present in.

** $p < 0.01$

Table 4. Ownership structure (*)

	DO NOT have a BD	DO have a BD
Shareholders who own less than 5% of the capital	6* 49%**	30 55%
Shareholders who own more than 25% of the capital	2 60%***	2 39%
Shareholders who own more than 50% of the capital	1 36%	1 22%

* Number of shareholders.

** Percentage of companies with shareholders with each type of ownership.

*** $p < 0.05$

Table 5. Shareholders and family members

Mean values	DO NOT have a BD	DO have a BD
Number of family shareholders *	6	12
Number of family members *	9	20

* $p < 0.05$

On the basis of these data, we can say that whether or not a Family Business has a BD depends more on the company's age and capital dilution than on its size. This is due to the natural evolution of the family, which grows in size as time goes by, and also to the fact that shareholders who own a significant percentage (between 25% and 15%) of the share capital exercise their right to have a say in the running of the company through the BD.

Another significant finding is the statistical dependence between the company's position in its industry and the existence of a body that helps to achieve and maintain this position, to develop the company's image as a leader, etc.

As can be seen, some of the factors that have a significant influence on whether or not a company has a BD (larger number of shareholders and family members, and number of generations involved in the company) tend to arise naturally «as time goes by» in any FB that survives. In the case of the «position in industry» factor, it is highly desirable that the FB hold a leading position if it is to continue to increase value for its owners, generate employment, and contribute wealth to society. The last dimension (public ownership of shares) is vital for some FBs if they are to have access to the financial resources they need in order to develop new technologies, reach new markets and finance significant ongoing growth (Grego, 1984; Young, 1990; Ward & Handy, 1988).

Table 5B below shows the reasons given for *not* having a Board of Directors. In the 47 companies that do not have a BD, one reason is perceived as being particularly important, namely that «There is no need for one (because of the share structure, closeness of the shareholders, type of company, etc.)». Two other reasons are considered moderately important: «It would slow down decision-making» and «Lack of experience». Finally, two reasons are considered unimportant: «The cost» and «It would create problems among the shareholders».

Table 5B

Reasons for not having a Board of Directors	Importance of the reason					
	Very important	Important	Fairly important	Not very important	Not at all important	Doesn't answer
1. There is no need for one (due to the share structure, closeness of shareholders..)	26* 55%	11 23%	5 11%	2 4%	2 4%	1 2%
2. It would cause problems between the shareholders...	0 0%	3 6%	6 13%	5 11%	15 32%	18 38%
3. It would slow down decision-making	5 10%	13 29%	10 21%	4 9%	5 10%	10 21%
4. It would mean a high financial cost for the company	3 6%	4 9%	4 9%	11 23%	15 32%	10 21%
5. Lack of experience in the operation of a Board of Directors	6 13%	12 26%	9 19%	5 10%	7 15%	8 17%

* Number of companies.

3. General characteristics of the Board of Directors

The questionnaire asked about the characteristics of the BD (Exhibit 1). These characteristics can be classified in three groups:

- «Membership» (number and type of directors).
- «Rules of procedure» (frequency and duration of meetings, tenure, information sent before meetings, definition of functions, and assessment of directors).
- «Time spent» (listening to reports, approving decisions, discussing critical issues).

Table 6 below shows the distribution of the companies according to the number of members on their BD. It is generally considered that, for a BD to be effective, the number of members should be conditioned by the need to be able to work satisfactorily as a team (the BD should be neither too large nor too small), the size and complexity of the company, and the company's need to obtain third-party resources with the help of its directors (Boyd, 1990).

Bearing this in mind, it could be said that most of the companies in the sample probably have a suitable number of directors (in fact, 65% of the companies have between 5 and 13 directors) (Breedon, 1993; Johnson, 1990; Patton & Baker, 1987; Roche, 1987; Stobaugh & Borders, 1996).

Table 6

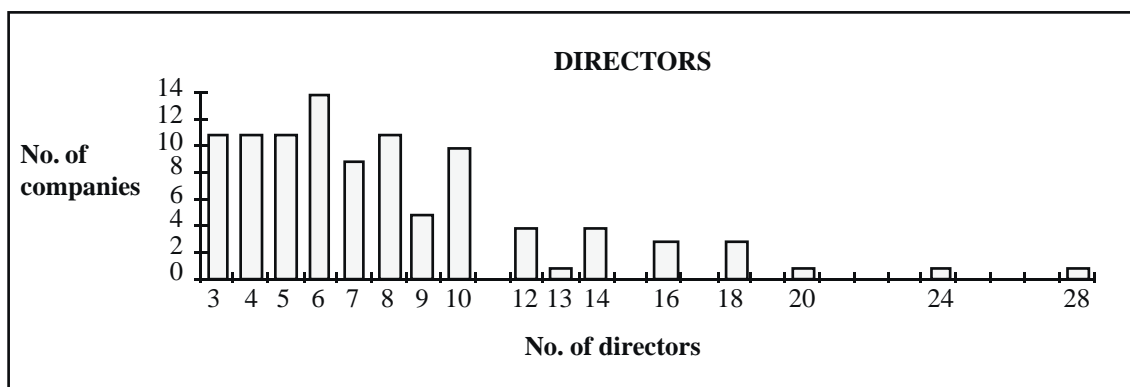


Table 7 below shows the distribution of the directors according to the type of «Link with the company» normally envisaged in FBs, their «Education» and their «Age».

Table 7**TYPES OF RELATIONSHIP**

Percentage of directors: internal			Ditto: external
Shareholders who work in the company	Shareholders who do not work in the company	Company managers (non-shareholders)	Neither shareholders nor company managers
42%*	38%	9%	12%

EDUCATIONAL LEVEL

Primary education	Secondary education	First degree	Postgraduate degree
6%*	18%	17%	58%

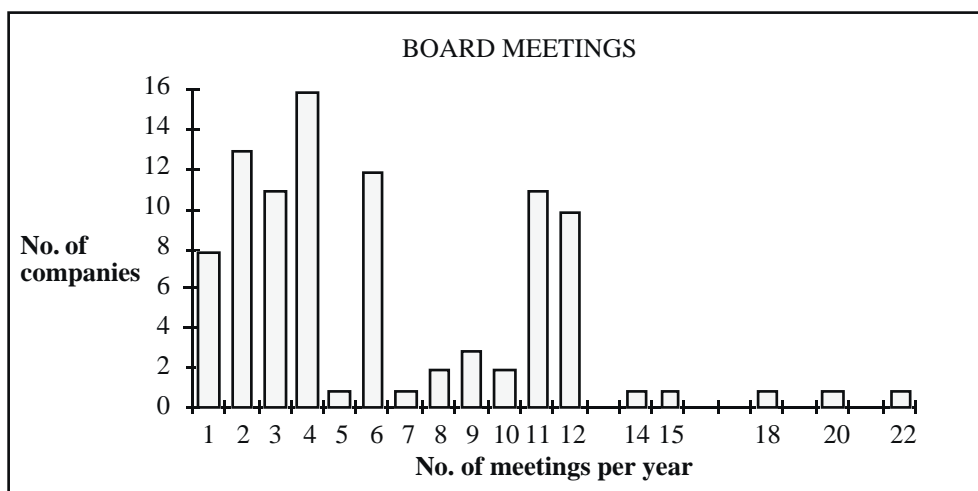
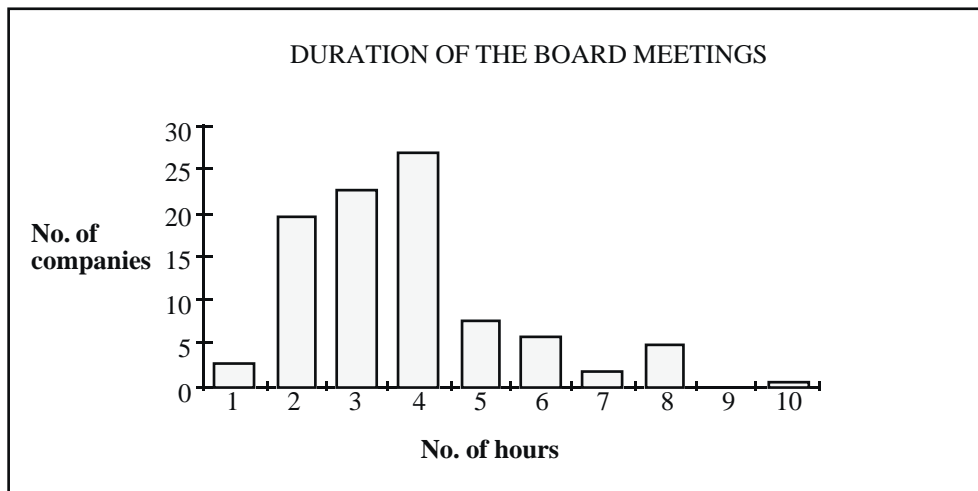
AGE

Under 25	Between 25 and 45	Between 45 and 65	Between 65 and 75	Over 75
3%*	35%	43%	11%	6%

* Percentage of the total number of directors in the companies that make up the sample

Table 8 below shows the distribution of the BDs according to the «Number of meetings» held per year and the «Duration» of Board meetings.

