INDEPENDENT BOARD DIRECTORS: 
HOW TO IMPROVE THEIR CONTRIBUTION TO THE FAMILY BUSINESS

Miguel A. Gallo*

Published by the Chair of Family Business

* Professor Emeritus, General Management, IESE
INDEPENDENT BOARD DIRECTORS: HOW TO IMPROVE THEIR CONTRIBUTION TO THE FAMILY BUSINESS

Abstract

This study is based on information obtained from two questionnaires, one sent to the presidents and CEOs of a sample of family businesses and the other sent to independent members of the Boards of Directors of the same businesses. The main points of agreement and the main differences of opinion between these two groups are identified and grouped under the following headings:

1) Governance practices.

2) Reasons for retaining or seeking the resignation of independent board directors.

3) Reasons why independent board directors do not give the best of themselves.

4) Most appreciated and most missed qualities in independent board directors.

The most important findings are:

a) The main reasons for including independent board directors are the desire to improve the structure of corporate governance and resolve succession problems.

b) The main reasons for seeking the resignation of independent board directors are the lack of the necessary personal qualities, the lack of the right relationship with the other directors, and calls for their resignation from significant shareholders.

c) According to independent board directors, the main reasons why they fail to give the best of themselves are that the owners are not genuinely committed to having a professional and effective Board of Directors, and the fact that important decisions are made by the family without taking their opinions into account.

The authors put forward six propositions to help get the most out of independent board directors and offer some recommendations on how to improve the structure of family business governance.

Keywords: independent board directors, corporate governance, family business governance.
INDEPENDENT BOARD DIRECTORS: HOW TO IMPROVE THEIR CONTRIBUTION TO THE FAMILY BUSINESS"

Introduction

The amount of research on independent board directors in family businesses grew considerably in the late '80s and early '90s. Topics covered include the reasons why independent directors are brought into Board of Directors, their personal qualities, the criteria and procedures for seeking and selecting them, and the different ways in which Boards of Directors work (Ward and Handy, 1988; Ward, 1991). This was partly a consequence of the growing body of knowledge on family business and the intense research being carried out on corporate governance in general.

It was not until some years later that the explicit distinction between “governance” bodies and processes and “management” bodies and processes within the firm gained general acceptance (Pound, 1995). A similar situation arose with the efforts to formulate and implement “good corporate governance practices” (Working Group on Corporate Governance, 1991; Cadbury, 1992; Hampel, 1998; Olivencia, 1998; Viénot, 1995 and 1999; Aldama, 2003). It should be pointed out, however, that the efforts to distinguish between governance and management and to identify and implement good governance practices have, as a general rule, been focused on large corporations, without explicit reference to the specific features of family businesses.

The distinction between governance and management is, in practice, more difficult to implement in family businesses than in non-family businesses (Clutterbuck & Waine, 1994, p. 53). That is because in family businesses, apart from exercising their rights at General Meetings, the owners often also are members of the Board of Directors and hold management positions in the firm (Gallo, 2001, pp. 41-43). In fact, “confusion of governance and management” is currently considered one of the specific “traps” of family business (Gallo, 2001, p. 141; Kenyon-Rouvinez & Ward, 2005, p. 45).

However, even though the distinction between governance and management has not been examined with reference specifically to family business, the contribution of independent board directors in family businesses has long been analyzed and recommended.

Danco and Jonovic (1981, p. 8) discussed how independent board directors can contribute by adding objectivity and by challenging decisions, as well as by providing support for management, mediating in family disputes, and acting as mentors for members of the younger generation. Ward (1991, pp. 30-40) suggested that having a Board of Directors that includes outside directors is one of the most influential factors in the design and implementation of the four basic plans of any family business (strategic plan, succession plan, assets plan, and family plan).

* This study has been carried out with the support of the Family Business Consulting Group, Spain.
Since 1995, efforts have been made to define more closely the role of the Board of Directors in family businesses, and the specific features of family business governance processes.

Gersick et al. (1997) indicate that the Board’s functions vary in each generation of the family and that, without the presence of outside directors, the family business runs the risk of losing harmony (pp. 41, 52, 180 and 200).

Neubauer and Lank (1998) assert that the governance process is one of the most critical aspects of the family business, and define it as “the body of structures and processes for managing, controlling and taking responsibility for the firm at its highest level”.

Alvarez, Gallo and Ricart (1999), using a model designed by Pearce and Zara (1991), study the four Board of Director typologies (“participative”, “interventionist”, “conformist” and “custodian”), depending on the respective level of power and authority of the Board of Directors and the senior management teams.

