

# 10 good governance practices to keep the company on track

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## **Corporate scandals have led governments, shareholders, executives and public opinion to conclude we need better corporate governance.**

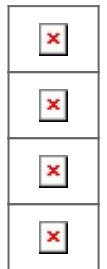
Corporate governance has gained particular prominence in recent years, partly due to the keener conflicts that have arisen between shareholders and the CEO, usually resulting in the firing of the latter, as was the case with Carly Fiorina at Hewlett-Packard and Harry C. Stonecipher at Boeing. Such cases share a common thread: a deficient corporate-governance system.

In his book [\*En busca del equilibrio\* \(In Search of Balance\)](#), [Jordi Canals](#), professor and dean of IESE Business School, explains how to create corporate governance that can better guarantee a company's success.

Canals says it is not enough to simply reinforce the legal, financial and regulatory measures that govern a company's administrators. Rather, a company must revisit all of its policies, systems, institutions, criteria and processes for decision making, and adopt a much more integrated approach, which will allow the company not just to survive as an organization but to develop over the long term.

The book is divided into four sections. The first looks at the problems and challenges that corporate governance currently poses for companies. The second part analyzes several models of corporate governance that exist in various countries today and introduces the integrated concept. The third section reviews the four main pillars of corporate governance:

the role of the board of directors; the management committee; the institutionalization of the company; and the mission of its top executives. Finally, the book's closing chapter puts forward 10 good practices.



## Balance between short and long term

According to Canals, in order for CEOs and their companies to succeed, there must be a balance between the short and the long term. Such a balance is necessary for the development of the company as a social institution with a good reputation, he says.

The board of directors and management committee should function like the company's "lungs," he says. If one of them underperforms, the organization will not function properly.

Viewing the functions of the CEO and upper management team as a twin performance has two consequences. First, corporate governance reform should not become a power struggle between the board of directors and the executive management team. Second, it requires the CEO's role and responsibilities to be clearly defined in the context of good corporate governance, which should be enhance the long-term development of the organization.

What this means is that companies must engage in some serious reflection as to which corporate governance path should be followed. Considering the socio-ethical as well as financial implications of good governance is complicated but not impossible, says Canals.

## 10 good practices

Canals recommends the following to improve corporate governance:

1. *Define the mission.* Any time corporate governance is discussed, there should first be some reflection done as to the company's mission. The company mission has three complementary dimensions: the production of useful goods and services; the creation of economic value during this process; and the improvement of the people taking part in it.
2. *Carry out the mission.* The objective of corporate governance is to turn the company's mission into a reality. For that to happen, there

must be professionalism and commitment on behalf of the board of directors, the shareholders and the CEO.

3. *Have the proper legal framework.* The legal measures involved in good governance should be focused on three broad areas: definition of the duties of the company's administrators; legal regulation and delimitation of the functions of its governing bodies; and the requirement of transparency from its administrators when dealing with third parties.

4. *Establish the board's function.* The goals and responsibilities of the board must be clearly defined. Its competencies include: defining the company's mission and values; approval of investment strategy and decisions; design of control systems; development of the company as an institution; and the plans for the succession of the chief executive.

5. *Have an institutional investor.* The company's governing body should secure a commitment from institutional investors: investment funds, pension funds and so on.

6. *Become a point of reference.* The company must be an institution that society considers a point of reference - not just at the financial level, but also in terms of developing professionals, fostering innovation and addressing other challenges of greater social concern.

7. *Demarcate the CEO's job.* The chief executive should focus on six main areas: to develop the company's mission and values; to design and implement the board-approved strategy; to create an operational framework that facilitates the professional and personal growth of employees; to allocate financial resources for alternative growth and innovation projects; to seek efficiency in company operations and day-to-day management; and to design an organization that allows for the highest possible efficiency and the development of its personnel.

8. *Reinforce the function of independent directors.* The independence of directors cannot be the main criterion for putting together a board of directors. Independent directors are very typical in the American and British models of corporate governance, but their role has often been glorified.

9. *Promote transparency.* When called upon, administrators should provide investors with all of the pertinent information regarding the company's situation, in keeping with the principle of transparency.

10. *Delimit the function of the management committee.* Delimiting the functions and responsibilities of the board of directors is as fundamental as doing the same for the management committee. To achieve good governance, everyone involved must convey the utmost confidence through their professionalism and exemplary behavior.

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