Table 8



As can be seen, in most cases (73%) the frequency of Board meetings is within the limits of what is generally considered adequate (from once a month to once every four months). The duration of the meetings (in 67% of cases, between 3 and 6 hours) also seems appropriate (Lorsch, 1990; Van Hamel, 1996; Ward, 1988).

Table 9 below shows the tenure of Board members and the planned retirement age.

As can be seen, in 76% of cases the expected tenure is between 4 and 5 years, which is in line with general practice in most countries and with what has usually been laid down in the articles of association of Spanish companies. However, given that in the great majority of cases (78%) there is no set retirement age, there is nothing to stop a person being reelected to the Board again and again. This can lead to situations in which directors find it difficult to understand and promote the change that is vital for all FBs, or are simply beyond the age at which they can make a useful contribution.

Table 9

TENURE.			PLANNED RETIREMENT AGE FOR DIRECTORS.		
Years	No. of companies	%	Age	No. of companies	%
2	4	5%	70	2	3%
3	2	3%	71	0	0%
4	19	25%	72	1	1%
5	39	51%	73	0	0%
6-7-8-9	0	0%	74	0	0%
10	1	1%	75	0	0%
Unlimited	12	16%	None	78	96%
77		100%			

Table 10 below shows data on whether or not information is sent out in advance of Board meetings, and what sort of information; whether the Board’s functions are clearly defined; and whether directors are subject to assessment.

Table 10

The Board of Directors’ functions are set down in writing:	Yes	No
	53%	47%
Information is sent to directors in advance of Board meetings:	Yes	No
	71%	29%
Of the companies that send information beforehand, the information sent is (% of the cases):	Yes	No
Agenda of the meeting	90%	10%
Financial statements	79%	21%
Information on important decisions	79%	21%
Minutes of the previous meeting	65%	33%
Is the directors’ contribution assessed on a regular basis?	Yes	No
	12%	88%

With regard to the functions of the BD, it should be pointed out that under Spanish law the BD has full accountability and functional responsibility for the running of the company, within the framework approved by the General Meeting of Shareholders and outside of the periods when shareholders' meetings are held. The BD may delegate (to one or several people, on a one-off basis or permanently) virtually all of its functions (but not its responsibilities to the General Meeting of Shareholders), or it may decide to perform all of them itself in its capacity as BD.

Drawing up and approving a definition of the BD's functions means making explicit which –among all the possible functions– are to be performed by the BD, which it is to delegate and to whom, and what rules of procedure it is to follow.

There is no doubt that, given the scope permitted by the law, this commitment is very important for a FB's shareholders, as it tells them how the people who represent their interests –important financial interests– on the company's governing body are going to act.

In view of this, it is revealing, as far as understanding how BDs operate in the companies in our sample is concerned, to see that in almost half of them (47%) the BD's functions are *not* set out in writing. And it is likely that some of those who said that they *were* set out in writing (53%) were referring to the very general and basically «legalistic» description of the BD's «powers» usually given in the articles of association.

For a BD to be useful it must have information. Part of this information and knowledge should be obtained by the director himself, but part needs to be given him by the company. When a BD does not have knowledge, ignorance makes it «ill», and this is what may happen to about one-third (29%) of the BDs in our sample, whose members do not receive information in advance of Board meetings. Furthermore, the fact that in 33% of cases the directors do not receive the minutes of the previous meeting may simply be a sign of «informality» in the way the BD works, but it may also be because people do not want to have «positions» on «sensitive» family issues on which it may be dangerous to express an opinion in an «official» way set out in black and white in the minutes.

The lack of any regular assessment of directors' performance (in 88% of the FBs in the sample), together with the length of tenure and the failure to set a retirement age, leads one to suspect that in this sample of FBs there will be opposition to any attempt to renew the BD (Kets de Vries, 1988; Ward, 1988).

This resistance also becomes apparent when we look at the correlations between the «Membership» and «Rules of procedure» variables (Exhibit 4). Indeed, there is a positive correlation, although weaker (+0.756), between the number of directors with postgraduate degrees and the size of the BD, which indicates that the appointment to the Board of academically more highly qualified people (normally younger members of the family, since, as can be seen in Table 7, there are not many non-family outside directors or managers) is not accompanied by the standing down or retirement of older members of the family.

Table 11 below shows how the time spent in Board meetings is distributed among «listening to reports», «approving decisions» and «discussing critical issues».

As can be seen, the BDs in this sample of companies spend a large part (50%) of their time listening to reports. This could be reduced to some extent if the information was prepared and sent to directors beforehand (e.g., the information on financial statements). Very little time is spent on «Developing the management team» (4%) and «Preparing for succession» (2%).

In this context, it is worth pointing out that «supervising the development of the management team» is generally regarded as one of any BD's primary responsibilities, given that much of a company's value lies in the value of its human resources.

It is also widely recognized that designing, implementing and evaluating the results of succession processes is a critical issue for any FB, given the influence it has on the high mortality rates among this type of company and their ability to change and grow (Alcorn, 1982; Dyer, 1986; Gallo & Cappuyns, 1995; Kets de Vries, 1988; Ward, 1988).

Table 11

TASKS PERFORMED BY THE BOARD OF DIRECTORS		MEAN TIME %
Listen to reports 50%	Latest financial results	19%
	From COO	19%
	From "key" managers	8%
	From other important members of the family	4%
Approve decisions 25%	Formal (dividends, powers of attorney, remuneration, etc.).	7%
	Strategic	14%
	Relations between family and company	4%
Discuss critical issues 25%	Future products, markets, investments, etc.	12%
	Development of the management team	4%
	Preparing for succession	2%
	Situation of family members	3%
	Others:	4%

4. The perceived usefulness of the BD and how this relates to the companies' positional dimensions

Table 12 below shows the mean values of the positional dimensions, sorting the 104 companies into three groups, according to the perceived usefulness of their BD: «High» (extremely useful and very useful), «Medium» (useful), and «Low» (not very useful and a waste of time).

Table 12

	Level of usefulness of the BD	High	Medium	Low
	Number of companies in the group	34	40	31
Positional data	Year of foundation	1939	1949	1937
	Latest generation to join the company	3	3	3
	Turnover (million pesetas) (2)	15,491	6,417	4,573
	Number of employees (1)	881	329	208
	Position in the industry	Among top 10	Between 10th and 50th	Between 10th and 50th
Ownership structure	Owned by family (*)	92	89	82
	Owned by partners "considered part of the family"	7	6	10
	Owned by the general public (**)	3	6	10
	Owned by foreigners (***)	-	-	-
	No. of shareholders who hold less than 5%	21	20	8
	No. of shareholders who hold more than 25%	1	1	1
	No. of shareholders who hold more than 50%	0	0	0
	No. family shareholders	9	15	8
(*) This is 100% in:	26 companies	22 companies	13 companies	
(**) This is the case in:	6 companies	8 companies	10 companies	
(***) This is the case in only two companies				

(1) $p(x > x^2) = 0.0133$; df = 6

(2) $p(x > x^2) = 0.0617$; df = 6

The X^2 tests performed to measure the statistical dependence between the three levels of usefulness of the BD and the «positional» dimensions indicate that (6):

- There is a significant statistical dependence between the BD's level of usefulness and the FB's «Total number of employees» ($X^2 = 16.08$ and Probability = 0.0133).
- There is some statistical dependence between the BD's level of usefulness and «Total turnover» ($X^2 = 12.01$ and Probability = 0.0617).

The data in Table 12 and the statistical results set out above show that the BD is very useful in the larger FBs («larger» in terms of sales and headcount) (Grego, 1984). This higher level of usefulness may be due to reasons such as the following:

- Greater size is usually associated with more complex «stakeholder» relations, and it is known that having a BD can be helpful in developing this type of relationship (The Committee on Financial Aspects of Corporate Governance and Gee and Co. Ltd., 1992).
- Important decisions in larger companies usually entail a higher risk for those who take them. It may therefore be desirable for the CEO of such companies to be able to «share» decisions with a BD (Lorsch, 1989).
- Larger size is usually associated with significant requirements for different types of resources; consequently, it is good to have a BD that can provide a wider range of viable alternatives for obtaining combinations of resources (Boyd, 1990).
- Larger companies have more experience in developing relationships between the Chief Executive and the BD. By this means, the BD is able to contribute greater value to the company through its activity as a governing body.

The absence of statistically significant relationships in the other «positional» dimensions indicates that, in this sample, the usefulness of the BD is unrelated to:

- The age of the FB.
- The latest generation to join the company.
- The ownership structure, in terms of the number and type of shareholders.