The Family Business Consulting Group (2000) suggests that the most suitable style for a family business’s Board of Directors is the one with which, along its two dimensions (“supportive” and “trustee”), it achieves mutual trust and respect between outside directors, managers and owners.

The Dutch Association of Family Firms (2003) recommends fair process, transparency and trust in the family’s influence in the family business governance process.

In one of the most recent studies on the governance of family businesses, Montemerlo et al. (2004) discuss the special difficulties associated with governance processes in family businesses.

Qualities of independent board directors in family businesses

The question of what qualities independent board directors of family businesses should have has been extensively discussed by various authors over the last fifteen years or more. In an attempt to classify the multiple qualities proposed, a traditional framework has been used to separate the qualities into four groups: human virtues; attitudes in the performance of responsibilities; general knowledge about the business and its environment; specific knowledge about the family business.


Lastly, a quality that is difficult to include in the four groups above but which is mentioned frequently is that of having a good network of contacts (Mueller, 1988, p. 244; Schwartz & Barnes, 1991, p. 279; Ward, 1991, p. 34; Neubauer & Lank, 1998, p. 119).

As can be seen, although no explicit reference has been made to family businesses literature on good governance practices, the qualities that independent board directors must have and which are recommended so strongly as good governance practices have been studied extensively for many years in the family business literature.

Also, as is apparent from this list of qualities, in all the time since this area became a subject of study the list of qualities has not changed but has been refined in light of improved knowledge of the specific features and problems of family businesses.

Why independent board directors do not give the best of themselves

For most family businesses, which tend to be small and medium-sized companies, an independent board director is a resource with a high financial cost. That cost is easily “multiplied”, as the practice generally recommended by family business experts is to include two or more independent board directors (Ward & Handy, 1988, p. 300; Schwartz & Barnes, 1991, p. 277; Ward, 1991, p. 113; Gersick et al., 1997, pp. 182 and 228; Lansberg, 1999, p. 296).

It is only natural to ask, therefore, why these people fail to realize their “maximum potential”. The following are some of the reasons that have been given:

− Independent board directors are reluctant to play an active role in solving the family’s problems (Schwartz & Barnes, 1991, p. 280).
− Independent board directors end up becoming involved in day-to-day management (Gallo, 2001, pp. 111 and 125).
− Independent board directors are threatened with legal action by major shareholders (Gallo, 2001, p. 133).
− Some Boards of Directors become a “flattery bubble” for the owner or chief executive, while others end up becoming a “battlefield” (Gallo, 2001, p. 111).
− The Boards of Directors are not active governance bodies (Álvarez, Ricart & Gallo, 1999, p. 72).
− The owning family does not want to hand over control to the Board of Directors, forgetting that the General Meeting has ultimate deciding power (Ward & Aronoff, 2004, p. 1).

Without distinguishing explicitly between family and non-family businesses, Clutterbuck (1994, p. 126) suggests the following reasons why independent board directors do not give the best of themselves:
− The directors do not receive the necessary information.
− The directors have excessively strong ties to the company’s chief executive.
− The directors are afraid of losing their job.
− The directors are not interested enough.
− The Board of Directors does not have the right composition.
− The Board of Directors meets too infrequently.
− The directors do not have a good working relationship with the Board chairman.

The questions of “how to improve independent board directors’ contribution” and “how to get them to give the best of themselves to the family business” provide the rationale for this research project.

The innovative aspect of this project is that presidents, CEOs and independent board directors of the same family businesses were asked the following questions:
− What are the qualities that are most appreciated in independent board directors?
− Why do they not give the best of themselves?
− What are the reasons for asking independent board directors to resign, and what reasons do independent board directors have for resigning?
− What changes should be made in governance practices to improve their performance?
The study

This is an exploratory research project, firstly because of the current level of knowledge about “how to get the most from independent board directors”, as indicated in the previous section, and secondly because of the resources available for identifying a large universe of family business board members¹. For these reasons, the study’s results are confined to discussing the information obtained, formulating a series of propositions and suggesting certain recommendations.

The information for the study has been obtained from two questionnaires, each sent to a different group of people.

The accompanying letter sent with the questionnaires clearly described the study’s intention and asked that this intention be considered in the answers.

Both questionnaires included the following definitions in their introduction:

- **Corporate governance:** Bodies and processes that are responsible for the decisions that have most influence, in the long term, on capital structure, on the composition of the management team, and on the taking of important risks for the company’s owners.

