Corporate governance in Spain: curbing excessive CEO power

The role of the lead independent director, which is meant to curb excessive CEO power, is now a reality for the boards of 74 percent of the IBEX 35 — the 35 most prominent public companies in Spain.

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Nearly three quarters of the public companies tracked by Spain's benchmark stock-market index, the IBEX 35, now have a lead independent director to help steer the corporate board. The point of this role? To improve governance and ultimately avoid corporate scandals, like the one seen at Pescanova, where board oversight was limited and power concentrated in the hands of its president.

This is one of the notable findings of the 11th annual report on the general meetings of shareholders of IBEX 35 companies — a study carried out by the Forum on Good Governance and Shareholders and underwritten by IESE's International Research Center on Organizations (IRCO) and Atrevia.

Five bits of good news and one bad

In 2015, publicly traded companies had to comply with modifications to Spain's Law of Corporations and the new Good Governance Code of Listed Companies put forward by the Comisión Nacional del Mercado de Valores (CNMV), the agency in charge of supervising and inspecting Spanish stock markets.

With that in mind, the number of boards with a lead independent director grew to 26 (out of 35). This is now an obligatory role when the chief executive and the board's chair are one and the same. To compare, at the end of 2014, less than half of the boards of IBEX 35 companies

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had a lead independent director to help counter the CEO's power.

Also, the trend of reducing the size of corporate boards continues — although in 2015 the decrease was slight, with the total number of board seats slipping from 468 to 467. The report concludes that 77 percent of the IBEX 35 have boards with 15 or fewer members, as is recommended by the CNMV's Good Governance Code.

As for limiting directors' terms, more than half of the companies (19) are now fulfilling this new legal obligation.

The presence of female board members continued to grow, moving from 79 to 88 women in one year — an 11 percent climb. With this increase, women now occupy 19 percent of the board seats for these 35 prominent Spanish companies.

In line with the internationalization strategy of many Spanish companies, the number of foreigners on boards increased significantly in 2015, after two years of decline. Foreigners now account for 19 percent of the total (89). Of note is the increase in Latin American directors, whose numbers have nearly doubled.

The bit of bad news is that the number of independent directors has fallen slightly from the previous year — from 226 to 221. Despite this decline, three out of five companies in the study have at least half their board seats occupied by independents (i.e., outside directors), as is recommended by the Good Governance Code.

Stability in attendance

The average attendance rate for the general meetings of shareholders remained fairly stable, hovering above 67 percent. A slight dip in 2015 came after two years of modest gains.

Shareholders' participation in annual meetings increased at 15 companies — led by Inditex, which had 86 percent of shareholders attending, followed by Endesa (85 percent) and Mediaset (83 percent).

At the other extreme, the lowest attendance rates were found at Jazztel (38 percent) and BME (45 percent), which were the only two companies with attendance levels below 50 percent.

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Less than half of the companies (15) require minority shareholders to hold a certain number of shares in order to be able to attend the annual meeting. That number did not change with respect to last year.

Meanwhile, the use of social networks to spread the word about general meetings has increased. Twitter was the tool used most often, with 35 percent of the companies tweeting to shareholders. In addition, 25 companies offered their shareholders the option of watching their general meeting live online, via streaming video, and 20 companies uploaded a video after the fact.

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