5. The perceived usefulness of the BD and how this relates to the «membership» and «rules of procedure» variables

Table 13 shows the mean data on the number of directors, their age, the type of link they have with the company, and their educational background for each of the three groups of companies corresponding to the three levels of usefulness of the BD. No statistically significant relationships were identified, either with variance analysis (ANOVA) or chi-squared (X^2) tests.

Table 13

Level of usefulness of BD		High	Medium	Low
Number of companies in the group		37	40	28
Number of directors in the BD (*)		8.86	6.55	5.29
Age of directors on the BD (**)	< 25 years	0.27(24%)***	0.13(23%)	0.11(18%)
	25-45 years	1.86(68%)	2.64(82%)	1.93(79%)
	45-65 years	2.73(68%)	3.23(72%)	2.21(79%)
	65-75 years	0.81(38%)	0.69(28%)	0.68(50%)
	> 75 years	0.19(35%)	0.26(44%)	0.32(39%)
Directors' link with company (**)	Shareholders working in the FB	2.68(89%)***	3.22(97%)	2.53(93%)
	Shareholders not working in the FB	2.65(59%)	3.03(82%)	1.71(71%)
	Non-shareholder managers	0.65(35%)	0.44(33%)	0.71(46%)
	External (non-shareholder, non-manager)	0.73(38%)	1.10(41%)	0.30(11%)
Directors' education (**)	Primary	0.19(16%)***	0.31(15%)	0.50(36%)
	Secondary	0.84(49%)	1.26(59%)	1.00(61%)
	First degree	1.08(46%)	1.13(56%)	0.75(43%)
	Postgraduate	3.24(81%)	4.03(90%)	2.75(79%)

(*) Total number of directors in the companies of each group, divided by the number of companies in the group.

(**) Total number of directors in the companies of each group who have the characteristic indicated, divided by the number of companies in the group.

(***) Percentage of companies in the group having directors with this characteristic.

Table 14 shows the data on the various rules of procedure of the BDs, and the results of applying variance analysis.

Table 14

Level of usefulness of the board	High	Medium	Low
Number of companies in the group	37	40	28
Duration of Board meetings in hours(*)	4.16	3.54	2.66
Number of meetings per year (*) (1)	7.62	6.49	4.04
Hours spent per year (*) (2)	33.61	23.65	12.34
Annual remuneration in pesetas (*) (2)	2,114,000 (14 answers)	1,068,000 (13 answers)	1,175,000 (7 answers)

Information sent prior to the BD meeting (**)	Meeting's agenda	73%	54%	50%
	Minutes of the previous meeting	54%	33%	29%
	Financial statements	54%	46%	46%
	Important decisions	65%	36%	50%

(*) Total number of hours corresponding to all companies in each group, divided by the number of companies in the group.

(**) Percentage of companies that say they do send information.

(1) $P < 0.05$

(2) $P < 0.01$

According to this information, there is a statistically significant correlation not only between the number of hours directors spend per year in Board meetings and the perceived usefulness of the BD (more hours spent means a more useful BD), but also between the perceived usefulness of the BD and the duration of each meeting (shorter meetings mean a less useful BD).

The analysis we have presented in this section allows us to affirm that there are no determining correlations between the usefulness of the BD, as rated by the FB's Chief Executive, and either the composition of the Board's membership or the sending of information to directors in advance of Board meetings.

6. The perceived usefulness of the BD and how this relates to the «time spent» variables

Table 15 below shows the time spent on the various issues included in the questionnaire as a percentage of the total time spent in Board meetings, along with the results of the variance analysis.

Table 15

Level of usefulness of the BD	High	Medium	Low
Number of companies in group	37	40	28
Listen to reports (*)	41%	51%	49%
On financial statements	14%	19%	20%
From the COO	17%	18%	15%
From “key” managers	7%	10%	9%
From other important family members (1)	3%	4%	5%
Approve decisions (*)	21%	20%	20%
Formal	6%	5%	9%
Strategic	13%	11%	10%
Relations between company and family	2%	4%	1%
Discuss critical issues (*)	21%	18%	18%
Future products	12%	12%	9%
Development of the management team	5%	3%	2%
Preparing the succession (1)	1%	1%	3%
Situation of family members	3%	2%	4%

(*) Mean percentage time spent by companies in the group.

(1) $p < 0.05$

The results show a statistically significant relationship between the usefulness of the BD and the amount of time spent listening to reports from «other key family members» and discussing succession (less time spent on these issues means a more useful BD). This correlation is surprising in a FB, although, as we shall see, there is an obvious explanation for it within the overall distribution of the time spent by BDs.

A BD is made up of a group of people with shared responsibilities. Therefore, to be useful, it must be able to organize itself and perform its task by working effectively as a team.

For the work performed by a team to be useful, the members of the team must listen to one another; in other words, they must listen to what the others think, they must be prepared to change their opinion, and they must avoid monotonously going over the same old arguments again and again. Accordingly, if we compare the correlations, in each subsample, between the time spent on «Approving decisions» and «Discussing critical issues» and the time spent on listening to important members of the management team, we may discover reasons why the BD is perceived as more or less useful, based on the way the directors behave.

As can be seen in the corresponding correlation tables (Exhibits 8, 9 and 10), in the subsample of FBs whose CEO sees the Board of Directors as being of little or no use («low» usefulness) the behavior of directors is markedly different from that of directors in the subsample whose BD is rated more highly («high» usefulness).

In BDs with a «low» level of usefulness (Exhibit 8), the «important family members» take on particular *importance*, in the sense that the time spent listening to them has a considerable influence on the time spent on other issues. When they speak –and we must remember that it is not the company’s CEO who is speaking but members of the family– the BD devotes more time to discussing some issues and less to others. Conversely, when the BD is discussing certain issues, more or less time may be spent listening to these «important family members».

In this subsample (BDs with a «low» level of usefulness) we find, on the one hand, a positive correlation between the time spent listening to «important family members» and that spent discussing the «development of the management team» (+0.712) and the «situation of family members» (+0.699). On the other hand, we find a negative correlation between the time devoted to «important family members» and that spent «preparing for succession» (–1.000).

This *prominent role* accorded to «important family members» is not apparent in the subsample of FBs whose CEO finds the Board of Directors very useful («high» usefulness) (Exhibit 10). It does appear, however –to a lesser extent and more counterbalanced by the role of the CEO– in the subsample with a moderately useful BD («medium» usefulness) (7) (Exhibit 9).

To take a different angle, given that the BD is empowered to allot responsibilities for the decisions it approves, comparing correlations in the three subsamples between the time spent «approving decisions» and «discussing critical issues» may help to pinpoint differences in the behavior of BDs.

The BDs whose usefulness is rated as «low» are more «sensitive» when it comes to making *formal* decisions and decisions concerning *relations between the family and the company*.

In BDs with a «low» level of usefulness (Exhibit 8) the time spent approving «formal decisions» (dividends, powers of attorney, remuneration, etc.) changes in the same direction as that spent approving decisions on «relations between the company and the family» (+0.904), «preparing for succession» (+1.000), and the «situation of family members» (+0.949). Also, the time spent approving decisions on «relations between company and family» changes in the same direction as that spent discussing «other critical issues» (+1.000) and the «situation of family members» (+0.849).

This «sensitivity» is not found in the subsample of FBs whose CEO values the BD highly («high» usefulness) (Exhibit 10). It does appear, however, though to a lesser extent, in the subsample with a «medium» level of usefulness (8) (Exhibit 9).

Finally, given how important the issue of succession is for FBs and in view of the fact that in this sample, as in other samples (9), very little time is spent on this issue, comparing the way the three subgroups behave will also enable us to detect differences in directors' behavior.

In FBs with a highly useful BD, the time spent discussing succession is unrelated to the time spent on any of the other issues (Exhibit 10). In the «medium» usefulness group (Exhibit 9), the only correlation is with the time spent approving «formal» decisions (+0.948). In the «low» usefulness group (Exhibit 8), however, we find up to nine correlations, which suggests either that to discuss the issue of succession in Board meetings is to open a Pandora's box (10) that is full of surprises affecting other important issues; or that in order to work on these other issues, the Board must also spend time «preparing for succession».

To sum up, as far as the BD's ability to work as a team is concerned, we can say that the time spent working on any given issue, in BDs whose work is rated highly («high» usefulness), shows no statistically significant correlations and can therefore be devoted more wholeheartedly, i.e. with less bias and fewer restrictions, to the task of governing the enterprise.

In contrast, the type of BD rated as only marginally useful («low» usefulness) behaves more like a *Family Council* than a BD that is genuinely governing its company. A Family Council, moreover, that is «dominated» by key family members and obsessed with relations between the family and the company and with the situation of family members. A Family Council that devotes very little time –because of the «unpleasantness» it may generate– to one of the most crucial issues for any company that is both a company and a family: the issue of succession.