- **Board of Directors:** The body responsible for the company’s administration, provided in its Articles of Association, and other bodies, such as an “advisory board”, that work directly with the Board of Directors or act in its place.

- **Independent board director:** A member of one of the above-stated bodies who is not a shareholder, nor an executive of the company, nor a blood relative or in-law of the family.

The first questionnaire was sent to 100 presidents and CEOs of family businesses in Spain, Mexico and Portugal, from whom 30 valid answers (30%) were obtained.

This questionnaire consisted of the following parts:

1. Professional status of the person answering the questionnaire, and status of this person’s family business.

2. Main reasons for including independent board directors in the company’s governance, and main reasons for asking for their resignation.

3. Governance practices followed in the family business and changes suggested for improving the company’s governance and the contribution of the independent board directors.

4. Most appreciated qualities found in independent board directors.

5. Qualities found most lacking in independent board directors.

¹ We should mention here the difficulties in obtaining databases for identifying family businesses that have independent board directors.
As can be seen in Exhibit 1, parts 2 and 3 of the questionnaire cover almost all of the reasons and qualities described in the previous paragraphs, although the qualities were defined in more detail.

The second questionnaire was sent to a group of 40 independent board directors of family businesses in Spain, Mexico and Portugal, receiving 18 valid replies (45%). The questionnaire had the following parts:

1. Professional status of the person answering the questionnaire. Education, age and experience as a director.
2. Recommendations on governance practice within the family business to improve the contribution made by independent board directors.
3. Reasons why independent board directors do not give the best of themselves in the company’s governance.

Obviously, these are two opportunistic samples. However, the features of the people in the two groups, described below, allow us to consider the information provided by these people as being of great value.

*Features of the presidents, CEOs and their family businesses (Exhibit 1)*

- 46% of the presidents and CEOs state that they distinguish clearly between corporate “governance” and “management”; 43% of them are also independent board directors of other companies. Therefore, it is not unreasonable to assume that approximately half of the people included in the sample are in a position to clearly know why they want to include independent board directors in their family business, and also that approximately half have experience of performing the responsibilities of such a position in other companies.

- In 50% of the companies, a single person owns more than 50% of the capital, and in 24%, two people between them own more than 50%. On the basis of these data, it can be said that a large majority (74%) of the companies in the sample have included independent board directors at the express wish of owners who may not be statutorily required to create a Board of Directors and appoint directors.

- In 37% of the companies, the independent board directors were appointed more than 10 years ago. That is, a significant proportion of the people who answered the first questionnaire are people who have worked with independent board directors for long periods.

---

2 The number of independent board directors (40) is quite a lot smaller than that of presidents and CEOs (100) for several reasons. A significant number of companies did not give the names of the independent board directors. It was not possible to find their names in the Companies Register as they were “advisory boards”. The independent directors were members of the Boards of Directors of several companies included in the sample.
Characteristics of independent board directors (Exhibit 2)

- 100% of the independent board directors are engineers or economists, and 70% have postgraduate degrees.

- 65% have more than five years’ experience as independent board directors in the same company. Consequently, it is reasonable to assume that they have been re-elected to the position. Also, 82% have been members of more than five Boards of Directors of different family businesses. Thus, they are people with a strong academic background and a significant body of experience as administrators.

- 60% have at some time or other resigned from a Board of Directors. Therefore, the remaining 40% have either agreed with the other directors on matters of importance or have not had the courage to resign.

Discussion and propositions

This part of the document identifies the main similarities and differences between the answers given by the presidents and CEOs, and those given by the independent board directors. The answers are grouped under the following headings:

- Governance practices.

- Reasons for retaining or requesting the resignation of independent board directors. Reasons why independent board directors might not give the best of themselves.

- Most appreciated qualities and most missed qualities.

The propositions inferred from this information are given after each point.

1. Governance practices

The questionnaires asked for information about the governance practices adopted in the family businesses in the sample, and about any changes suggested by presidents and CEOs, or by independent board directors, for improving the independent board directors’ personal contribution and the effectiveness of the Board of Directors as a team. The questionnaire generally followed the list of practices suggested by the codes of good governance best known in the countries in which the companies included in the sample are located.

The most significant suggestions and the similarities and differences of opinion between the presidents and CEOs and the independent board directors are discussed below.
1.1. Composition

Both groups (presidents/CEOs and independent board directors) are in virtually total agreement that the size of the Board of Directors should range between 5 and 9 directors, with 7 being the number stated most often.