7. Concluding remarks

The «boundaries» and «common ground» between the work of a governing body and that of management are neither precisely drawn nor fixed over time. That is why it may be difficult to understand, design and implement a distinction between the two. Nevertheless, given the constant changes in the ways of competing in markets, and in the characteristics of company managers and owners, it will become increasingly important for the company's development to make such a distinction (Lorsch, 1995; Whisler, 1983).

The distinction is particularly important in Family Businesses. In fact, when a FB is in the first or second generation and has few or only one owner, who normally runs it on his own and very much according to his own personal preferences, to have only Management and no Governance is to risk making serious strategic and organizational mistakes, for lack of anyone who might challenge the opinions of the person at the helm (Gallo, 1997).

When the FB has already been through several generations and its capital is more diluted, perhaps even with non-family shareholders, those who run the company, seeking to avoid problems with the owners, run the risk of allowing or encouraging the owners to become «passive» shareholders. It may find itself with shareholders who lack either the

training or the interest to work for the company's future growth, or who have no means of «getting out» of the FB and have no body that really understands and protects their interests (De Visscher *et al.*, 1995). Such shareholders are unlikely to remain «united» and «committed» to their company's future.

The legislation on joint-stock companies and the experience gained in many successful multigenerational FBs indicate that the Board of Directors may be the body that is needed to supervise the choice of strategy, so that it is based on the personal preferences of the people running the company when those preferences are right, and to «reorientate» any personal preferences that lead to errors in strategic judgement. The body that, by supervising the management team, which is the company's most important resource in the long term, encourages those who run the FB to recruit the best candidates, to avoid nepotism, and to promote ongoing management development. Finally, the body that guarantees, through accuracy and completeness of information, the company's honesty in its dealings with stakeholders.

In contrast to non-family businesses, succession in FBs is unlikely to take place simply by replacing one Chief Executive with another. Succession in FBs involves significant changes in ownership, and therefore also in the relationship between owners, company and managers (Mace, 1976; Salmon, 1993). The BD has a key role to play in this process, since it can be a training school for successors, a driving force in the design and implementation of new relationships with shareholders, and a promotor of the application of professional management systems.

In the sample of FBs analyzed in this paper, which can be considered as large, successful and well-established compared with Spanish FBs as a whole, it would appear that in most cases the BD has not contributed as much to the company's growth and development as might be expected.

Indeed, in as much as 31% of cases, these FBs do not even have a BD, and in only 24% of those that do have a BD is the BD considered particularly useful.

In the case of companies that do not have a BD, the main reasons given for not having one –«There is no need for one» and «It would slow down decision-making»– may be evidence of the opposite, i.e. of the need for a BD. It may be that in these cases the CEO is so «dangerously» convinced of his own ideas that he thinks he is always right or feels that to consider other alternatives would be a waste of time.

The failure to feel a need for a governing body in the company –unless justified by a situation peculiar to FBs and the owning family, or certain exceptional features of the person running the company– is a clear sign of ignorance of the way good strategic management can «enrich» a company's capacities; or of a desire to rule the roost alone; or, at worst, given how dangerous it can be for the FB, of a CEO who overestimates his own managerial abilities.

To be firmly convinced that a BD will necessarily slow down decision-making is to equate the workings of a BD with something as far removed from a good BD as an inefficient bureaucracy. It is to confuse the «importance» of a decision with the «urgency» of that decision; to be incapable of distinguishing the «preparation and maturing» of a decision from the actual taking of the decision; or worst of all, to refuse other people the right to have a say in the choice that has to be made.

In the case of the companies that do have a BD, the main reasons for a lack of usefulness have to do less with their rules of procedure than with the fact that too much authority has been given to individuals who make no effort to contribute to the governance of the company, or that too much time is spent on discussions that give rise to «misunderstandings» or act as «distractions» from the really important issues that can help increase the company's value.

A really successful BD, as far as the chief executives of the FBs in our sample see it, is not merely one that has followed certain tried and tested rules for selecting directors (number of directors, professional qualifications, personal characteristics, etc.); nor one that has implemented and stuck to certain practical rules, which naturally enough will be the rules applicable to any sort of teamwork, given that a BD is a team of people who must work together. A BD's success must be based on respect for these rules, as they are usually a «necessary condition», but it must also be aided by other characteristics that create the «sufficient condition».

These characteristics include quality in the way the Board operates. Quality in the accuracy and promptness of the information provided to directors. Quality in the use of directors' time, both as regards the issues to be discussed in Board meetings and the time allotted to each issue. Quality in the way Board meetings are run. And last but not least, quality in the performance of the person who heads the BD (Henke, 1985), normally the chairman, who should set an example and lead the directors in their task, without confusing this task with that of company management.

But most important of all for the success of a BD in a Family Business are the personal qualities of the directors themselves, individually and as a group (Grumbar & Kelly, 1993; Mace, 1976; Salmon, 1993; Wallance, 1985). Without a doubt, success depends on the directors' desire to do their best; on their willingness to devote time to the issues that are most important at any given moment, so as to support company management or to change it, if necessary; and on their commitment to the continued growth and development of an organization that is a good shared by the owners, the people who run the company, those who work in it, and society in general. □

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- (1) The questionnaire is reproduced in Exhibit 1.
 - (2) By way of comparison, in Spain in 1993 (in round figures) (Dun & Bradstreet International, *50.000 Principales Empresas Españolas*, CD-Rom Visualización, 1995):
 - 1,100 companies billed more than 10 billion pesetas.
 - 1,100 companies billed between 5 and 10 billion pesetas.
 - 3,400 companies billed between 2 and 5 billion pesetas.
 - (3) To give an idea, the average age of the 229 largest FBs in Spain in 1992 was 35 years (Gallo & Cappuyns, 1995).
 - (4) In a sample of 530 FBs chosen at random from among the Spanish FBs with a turnover of more than 200 million pesetas in 1986, 43% had not yet reached the second generation (Gallo & García Pont, 1989).
 - (5) In the analysis carried out to identify possible correlations between the positional dimensions of section 1 of the questionnaire (Exhibit 1), no trends have been identified that might reveal sample bias that could affect the interpretation of the results.
 - (6) In order to perform the X^2 tests corresponding to this and the following section, the values that the companies gave for the different variables have been grouped in categories as shown in Exhibit 5.
 - (7) In these FBs, there is a positive correlation between the time spent listening to «important family members» and that spent discussing the «situation of family members» (+0.920). But when the Board listens more to «important family members», they also listen more to «reports from the COO» (0.822).
 - (8) In these FBs, there is a positive correlation between the time spent approving «formal decisions» and that spent discussing how to «prepare for succession» (+0.948). Also, the time spent approving decisions

- concerning «relations between the company and the family» correlates positively with that spent discussing the «situation of family members» (+0.953) and the «development of the management team» (+0.813).⁽⁹⁾ In a sample of 147 FBs, Ward & Handy (1988), members of The Executive Committee (Milwaukee, Wisconsin), found that the time spent by the BD on succession was 2%.
- (9) In a sample of 147 FBs belonging to The Executive Committee (Milwaukee, Wisconsin), Ward & Handy (1988) found that the percentage of time spent by the BD on succession was 2%.
- (10) The time spent discussing «preparing for succession» correlates negatively with the time spent listening to reports given by the «COO» (-1.000) and other «key family members» (+0.849). It correlates positively with the time spent listening to reports on «financial statements» (+0.849), approving «formal decisions» (+1.000), decisions concerning «relations between the family and the company» (+0.984) and «strategic decisions» (+0.713), and the time spent discussing the «situation of family members» (+0.996), «future products» (0.983) and the «development of the management team» (+0.733).