The changes suggested by both groups of people can be summarized as follows:

- Increase the number of independent board directors to between 2 and 4.
- First, decrease the number of directors who are managers of the firm but not members of the family, with the intention that none of them should be appointed director.
- Second, decrease the number of directors who are members of the family and who work as managers of the company, so that their number ranges between 1 and 3.
- Maintain the number of directors who are shareholders and members of the family, but who do not work as managers in the company.

These changes fully concur with the suggestions made by several experts in family businesses over a period of more than 10 years. Ward and Handy (1988, p. 303) state that the appropriate number ranges between 6 and 7, with a majority of independent board directors. Schwartz and Barnes (1991, p. 280) propose a number that ranges between 5 and 8. Lansberg (1999, p. 296) says that the best board size is 7 directors, 4 of them being independent.

1.2. Term of office of independent board directors

As regards the term of office of independent board directors, there are significant differences between what the presidents and CEOs wish, and what the independent board directors recommend:

- 90% of presidents and CEOs would like to shorten the term of the independent board directors from a current average of 3 years and 7 months to 3 years and 4 months. A large majority consider it desirable to establish a maximum of 2 terms for independent board directors.
- However, 60% of the independent board directors consider that their term of office should exceed 3 years.

1.3. Number of meetings per year and their duration

- Both types of respondent suggest a higher number of meetings than has been customary in firms in several countries (Ward & Handy, 1988, p. 294).
- The presidents and CEOs say that the current average of 7.7 meetings per year should increase to 8.6 (one more meeting a year). The independent board directors suggest a similar trend in the average number of meetings, as 88% say that there should be 6 or more meetings a year.
1.4. Provision of information and contacts with members of the senior management team

- 83% of the presidents and CEOs consider it advisable to provide more extensive and detailed information in the future than currently provided.

- About 87% of the presidents and CEOs think that contacts between the Board of Directors and senior management should be encouraged in the future. However, in clear contrast to this statement, 50% of the independent board directors think that regular contacts should be limited to 1 or 2 a year, while the other 50% think that such contacts should only take place in exceptional circumstances and always by the decision of the chairman of the board.

1.5. Assessment of the performance of the Board of Directors and the directors

It is in relation to this “practice”, widely recommended by the codes of good governance, that the greatest differences of opinion are found between presidents and directors.

- In 57% of the companies the Board of Directors is assessed as a team, but 90% of presidents and CEOs state their intention to adopt this practice in the future.

- In 41% of the companies each director is assessed individually, and 94% of presidents and CEOs state their intention to adopt this practice in the future.

- In clear contrast with this, however, only 62.5% of the independent board directors consider these assessments to be desirable.

Both categories of figures are much higher than those identified by Clutterbuck and Waine (1994, p. 94), who say that only 1 out of every 8 companies has some kind of system in place for assessing the Board of Directors. However, they match more closely the recommendations of other experts such as Mueller (1996) and Neuschel (2001).

Proposition A

The owners who influence the implementation of their family businesses’ governance practices wish to change some of these practices in order to make their Boards of Directors more effective.

Proposition B

These people think that having independent board directors is a good way of achieving effective governance and, consequently, expect a lot from them.
2. Reasons given by presidents and CEOs for retaining independent board directors or asking for their resignation. Reasons given by independent board directors for resigning or not giving the best of themselves

2.1. Reasons for having independent board directors

The presidents and CEOs included in the sample have invited a total of 92 people to join their companies as independent board directors. As can be seen in Exhibit 1, of the six reasons suggested in the questionnaire for doing this, the two given below are clearly considered more important than the others:

- To structure the family business’s governance.
- To solve problems in the succession process.

The presidents and CEOs included in the sample have invited a total of 40 independent board directors to resign. This figure is very high compared with the number of people invited to join the Board of Directors. However, 36% of the presidents and CEOs now have a more favorable opinion regarding the need for independent board directors.

As can be seen in Exhibit 1, of the 7 reasons given for inviting independent directors to resign, the following three are particularly important:

- Lack of personal qualities.
- Inadequate relationship with the other directors.
- At the request of significant shareholders.

This seems to concur to a certain extent with the opinion of Clutterbuck and Waine (1994, p. 98), who say that resignations of independent board directors are often due to lack of entente with the chairman or CEO.

2.2. Reasons given by independent board directors for resigning

The independent board directors who have resigned on at least one occasion (60% of those who answered the questionnaire) give as the most important reason for their resignation:

- Difficulties in making a useful contribution.