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Exhibit 1

Questionnaire



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08034 Barcelona

BOARD OF DIRECTORS**1. Positional data**

Approximate year of foundation of company:	FUNDA	Main field of business:			
Which is the latest generation to have joined:	GENER			
Total turnover in 1992 (million pesetas):	VTAS	What is its position in the industry:			
Total number of employees in 1992:	PERS	Top 10	10 - 50	50 - 100	> 100
		4	3	2	1

Ownership structure	% of total capital
Owned by family	KFAM
Owned by partners considered as being «part of the family»	KSOC
Owned by the general public (stock market, third parties,...)	KPCO

% capital held by foreigners	KEXTRA
Approximate number of foreign shareholders	NEXTRA

Ownership structure	Number
Shareholders who hold less than 5% of the capital	ACC 5
Shareholders who hold more than 25% of the capital	ACC 25
Shareholders who hold more than 50% of the capital	ACC 50

Approximate number of family shareholders	ACC F
Approximate number of family members	MIE F

2. If the company does NOT have a Board of Directors.

Reasons for NOT having a Board of Directors	Importance of the reason				
	Very important	Important	Fairly important	Not very important	Not at all important
1. There is no need for one (due to the shareholding structure, closeness of shareholders, type of company, etc.)	5	4	3	2	1
2. It would cause problems between shareholders					
3. It would slow down decision-making					
4. It would be a high financial cost for the company					
5. Lack of experience in how a Board of Directors operates					
6. Other reasons:					

Exhibit 1 (continued)

3. If the company DOES have a Board of Directors: Number of directors

Number of directors					
Less than 25 years	Between 25 and 45 years	Between 45 and 65 years	Between 65 and 75 years	Over 75 years	TOTAL
25	25 - 45	45 - 65	65 - 75	75	TOTAL

Number of directors: internal			Ditto: external
Shareholders who work in the company	Shareholders who do not work in the company	Company managers (non-shareholders)	Neither shareholders nor managers of the company
A TRAB	A NO TR	DIREC	NO AC-D

Number of directors according to level of education			
Primary education	Secondary education	First degree	Postgraduate degree
E PRIM	E SECU	E UN ME	E UN SU

4. Functioning of the Board of Directors

Number of meetings held by the Board of Directors per year:

REUNI

Approximate duration of the meetings (in hours):

HORAS

Total annual remuneration for being a member of the board (in pesetas):

REMUN

Established tenure of directors (in years):

DUR CA

Planned retirement age for directors:

ED RET None

Are the Board of Directors' functions set down in writing?

FUNC

Yes No

1 **0**

Is information sent to directors in advance of Board meetings?	Yes	No
INFO		
Type of information sent:	Yes	No
Agenda of the meeting: AGEND		
Minutes of the previous meeting: ACTA		
Financial statements: ESTAD		
Information on important decisions: DE IMP		
Others:		

Is the directors' contribution assessed regularly?:

Yes No

EVALU**1** **0**

Who performs the assessment:

Exhibit 1 (continued)

5. Use of the Board's time, and general usefulness of the Board of Directors

Tasks performed by the Board of Directors		% time spent in Board meetings
Listen to reports	Latest financial results	RESUL
	From the COO	DIR GE
	From «key» managers	DIR CL
	From other important family members	FIG FA
Approve decisions	Formal (dividends, powers of attorney, remuneration, etc.)	FORMA
	Strategic	ESTRA
	Family-company relations	REL FA
Discuss critical issues	Future products, markets, investments, etc.	FUTUR
	Development of the management team	EQUIP
	Preparing for succession	PR SUC
	Situation of family members	SIT FA
	Others:	OTROS

In your opinion, how useful is the Board of Directors for the company:

Extremely useful	Very useful	Useful	Not very useful	A waste of time
5	4	3	2	1

In your opinion, where does true power lie in your company:

Chairman of the Board	Board of Directors	COO	Management team	Others
5	4	3	2	1

6. What is your position in the company?:

.....

Thank you very much for your help!

Exhibit 2

Who answered the questionnaire

Position	N (*)	Percent
Chief executive (**)	90	66.18%
Manager	23	16.91%
Director	17	12.5%
Shareholder	5	3.68%
Consultant	1	0.74%
Total	136 (***)	100%

(*) Number of companies.

(**) Covers the positions of Chairman, CEO, Sole Administrator, and COO.

(***) Of the 151 companies in the sample, 136 answered this question.

Exhibit 3

Industry	N (*)	Percent
Agriculture and livestock	4	2.76%
Food and beverage	22	15.17%
Cement	5	3.45%
Auto components	3	2.07%
Construction	17	11.72%
Distribution	13	8.97%
Publishing and press	3	2.07%
Electric appliances	1	0.69%
Electrical energy	5	3.45%
Hotels and tourism	5	3.45%
Furniture	4	2.76%
Paper and cardboard	3	2.07%
Fur and hides	3	2.07%
Chemicals	10	6.90%
Services	15	10.34%
Iron and steel	8	5.52%
Textile	24	16.55%
Total	145 (**)	100 %

(*) Number of companies.

(**) Number of companies that answered this question.

	Mean	Max.	Min.	Total	N (**)
Approximate year of foundation:	1945	1989	1810		149
Which is the latest generation to have joined	3	6	1		143
Total turnover in 1992 (million pesetas):	7,170	100,000	32	1,032,491	144
Total number of employees in 1992:	445	15,000	4	65,016	146

Position in the industry								
Top 10		10 - 50		50 - 100		> 100		n (**)
n (*)	%	n	%	n	%	n	%	
80	59	25	18	16	12	15	11	136

(*) Number of companies.

(**) Number of companies that answered this question.

Exhibit 4

Correlations (All companies that DO have a BD)