2.3. Reasons given by the independent board directors for not giving the best of themselves

From among 13 reasons suggested, the independent board directors who answered the questionnaire gave the following two as the most important (Exhibit 2):

---

3 This figure is in marked contrast with the 1% of invitations to resign quoted by Ward and Aronoff (2004, p. 6).
4 As the average number of independent board directors on the Boards of the companies included in the sample is 2, it is reasonable to think that “unsatisfactory relationships” refer to relationships with directors who are members of the family.
5 The question was “open”, i.e., it did not suggest any reason for resignation.
- The owners are not really committed to creating a professional and effective Board of Directors.
- The important decisions are made by the family, without taking any notice of the Board of Directors.

2.4. Comparing point 2.1 with points 2.2 and 2.3, we see two very different opinions about the reasons for the failure to attain an optimal contribution from the independent board directors. The directors seem to be convinced that the cause of the problems lies in the family itself, who do not facilitate true exercise of their responsibilities as administrators, while the presidents and CEOs think that the problem lies in the fact that the independent board directors do not have the right personal qualities.

**Proposition C**

*For independent board directors to give the best of themselves, the Board of Directors’ functions must be clearly defined and there must also be a commitment to enforce those functions by the company’s main owners and the directors who are family members.*

**Proposition D**

*A suitable relationship between the independent board directors and the significant members of the owning family is a basic premise for proper functioning of the Board of Directors.*

3. Most appreciated qualities and qualities found missing in independent board directors

**3.1. Most appreciated qualities**

The qualities most appreciated by presidents and CEOs from among the 16 qualities suggested in the questionnaire are the following (Exhibit 1):

- State their opinion with sincerity and courage.
- Discretion.
- Ability to listen, reason and balance their opinions.
- Loyalty in the implementation of decisions.
- Willingness to assist in training family members.
- Willingness to mediate in disputes between family members. Ability to create consensus.
3.2. Qualities found missing

The qualities found missing by the presidents and CEOs (no specific suggestions were given in the questionnaire) are practically the opposite to the most appreciated ones:

- Do not state their opinion with sincerity and courage.
- Inability to listen.
- Are not willing enough to help the family members.
- Lack of availability to carry out assignments.

3.3. It is logical to assume that the “lack of personal qualities” cited as a reason for inviting independent board directors to resign (point 2.1) refers to the specific qualities indicated in points 3.1 and 3.2.

It is also logical to assume that by “satisfactory relationships with the other directors” (point 2.1) the presidents and CEOs mean a very different type of relationship from “accept the decision”, “agree without discussing”, and much less “obey the boss”.

3.4. Compared with the recommendations given by many experts in family businesses, it is surprising to see what a low score is given to the following qualities:

- Knowledge of the industry.
- Reputation as an independent board director.
- Network of professional and business contacts.

It is also surprising to see the contrasting attitudes between the independent board directors and the presidents and CEOs regarding the important point of “cooperation in training family members”. The independent board directors seem less enthusiastic about such cooperation (see point 10 in Exhibit 2) than the presidents and CEOs.

**Proposition E**

*The most appreciated and the most missed qualities in independent board directors are related, first of all, to human virtues such as “sincerity”, “courage”, “discretion”, “loyalty” and “patience” and, second, to the directors’ willingness to help family members.*

**Proposition F**

*The independent board directors tend to think that the individual assessment of their qualities is not very meaningful if the owners are not committed to true professional functioning of the Board of Directors.*
**Recommendations**

Structuring and implementing governance bodies and processes, and distinguishing them from management bodies and processes, is not an easy task in any type of company (Pound, 1995). It is even more difficult in family businesses because the people who own the company—who under company legislation also have the power to govern the company—and the people who manage it are often the same.

Another task that appears to pose enormous difficulties is that of inclusion (Schein, 1965, 1978) in family business governance decision-making of a person who does not belong to the family and whose independence should be a guarantee of economic rationality and ethical conduct (Gallo, 2001, p. 51). Inclusion does not mean that the person will necessarily receive information about everything, nor take part in all of the family’s decisions, nor be considered “part of the family” in the emotional sense of the expression. It does, however, mean that his/her opinions will be taken seriously into account and that he/she will be informed, consulted and listened to in the most important problems and decisions concerning the family business’s future.

Just as it is recommended that independent board directors be immersed in the company’s strategy and organization (Clutterbuck & Waine, 1994, p. 88), it is logical to recommend steady progress along the two axes shown in Figure 1 below in order to “get the most out of the independent board directors” of a family business. These axes are “inclusion in the family” and “professionalization of the family business’s governance bodies and processes”.