Pearson Product-Moment Correlation

No Selector

104 total cases of which 104 are missing

	UTIL (cat)	2 5	2 5 - 4 5	4 5 - 6 5	6 5 - 7 5	7 5	TOTAL	A TRAB	A TRAB...	A NOTR	A NOTR...	DIREC	DIREC ()	NO AC-D	E PRIM	E SECU	E UN ME	E UN SU	ESTUDIOS	
UTIL (cat)	1.000																			
2 5	0.060	1.000																		
2 5 - 4 5	0.122	0.089	1.000																	
4 5 - 6 5	-0.022	-0.267	-0.391	1.000																
6 5 - 7 5	0.016	-0.190	0.047	0.002	1.000															
7 5	-0.163	0.017	-0.019	0.116	-0.067	1.000														
TOTAL	0.083	0.243	0.573	0.324	0.341	0.092	1.000													
A TRAB	0.051	0.023	0.419	0.165	-0.017	0.006	0.483	1.000												
A TRAB ()	0.005	0.080	0.383	0.121	-0.007	0.013	0.450	0.906	1.000											
A NOTR	0.132	0.218	0.409	0.013	0.126	0.111	0.524	0.055	0.073	1.000										
A NOTR. ()	0.122	0.226	0.350	0.085	0.210	0.048	0.554	0.047	0.051	0.866	1.000									
DIREC	0.005	0.052	-0.074	0.055	-0.007	0.252	0.058	-0.027	-0.058	0.112	-0.035	1.000								
DIREC ()	0.058	0.016	-0.079	-0.033	-0.074	0.376	-0.031	-0.020	-0.040	0.056	-0.090	0.884	1.000							
NO AC-D	0.066	0.026	0.088	0.157	0.110	-0.191	0.212	-0.123	-0.107	-0.078	-0.054	-0.175	-0.171	1.000						
E PRIM	-0.155	-0.061	0.167	-0.089	-0.018	0.066	0.048	0.130	0.148	-0.039	0.010	-0.056	-0.059	-0.103	1.000					
E SECU	-0.035	-0.070	0.155	0.051	0.014	0.208	0.188	0.171	0.169	0.118	0.124	0.033	0.086	-0.146	0.218	1.000				
E UN ME	0.129	0.094	0.181	0.178	0.069	-0.008	0.361	0.163	0.163	0.138	0.189	0.068	0.025	0.090	0.067	0.071	1.000			
E UN SU	0.106	0.294	0.418	0.258	0.262	-0.154	0.756	0.401	0.327	0.454	0.462	0.041	-0.072	0.255	-0.127	-0.161	0.025	1.000		
ESTUDIOS	0.144	0.162	0.068	0.153	0.078	-0.295	0.238	0.073	0.042	0.171	0.180	0.016	-0.056	0.240	-0.525	-0.591	-0.079	0.696	1.000	
ESTUD. ()	0.075	0.120	0.043	0.128	0.000	-0.221	0.158	0.119	0.060	0.141	0.171	0.029	-0.015	0.105	-0.333	-0.524	-0.100	0.571	0.788	
REUNI	0.296	0.089	-0.039	0.024	0.032	-0.153	0.077	0.109	0.029	0.005	0.048	-0.055	-0.060	-0.006	-0.127	-0.173	0.015	0.212	0.306	
REUN()	0.292	0.155	0.000	0.008	0.060	-0.179	0.068	0.034	-0.032	-0.013	0.022	-0.009	-0.061	-0.010	-0.115	-0.141	0.077	0.149	0.239	
HORAS	0.342	0.011	0.179	0.023	0.066	-0.137	0.178	0.162	0.120	-0.014	-0.088	0.076	0.070	0.140	0.094	0.134	0.240	0.060	-0.114	
Horas()	0.331	0.026	0.138	0.105	0.041	-0.116	0.212	0.191	0.154	0.045	-0.026	0.103	0.107	0.128	0.038	0.049	0.249	0.126	0.022	
DEDIC.	0.368	0.098	0.151	0.074	0.026	-0.198	0.196	0.206	0.120	0.047	0.048	0.069	0.024	0.067	-0.100	-0.101	0.101	0.252	0.243	
DEDIC. ()	0.335	0.143	0.157	-0.005	0.009	-0.224	0.145	0.094	0.025	0.088	0.075	0.058	0.009	0.073	-0.054	-0.116	0.057	0.193	0.196	
REMUN	-0.104	-0.086	0.358	-0.018	0.250	-0.253	0.298	0.138	0.148	0.107	0.219	-0.283	-0.222	0.402	-0.062	-0.092	-0.071	0.318	0.230	
Remun()	0.228	0.069	-0.063	-0.178	-0.191	0.355	-0.178	-0.108	-0.179	0.012	-0.124	0.135	0.098	-0.333	0.060	0.238	0.074	-0.207	-0.357	
DUR CA	-0.022	0.020	-0.173	0.112	-0.079	0.048	-0.060	-0.139	-0.152	0.009	0.019	-0.099	-0.036	0.147	-0.052	0.025	0.031	-0.046	-0.005	
ED RET	0.079	0.009	0.100	0.054	0.168	-0.092	0.189	0.073	0.128	0.316	0.101	0.019	0.046	0.282	-0.017	-0.063	-0.024	0.250	0.149	
FUNCI	0.025	0.047	0.254	-0.216	0.088	-0.155	0.133	0.111	0.083	0.246	0.212	0.036	0.114	-0.229	0.138	0.148	0.058	0.028	-0.085	
INFO	0.213	0.134	-0.070	0.122	-0.055	-0.175	0.042	-0.050	-0.010	-0.024	-0.008	-0.028	0.000	0.308	-0.166	-0.140	-0.020	0.151	0.248	
AGEND	0.185	0.015	0.121	-0.021	-0.023	0.144	0.119	0.170	0.292	-0.039	-0.021	0.003	0.041	0.072	0.080	-0.090	-0.027	0.121	0.061	
ACTA	0.258	0.037	0.086	-0.193	-0.006	-0.128	-0.092	-0.078	-0.138	-0.075	-0.067	-0.018	0.011	0.201	-0.072	-0.117	-0.181	0.078	0.206	
ESTAD	0.107	-0.027	-0.030	0.069	0.047	-0.071	0.017	0.010	0.045	0.093	0.095	0.230	0.149	-0.078	-0.091	-0.107	-0.067	0.241	0.240	
DE IMP	0.125	-0.380	0.043	0.202	0.124	-0.071	0.014	-0.069	-0.149	0.066	0.040	0.116	0.048	0.030	0.073	-0.142	-0.131	0.123	0.099	
EVALU	0.117	-0.025	0.015	-0.031	-0.039	-0.069	-0.058	-0.082	-0.154	-0.137	-0.102	-0.193	-0.121	0.326	0.050	-0.084	-0.004	-0.010	-0.046	
RESUL	-0.229	-0.040	0.037	-0.057	-0.087	0.218	-0.029	-0.113	-0.186	0.102	0.083	0.109	0.043	-0.111	-0.030	0.045	0.092	-0.078	-0.006	
DIR GE	-0.020	-0.064	-0.183	0.096	0.108	-0.089	-0.075	-0.162	-0.207	0.104	0.081	0.030	0.015	0.024	-0.280	-0.164	-0.167	0.201	0.414	
DIR CL	-0.270	0.100	0.127	-0.155	-0.199	-0.031	-0.097	-0.096	-0.042	0.018	0.049	-0.057	-0.081	-0.133	-0.099	-0.009	-0.217	0.007	0.045	
FIG FA	-0.474	0.130	-0.064	-0.081	0.108	0.099	0.006	-0.142	-0.159	0.207	0.295	-0.078	-0.127	-0.294	-0.025	-0.170	-0.283	0.163	0.138	
OIR INFO	-0.090	0.076	0.102	0.005	0.080	0.044	0.165	-0.050	-0.123	0.234	0.232	0.020	-0.042	0.065	-0.128	-0.108	-0.009	0.210	0.269	
OIR INFO(Cat)	-0.152	0.033	0.075	-0.028	0.108	0.147	0.138	-0.088	-0.169	0.207	0.225	0.014	-0.032	0.004	-0.094	0.000	-0.068	0.206	0.200	
FORMA	-0.246	-0.108	-0.153	0.091	-0.092	0.037	-0.121	0.128	0.170	-0.184	-0.163	0.014	0.029	-0.171	-0.121	0.321	-0.209	-0.178	-0.178	
ESTRA	0.069	-0.126	-0.086	0.105	-0.009	-0.195	-0.088	0.008	0.089	-0.107	-0.081	-0.088	-0.109	0.044	-0.120	-0.144	0.048	-0.049	0.140	
REL FA	-0.338	0.388	-0.044	-0.260	0.021	-0.001	-0.046	-0.173	-0.093	0.000	-0.089	0.320	0.317	-0.211	0.225	-0.096	-0.213	0.059	-0.034	
A. Decis.	-0.006	0.035	-0.090	0.131	-0.043	-0.151	-0.006	0.151	0.186	-0.120	-0.115	-0.077	-0.019	0.043	-0.143	-0.031	0.004	-0.033	0.056	
A. Dec. (cat)	-0.065	0.009	0.007	-0.049	-0.034	-0.104	-0.069	0.023	0.110	-0.209	-0.208	-0.013	0.061	0.088	-0.169	-0.059	-0.066	-0.080	0.068	
FUTUR	0.073	-0.095	-0.094	0.202	-0.016	-0.104	-0.002	-0.182	-0.112	-0.102	-0.131	0.116	0.102	0.102	-0.175	-0.027	-0.039	-0.029	0.116	
EQUIP	0.157	-0.198	-0.072	0.043	-0.033	-0.248	-0.166	0.229	0.115	-0.164	-0.102	-0.200	-0.214	-0.164	-0.179	-0.019	-0.126	-0.004	0.034	
PR SUC	-0.590	-0.264	-0.401	0.008	0.019	0.127	-0.378	-0.077	0.085	-0.149	-0.126	0.007	-0.106	-0.382	-0.326	-0.238	0.020	-0.248	0.301	
SIT FA	-0.185	0.065	-0.120	-0.221	0.022	0.236	-0.287	-0.345	-0.228	-0.169	-0.210	0.284	0.390	-0.238	-0.054	-0.180	0.125	-0.455	-0.185	
OTROS	-0.141	-0.017	0.055	-0.235	-0.197	0.121	-0.227	0.266	0.315	-0.455	-0.520	-0.025	-0.109	-0.227	0.609	0.254	-0.438	-0.327	-0.591	
D. Puntos	0.111	-0.028	-0.017	0.024	0.022	-0.115	-0.024	0.021	0.023	-0.094	-0.107	-0.020	0.008	0.058	-0.039	0.000	0.099	-0.130	-0.121	
TOTAL	-0.027	0.075	0.034	0.089	0.061	-0.107	0.134	0.048	0.001	0.094	0.089	-0.034	-0.044	0.117	-0.217	-0.114	0.051	0.100	0.217	
Total (cat)	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
UTIL	0.946	0.011	0.099	-0.035	0.019	-0.158	0.033	-0.003	-0.032	0.088	0.062	0.002	0.036	0.055	-0.162	-0.046	0.135	0.039	0.144	
PODER	-0.202	0.140	0.126	0.155	-0.179	0.113	0.242	0.302	0.275	0.128	0.063	0.009	0.048	-0.020	-0.004	0.154	0.144	0.043	-0.066	

Exhibit 4 (continued)

Correlations (All companies that DO have a BD)

ESTUD. ()	REUNI	REUN()	HORAS	Horas()	DEDIC.	DEDIC ()	REMUN	Remun()	DUR CA	ED RET	FUNCI	INFO	AGEND	ACTA	ESTAD	DE IMP	EVALU	RESUL	DIR GE	DIR CL			
1,000																							
0,225	1,000																						
0,152	0,912																						
-0,093	0,144	1,000																					
-0,035	0,173	0,156	1,000																				
0,172	0,855	0,790	0,573	0,542	1,000																		
0,117	0,812	0,818	0,511	0,499	0,922	1,000																	
0,229	0,119	0,043	0,047	0,033	0,034	0,170	1,000																
-0,192	-0,123	-0,088	-0,057	-0,171	-0,058	-0,156	-0,710	1,000															
-0,137	-0,248	-0,178	-0,073	-0,042	-0,099	-0,059	-0,226	0,062	1,000														
0,107	-0,065	-0,107	0,109	0,149	0,044	0,044	-0,160	0,123	0,099	1,000													
-0,017	0,004	0,000	0,038	-0,054	0,015	0,040	0,033	-0,063	0,051	0,234	1,000												
0,165	0,164	0,143	0,197	0,189	0,244	0,220	0,128	-0,329	-0,045	0,125	-0,110	1,000											
0,001	0,099	0,057	0,093	0,087	0,102	0,081	0,233	-0,232	-0,152	0,084	0,155	0,514	1,000										
0,292	0,057	-0,005	0,298	0,305	0,157	0,209	0,273	-0,236	0,130	0,152	0,248	0,247	0,165	1,000									
0,212	0,216	0,140	0,032	0,073	0,181	0,070	-0,203	0,199	-0,243	0,099	0,035	0,341	0,297	-0,004	1,000								
0,248	0,109	-0,039	0,158	0,120	0,189	0,117	0,006	0,018	-0,254	0,137	0,110	0,341	0,057	0,240	0,265	1,000							
-0,068	-0,115	-0,144	0,140	0,107	0,020	-0,036	-0,086	0,000	0,118	0,149	-0,050	0,085	-0,007	0,114	-0,143	0,214	1,000						
-0,010	-0,179	-0,110	-0,129	-0,147	-0,213	-0,147	-0,133	0,077	0,100	0,017	-0,313	0,028	0,132	-0,051	0,052	-0,122	0,008	0,147	-0,112	-0,214	0,033	1,000	
0,346	0,177	0,207	-0,055	-0,025	0,077	0,189	0,351	-0,107	-0,005	-0,098	0,033	-0,096	-0,006	0,030	0,123	-0,010	-0,139	0,017	-0,053	-0,179	0,229	1,000	
0,217	-0,217	-0,203	-0,084	-0,150	-0,237	-0,318	-0,314	0,445	-0,209	0,015	-0,182	-0,011	-0,066	-0,381	0,161	-0,164	-0,034	0,126	-0,033	0,179	0,229	1,000	
0,401	-0,182	-0,193	-0,395	-0,423	-0,318	-0,314	0,252	-0,223	0,170	-0,041	0,018	0,029	-0,249	-0,015	-0,068	-0,183	-0,045	0,564	0,508	0,359	0,359	1,000	
0,247	-0,068	-0,087	-0,034	-0,070	0,034	-0,018	0,252	-0,223	0,170	-0,041	0,018	0,029	-0,249	-0,015	-0,068	-0,183	-0,045	0,564	0,508	0,359	0,359	1,000	
0,275	-0,111	-0,132	-0,115	-0,132	-0,184	-0,188	0,230	-0,130	0,227	-0,065	0,158	-0,128	-0,340	0,055	-0,118	-0,135	-0,118	0,525	0,488	0,326	0,326	1,000	
-0,080	-0,149	-0,136	-0,028	0,085	-0,145	-0,142	-0,201	0,081	-0,092	-0,123	-0,234	-0,256	-0,079	-0,237	0,213	0,145	-0,085	-0,104	-0,220	0,200	0,200	1,000	
-0,001	-0,018	0,000	0,007	0,026	0,042	0,055	0,000	0,047	0,324	0,324	-0,101	0,008	0,224	0,009	0,117	0,134	-0,067	-0,198	-0,173	0,090	0,090	1,000	
-0,050	-0,002	0,103	-0,027	-0,011	0,065	0,171	0,110	0,093	-0,033	-0,092	-0,106	-0,267	0,036	-0,194	-0,148	-0,485	-0,173	0,075	0,067	0,107	0,107	1,000	
0,042	0,035	0,042	0,109	0,152	0,197	0,192	-0,071	0,043	0,017	0,193	-0,183	-0,017	0,173	-0,036	-0,071	-0,005	-0,006	-0,348	-0,348	-0,225	-0,225	1,000	
0,057	0,013	-0,001	0,040	0,106	0,026	0,070	0,271	-0,175	0,024	0,127	-0,149	-0,116	0,184	0,165	0,119	0,056	-0,103	-0,294	-0,263	0,013	0,013	1,000	
-0,002	0,000	0,027	-0,080	-0,054	-0,031	-0,073	-0,045	-0,199	-0,112	0,071	-0,148	0,225	0,231	0,069	0,079	0,125	0,057	-0,316	-0,148	-0,126	-0,126	1,000	
0,050	0,070	0,102	-0,085	-0,141	0,087	0,067	-0,238	0,421	0,115	-0,081	-0,139	-0,108	0,015	-0,019	0,206	-0,175	-0,041	-0,064	0,153	-0,016	-0,016	1,000	
-0,039	-0,332	-0,340	-0,560	-0,486	-0,456	-0,471	-0,738	0,869	0,311	-0,164	0,076	0,067	0,098	-0,954	0,135	-0,014	-0,127	0,284	-0,262	0,043	0,043	1,000	
-0,261	-0,033	0,075	-0,194	-0,170	-0,092	-0,004	-0,383	0,122	0,029	-0,251	0,067	-0,267	-0,074	-0,271	-0,175	0,008	0,099	-0,019	-0,083	-0,164	-0,164	1,000	
-0,338	-0,028	-0,048	0,023	-0,103	-0,045	-0,010	-0,490	0,702	-0,458	*	-0,103	0,348	0,156	-0,191	-0,119	0,187	0,150	-0,286	-0,551	-0,419	-0,419	1,000	
-0,216	0,104	0,114	0,100	0,023	0,229	0,204	-0,152	-0,054	-0,140	0,001	0,000	0,232	0,118	-0,129	-0,009	0,179	0,256	0,510	0,436	-0,119	-0,119	1,000	
0,132	0,029	0,019	0,127	0,041	0,268	0,205	0,132	-0,248	0,097	0,060	-0,096	0,164	-0,081	-0,140	-0,132	-0,078	0,111	0,091	-0,016	-0,390	-0,390	1,000	
*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	1,000
0,029	0,325	0,332	0,347	0,336	0,385	0,355	-0,179	0,323	-0,047	0,042	-0,015	0,221	0,126	0,189	0,093	0,144	0,140	-0,209	-0,043	-0,271	-0,271	1,000	
-0,064	-0,112	-0,112	-0,111	-0,037	-0,081	-0,097	-0,157	-0,134	0,189	0,017	-0,019	0,128	-0,058	-0,327	-0,166	-0,267	-0,111	-0,065	-0,135	-0,087	-0,087	1,000	

Exhibit 4 (continued)

Correlations (All companies that DO have a BD)

FIG FA	OIR INFO	OIR INF...	FORMA	ESTRA	REL FA	A. Decis.	A. Dec. ...	FUTUR	EQUIP	PR SUC	SIT FA	OTROS	D. Puntos	TOTAL	Total (c...	UTILI	PODER
1,000																	
0,525	1,000																
0,543	0,951	1,000															
-0,031	-0,435	-0,393	1,000														
-0,424	-0,553	-0,553	-0,017	1,000													
0,319	-0,171	-0,127	0,111	-0,127	1,000												
-0,430	-0,332	-0,766	0,749	0,774	0,512	1,000											
-0,364	-0,650	-0,571	0,647	0,616	0,232	0,867	1,000										
-0,162	-0,489	-0,475	0,272	0,324	-0,251	0,258	0,312	1,000									
-0,236	-0,313	-0,294	0,135	0,112	0,398	0,087	-0,053	0,002	1,000								
-0,031	-0,459	-0,409	0,730	0,661	0,845	0,530	0,394	-0,123	0,392	1,000							
0,091	-0,409	-0,271	0,504	-0,101	0,727	0,230	0,115	0,198	0,367	0,553	1,000						
0,409	-0,469	-0,393	0,120	-0,094	-0,023	-0,054	-0,113	-0,333	-0,030	-0,700	-0,072	1,000					
-0,385	-0,306	-0,736	-0,165	0,159	-0,128	0,316	0,053	0,474	0,330	0,182	0,364	0,720	1,000				
0,017	0,562	-0,011	-0,047	0,008	-0,193	0,422	-0,097	0,232	-0,168	-0,144	-0,187	-0,163	0,452	1,000			
-0,469	-0,062	-0,163	-0,317	0,070	-0,345	-0,035	-0,115	0,064	0,104	-0,541	-0,055	-0,132	0,139	0,000	*	1,000	
0,040	0,080	-0,002	-0,104	-0,105	-0,041	0,054	-0,073	0,204	-0,055	0,147	0,090	-0,135	0,195	0,215	*	-0,209	1,000

Exhibit 5

Grouping in categories of the dimensions and variables for the X² tests

1- Categories in «number» of directors (d.) according to the link they have with the FB				
TRAB ()	< 5 d.	5 - 10	10 - 15 d.	> 15 d.
	1	2	3	4
DIREC ()	< 5 d.	5 - 10	10 - 15 d.	> 15 d.
	1	2	3	4
EXTERNAL ()	0 - 1	1 - 2	2 - 3	> 3
	1	2	3	4
PROPORTION INTERNAL EXTERNAL	0 - 1	1 - 2	2 - 3	> 3
	1	2	3	4

A NOTR ()	< 5 d.	5 - 10	10 - 15 d.	> 15 d.
	1	2	3	4
NO AC-D ()	0 - 1 d.	2 d.	3 d.	> 3 d.
	1	2	3	4
INTERNAL ()	0 - 1	1 - 2	2 - 3	> 3
	1	2	3	4