---

**Figure 1. Professionalization of the family business’s governance bodies and processes**

- Inclusion of independent board directors within the owning family
- Professionalization of the family business’s governance bodies and processes
Progress along the horizontal axis is directly related to points such as the following:

- Effort to distinguish between governance and management.
- Proper functioning of the General Meeting of shareholders.
- Commitment of owners to act as level-headed, active shareholders.
- Clear definition of the Board of Directors’ functions and rules of procedure.
- Preparation of shareholder family members to perform the responsibilities of board members.
- Appointment of suitably qualified people as independent board directors.
- Effort by independent board directors to act professionally, that is, as loyal and competent administrators.
- Commitment of independent board directors to help family members in their roles as shareholders, directors and managers of the family business.

Progress along the vertical axis is directly related to a match between the qualities of the independent board directors and those of the family business owners. On the part of the independent board directors, attitudes and commitments such as the following are required:

- Effort to ascertain exactly what the owners of the family business expect of them. It should be remembered that, according to Clutterbuck (1994, p. 88), it is a confirmed fact that many directors do not know what is expected of them.
- Firm intention to interact with the family members in such a manner as to facilitate discussion of difficult ownership and family issues, while making it clear that “they won’t get involved in issues that are none of their business” (Lansberg, 1999, p. 312).
- On this subject, it should be remembered that, according to some authors, independent board directors are unwilling to “get involved” in family conflicts, even when they should do so (Schwartz & Barnes, 1991, p. 280; Ward & Aronoff, 2004, p. 6).
- Firm intention to exercise their authority as directors. This is not easy to do, as it requires first gaining the family’s trust (Lansberg, 1999, p. 294). Furthermore, independent board directors often feel that they do not have the “essential” authority and are unwilling to get involved in the family’s “maneuverings” (Jonovic, 1989).
- Willingness to resign if they are consistently prevented from performing their functions.

On the part of the family business owners, attitudes and commitments such as the following are required:

- True and effective intention to exercise the rights devolving upon their share in the ownership of the company through General Meetings and by allowing the
Board of Directors to perform its functions and carry out its responsibilities properly.

- Commitment to support the independent board directors, so that, acting as true administrators of the family business, they may defend the interests of all the shareholders, not just some of them, as well as the interests of other stakeholders within the community of people that is the essence of any company.

- Intention not to make more or less veiled threats against independent board directors concerning possible consequences of any decisions they support or make at Board meetings.

- Desire to take account of independent board directors’ opinions concerning problems between shareholders, whether related to the company’s strategic management or arising from the relationships between family members.

- Commitment to give independent board directors sufficient notice of the owners’ long-term intentions.

A logical consequence of progress along both axes will be to progress in the direction indicated by the arrow in Figure 1. To facilitate this progress, it is desirable that:

- A capable family member director who is respected by the family (sometimes the chairman) and a senior independent board director should meet regularly to assess the progress made in the professionalization of the Board of Directors and the inclusion of independent board directors.

- The directors should periodically review progress along the two axes, identify obstacles to progress and look for ways to improve it.

A lot is asked of a good Board of Directors in family business, and independent board directors are expected to give their best… Is the family willing to include them? Are the independent board directors capable enough?
Exhibit 1

Sample 1: 30 family member directors

President or CEO (86%)
State they distinguish clearly between Governance and Management (46%)
Are Independent Board Directors in other companies (43%)

Their family businesses

In the 2nd or 3rd generation (82%)

1 person owns more than 50% (50% of cases)
Two people own more than 50% between them (24% of cases)

The Independent Board Directors joined the Board of Directors
10 - 25 years ago (37%)
1 - 10 years ago (65%)

Governance practices (suggested changes)

1) Number of board members

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Future</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>7.7</td>
<td>7.3</td>
<td>&lt;15%</td>
</tr>
<tr>
<td>Shareholders who do not work in the company</td>
<td>2.4</td>
<td>2.2</td>
<td>&lt; 8%</td>
</tr>
<tr>
<td>Shareholders who work in the company</td>
<td>2.3</td>
<td>2.0</td>
<td>&lt;13%</td>
</tr>
<tr>
<td>Non-family managers</td>
<td>0.8</td>
<td>0.5</td>
<td>&lt;17%</td>
</tr>
<tr>
<td>Independents</td>
<td>2.1</td>
<td>2.5</td>
<td>&gt;19%</td>
</tr>
</tbody>
</table>

2) Length of term as Director

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Future</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Term (years)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-independent directors</td>
<td>4.0</td>
<td>11%</td>
<td>4.1</td>
</tr>
<tr>
<td>Independent directors</td>
<td>3.6</td>
<td>5%</td>
<td>3.4</td>
</tr>
<tr>
<td>Terms (no.)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-independent directors</td>
<td>2.6</td>
<td>--</td>
<td>2.4</td>
</tr>
<tr>
<td>Independent directors</td>
<td>2.4</td>
<td>67%</td>
<td>2.1</td>
</tr>
</tbody>
</table>

(*) Percentage of people who answered “unlimited”.
Exhibit 1 (continued)

3) Meetings (*)

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Future</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>7.7</td>
<td>8.6</td>
<td>&gt;12%</td>
</tr>
<tr>
<td>Duration (hours)</td>
<td>4.9</td>
<td>5.1</td>
<td>&gt;4%</td>
</tr>
</tbody>
</table>

(*) Nobody indicated less than 4 meetings a year.

4) Level of Information

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Future</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>61%</td>
<td>83%</td>
<td>&gt;36%</td>
</tr>
<tr>
<td>Medium</td>
<td>32%</td>
<td>17%</td>
<td>&lt;53%</td>
</tr>
<tr>
<td>Low</td>
<td>7%</td>
<td>0%</td>
<td>∞</td>
</tr>
</tbody>
</table>

5) Contacts with the senior management team

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Future</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Should be encouraged</td>
<td>73.9%</td>
<td>86.7%</td>
<td>&gt;17%</td>
</tr>
</tbody>
</table>

6) Assessment

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Future</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Of the Board of Directors as a team</td>
<td>57.1%</td>
<td>89.5%</td>
<td>&gt; 57%</td>
</tr>
<tr>
<td>Of each director individually</td>
<td>40.7%</td>
<td>94.4%</td>
<td>&gt;132%</td>
</tr>
</tbody>
</table>

Comments about Independent Board Directors

A) Main reasons for inviting them to become members of the Board of Directors. (92 people have been invited) *

- To structure the company’s governance 157 points
- Problems in the succession process 140 points
- Requested by a number of shareholders 128 points
- Problems between family members 120 points
- Recommended by consultants 109 points
- Recommended by non-family managers 100 points

* Maximum score = 200, minimum score = 100
B) Main reasons for inviting to resign (40 people have been invited)*

- Lack of personal qualities 299 points
- Inadequate relationships with other directors 299 points
- Requested by significant shareholders 299 points
- Inadequate functioning of the Board of Directors 249 points
- Loss of independence** 224 points
- Poor relationship with the Senior Management Team 187 points
- Expiry of term as director 100 points

* Maximum score = 300, minimum score = 100
**Indicate that the loss of independence has happened: “Frequently” (24%), “Rarely” (60%), “Never” (16%).

C) Have you changed your opinion about the desirability and usefulness of Independent Board Directors?

- No (53%)
- Yes, in favor (36%)
- Yes, against (7%)

Most appreciated qualities in Independent Board Directors*

- Give their opinion with sincerity and courage 296 points
- Discretion 281 points
- Ability to listen 275 points
- Loyalty in the implementation of decisions 263 points
- Argue their opinions and exchange views with other directors 261 points
- Ability to create consensus 250 points
- Willingness to assist in training family members 234 points
- Willingness to mediate in disputes between family members 230 points
- Creativity. Imagination 229 points
- Willingness to change their opinion 211 points
- Availability to the President 205 points
- Knowledge of the industry 182 points
- Availability for carrying out assignments 174 points
- Reputation as independent board director 173 points
- Youth 100 points
- Network of professional and business contacts 100 points

* Maximum score = 300, minimum score = 100

Most missed qualities in Independent Board Directors

- Give their opinion with sincerity and courage
- Ability to listen
- Willingness to assist in training family members
- Availability for carrying out assignments
Exhibit 2

Sample 2: 18 Independent Board Directors

Academic background:
- University degree and postgraduate studies: 70%
- University degree: 30%

Engineering: 55%
Economics: 45%

Years of experience as Independent Board Director:
- Less than 5 years: 35%
- Between 5 and 10 years: 24%
- More than 10 years: 41%

Number of Boards of Directors that has been member of:
- Less than 5: 18%
- Between 5 and 15: 53%
- More than 15: 29%

Have you resigned on any occasion?:
- Yes: 60%
- No: 40%

Reasons for resignation:
- Difficulties in making useful contribution: 65%
- Lack of commitment by the Family to the Board of Directors: 25%
- I had already made my main contribution: 10%