2. Categories in «level»					
Weights used	E prim	E secun	E Un Me	E Un Sup	Weight
	1	2	3	4	
Mean weight of board's educational level = $\frac{\sum \text{weight of d./no. of d.}}{\text{no. of d.}}$					
EST ()					
	1	2	3	4	

3. Categories in «number of meetings»				
REUNI ()	0 - 5	5 - 10	10 - 15	> 15
	1	2	3	4

4. Categories in «duration of meetings»				
HORAS ()	0 - 4	4 - 8	8 - 12	> 12
	1	2	3	4

5. Categories in «time spent»					
DEDIC ()	< 20	20 - 60	60 - 100	> 100	Hours
	1	2	3	4	

6. Categories in «remuneration»				
REMUN ()	0 - 1 M	1 - 3 M	3 - 5 M	> 5 M
	1	2	3	4

7. Categories in «tenure» (years)					
DUR CA ()	< 3	3 - 5	5 - 10	> 10	Years
	1	2	3	4	

8. Categories in «retirement age» (established age)		
ED RET ()	No	Yes
	0	1

9. Categories in «BD's functions» (written functions)		
FUNCI ()	No	Yes
	0	1

Exhibit 5 (continued)

10. Categories in «information» sent beforehand to the directors

(*) Weights used if the corresponding type of information is sent.

Information sent to d.	COD	Yes*	No*
Meeting agenda	AGEN	1	0
Minutes	ACTA	2	0
Financial statements	ESTAD	3	0
Information on important decisions	D IMP	4	0
Total		10	0

INF ()				
Weight	0	1 - 2 - 3	4-5-6-7	8 - 9 -10
	1	2	3	4

11. Categories in «assessment» of directors (whether performed)

Evalu ()	No	Yes
	0	1

12. Categories in «time spent»

Listen to reports	0 - 25%	25 - 50%	50 - 75%	75 -100%
	1	2	3	4

LISTEN TO REPORTS (): Σ (RESUL+DIR GE+DIR CL+FIG FA)

Approve decisions	0 - 25%	25 - 50%	50 - 75%	75 - 100%
	1	2	3	4

APPROVE DECISIONS (): Σ (FORMA+ESTRA+REL FA)

Discuss critical issues	0 - 25%	25 - 50%	50 - 75%	75 - 100%
	1	2	3	4

D. CR. ISSUES (): Σ (FUTUR+EQUIP+SIT FA+OTROS)

=: time at meeting.

13. Categories in BD's usefulness

Useful ()	Extrem. useful	Very useful	Useful	Not very useful	A waste of time
	3	3	2	1	1

Exhibit 6

Level of usefulness of the BD and «positional» dimensions: regressions

Dependent variable is: Degree of usefulness				
R squared= 14.1% R squared (adjusted)= 10.7%				
s= 0.3421 with 27 - 2= 25 degrees of freedom				
Source	Sum of squares	df	Mean square	F-ratio
Regression	0.481233	1	0.481233	4.11
Residual	2.9617	25	0.117047	
Variable	Coefficient	s.e. of Coeff	t-ratio	prob
Constant	2.17450	0.1722	12.6	≤0.0001
SALES ()	-0.147651	0.0728	-2.03	0.0534

Exhibit 7

Level of usefulness of the BD and «positional» dimensions: X² tests

Rows are levels of- UTIL
Columns are levels of- PERS
No selector

	< 50	50 - 250	250 - 500	> 500	Total
Not very useful/Waste of time	5 5.51020	16 10.4694	2 4.95918	4 6.06122	27 27
Useful	8 7.75510	17 14.7347	5 6.97959	8 8.53061	38 38
Very useful/Extrem. useful	7 6.73469	5 12.7959	11 6.06122	10 7.40816	33 33
Total	20 20	38 38	18 18	22 22	98 98

Chi-square= 16.08 with 6 df // p= 0.0133

Rows are levels of- UTIL
Columns are levels of- VTAS
No selector

	< 1,000	1,000 - 5,000	5,000 - 10,000	> 10,000	Total
Not very useful/Waste of time	5 5.47368	15 10.4000	4 4.10526	2 6.02105	26 26
Useful	8 7.78947	16 14.8000	6 5.84211	7 8.56842	37 37
Very useful/Extrem. useful	7 6.73684	7 12.8000	5 5.05263	13 7.41053	32 32
Total	20 20	38 38	15 15	22 22	95 95

Chi-square= 12.01 with 6 df // p= 0.0617

Rows are levels of- UTIL
Columns are levels of- LUGAR
No selector

	> 100	100 - 50	50 - 10	< 10	Total
Not very useful/Waste of time	4 2.02222	2 2.88889	4 2.31111	16 18.7778	26 26
Useful	2 2.64444	7 3.77778	2 3.02222	23 24.5556	34 34
Very useful/Extrem. useful	1 2.33333	1 3.33333	2 2.66667	26 21.6667	30 30
Total	7 7	10 10	8 8	65 65	90 90

Exhibit 8

Correlations (BDs with LOW level of usefulness)

Pearson Product-Moment Correlation

	RESULT	DIR GE	DIR CL	FIG FA	FORMA	ESTRA	REL FA	FUTUR	EQUIP	PR SUC	SIT FA
RESULT	1.000										
DIR GE	0.041	1.000									
DIR CL	0.589	-0,289	1.000								
FIG FA	0.052	-0.453	0.389	1.000							
FORMA	0.128	0.017	0.229	0.465	1.000						
ESTRA	-0.234	-0.228	0.003	-0.684	0.187	1.000					
REL FA	<u>0.758</u>	0.626	0.604	0.426	<u>0.904</u>	-0.175	1.000				
FUTUR	-0.448	-0.332	-0.227	-0.540	-0.063	0.440	-0.447	1.000			
EQUIP	0.075	-0.569	0.448	<u>0.712</u>	0.576	0.101	<u>0.960</u>	-0.095	1.000		
PR SUC	<u>0.849</u>	<u>-1.000</u>	0.016	<u>-1.000</u>	<u>1.000</u>	<u>0.713</u>	<u>0.984</u>	<u>0.983</u>	<u>0.733</u>	1.000	
SIT FA	0.093	-0.552	0.374	0.699	<u>0.949</u>	0.205	<u>0.849</u>	0.298	<u>0.852</u>	<u>0.996</u>	1.000

Exhibit 9

Correlations (BDs with MEDIUM level of usefulness)

Pearson Product-Moment Correlation

	RESULT	DIR GE	DIR CL	FIG FA	FORMA	ESTRA	REL FA	FUTUR	EQUIP	PR SUC	SIT FA
RESULT	1.000										
DIR GE	0.203	1.000									
DIR CL	-0.166	0.207	1.000								
FIG FA	0.031	<u>0.822</u>	0.012	1.000							
FORMA	-0.247	-0.413	0.236	0.004	1.000						
ESTRA	-0.016	-0.201	0.345	-0.523	-0.291	1.000					
REL FA	-0.098	-0.157	-0.486	0.309	-0.116	-0.192	1.000				
FUTUR	-0.177	-0.194	0.130	-0.126	0.349	0.251	-0.218	1.000			
EQUIP	<u>0.796</u>	0.256	-0.474	-0.240	0.199	-0.253	<u>0.813</u>	-0.440	1.000		
PR SUC	-0.024	-0.551	0.415	0.488	<u>0.948</u>	-0.214	0.641	-0.570	0.000	1.000	
SIT FA	-0.400	0.095	-0.587	0.920	0.365	-0.451	<u>0.953</u>	0.135	<u>0.960</u>	0.363	1.000

Exhibit 10

Correlations (BDs with HIGH level of usefulness)

Pearson Product-Moment Correlation

	RESULT	DIR GE	DIR CL	FIG FA	FORMA	ESTRA	REL FA	FUTUR	EQUIP	PR SUC	SIT FA
RESULT	1.000										
DIR GE	-0.110	1.000									
DIR CL	-0.185	-0.098	1.000								
FIG FA	0.062	-0.148	0.689	1.000							
FORMA	-0.176	-0.212	-0.078	-0.127	1.000						
ESTRA	-0.251	-0.116	-0.031	-0.198	0.128	1.000					
REL FA	0.065	0.229	0.177	-0.087	0.409	-0.140	1.000				
FUTUR	-0.379	0.076	-0.361	-0.360	0.418	0.296	-0.049	1.000			
EQUIP	-0.295	0.299	-0.212	-0.415	0.086	0.198	0.226	0.309	1.000		
PR SUC	0.112	-0.139	-0.635	0.277	-0.587	-0.658	-0.446	-0.159	-0.087	1.000	
SIT FA	0.188	-0.097	-0.400	-0.342	<u>0.734</u>	-0.525	0.145	0.484	0.097	0.445	1.000

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