Recommendations regarding the Board of Directors

|                           | Mean (*) | Most repeated value
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Min ÷ Max)</td>
<td>(Min ÷ Max)</td>
</tr>
<tr>
<td>1) Composition (number)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>5.2 ÷ 9.5</td>
<td>5 ÷ 9</td>
</tr>
<tr>
<td>Shareholders who do NOT work in family business</td>
<td>1.2 ÷ 3.2</td>
<td>1 ÷ 3</td>
</tr>
<tr>
<td>Shareholders who DO work in family business</td>
<td>1.3 ÷ 3</td>
<td>1 ÷ 2</td>
</tr>
<tr>
<td>Non-family managers</td>
<td>0.5 ÷ 1.9</td>
<td>0 ÷ 1</td>
</tr>
<tr>
<td>Independent</td>
<td>1.9 ÷ 3.5</td>
<td>2 ÷ 4</td>
</tr>
</tbody>
</table>

(*) The questionnaire asked for the minimum and maximum recommended values.
Exhibit 2 (continued)

<table>
<thead>
<tr>
<th></th>
<th>Not independent</th>
<th>Independent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2) Retirement age as directors:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Before age 70</td>
<td>35%</td>
</tr>
<tr>
<td></td>
<td>Between age 70 and 75</td>
<td>53%</td>
</tr>
<tr>
<td></td>
<td>No limit</td>
<td>12%</td>
</tr>
<tr>
<td>3) Term as director:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3 years</td>
<td>42%</td>
</tr>
<tr>
<td></td>
<td>Between 3 and 6 years</td>
<td>50%</td>
</tr>
<tr>
<td></td>
<td>More than 6 years</td>
<td>8%</td>
</tr>
<tr>
<td>4) Number of meetings per year:</td>
<td>Average 8.6</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Less than 6</td>
<td>12%</td>
</tr>
<tr>
<td></td>
<td>Between 6 and 8</td>
<td>32%</td>
</tr>
<tr>
<td></td>
<td>Between 9 and 12</td>
<td>50%</td>
</tr>
<tr>
<td></td>
<td>More than 12</td>
<td>6%</td>
</tr>
<tr>
<td>5) Duration of meetings (in hours):</td>
<td>Average 4.4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Less than 6</td>
<td>12%</td>
</tr>
<tr>
<td></td>
<td>Between 3 and 4</td>
<td>56%</td>
</tr>
<tr>
<td></td>
<td>Between 5 and 6</td>
<td>38%</td>
</tr>
<tr>
<td></td>
<td>More than 6</td>
<td>6%</td>
</tr>
<tr>
<td>6) Information:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Minutes of previous meeting. Agenda</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Balance Sheet and Income Statement (compared with Budget). Investments</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Organization chart</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Strategy implementation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Depends on the items on the agenda.</td>
<td></td>
</tr>
<tr>
<td>7) Provision of information before meetings:</td>
<td>Average 6.3 days</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Less than 6 days</td>
<td>12%</td>
</tr>
<tr>
<td></td>
<td>Between 3 and 4 days</td>
<td>56%</td>
</tr>
<tr>
<td></td>
<td>Between 5 and 6 days</td>
<td>38%</td>
</tr>
<tr>
<td></td>
<td>More than 6 days</td>
<td>6%</td>
</tr>
<tr>
<td>8) Contacts between Independent Board Directors and the Senior Management Team:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Exceptional. When decided by the Board of Directors</td>
<td>50%</td>
</tr>
<tr>
<td></td>
<td>Regular (Once or twice a year)</td>
<td>50%</td>
</tr>
<tr>
<td>9) Assessment of the Board of Directors and the directors:</td>
<td>Yes = 62.5%</td>
<td>No = 37.5%</td>
</tr>
</tbody>
</table>
10) Cooperation in training family members:
   – It is better that they be trained in a Business School 17%
   – By attending board meetings 22%
   – By having meetings with the directors 16%

**Why do Independent Board Directors not give the best of themselves***

- The owners are not really committed to having a Board of Directors that functions professionally. 275 points
- The important decisions are not made by the Board of Directors. They are made by the family. 257 points
- Inadequate composition of the Board of Directors. 229 points
- Lack of unity between the family members in defining the business project. 208 points
- The Independent Board Directors’ opinions are not taken into account. 200 points
- Insufficient information. 193 points
- There is critical information that is not shared. 183 points
- No assessment of the directors. 168 points
- Some family member directors are not sufficiently qualified. 167 points
- Inadequate number and duration of meetings. 153 points
- Inadequate relationship with the Senior Management Team. 150 points
- Existence of veiled “threats” by an important member of the family. 118 points
- Expiry of term as director. 100 points

(*)  *Maximum score = 300.  Minimum score = 100*
References


