

## **Proprietary directors aren't afraid to use their power**

**CEO dismissal due to poor management increases when the board is dominated by members who are proprietary directors, and/or who belong to the boards of other companies.**

January 24, 2013

The fact that low profitability, or a bad bottom line, raises the probability that the chief executive of a company will be fired by the board may come as little surprise.

But, as an [analysis of more than 100 Spanish companies](#) shows, having more proprietary directors and/or directors belonging to more than one board raises the likelihood that the CEO will be sacked.

### **Higher the stakes, harder the fall**

IESE Prof. [Guido Stein](#) and Manuel Gallego studied such major Spanish companies as Endesa, Iberdrola and Inditex, from 2006 to 2011.

Proprietary shareholders far surpassed the number of executive and independent directors on the boards of these companies, accounting for 43 percent of the total.

These proprietary board members personally held stakes in the company's share capital or they acted as representatives of major shareholders. In other words, they had a vested interest in seeing the company perform well.

Although many reasons were cited for the departure of the CEO, ranging from corporate takeovers to natural events like retirement, it was clear that, if these board members perceived that the CEO was not doing the job effectively, they were not shy about wielding

the ax.

And it didn't seem to be the simple fact that board members had stakes in the company that made them more trigger-happy. What mattered was the significant presence of proprietary directors representing shareholders who had big stakes.

An example is Banesto, whose board holds 0.02 percent of the share capital, while proprietary directors hold 21 percent.

## **More hardened to make harder calls**

Regarding multiple board membership, the authors believe this gives these directors more experience to make harder calls.

In addition, firing the CEO is easier for people whose personal risks are spread among several other boards.

They also found that those holding dual CEO/Chairman roles were more likely to be dismissed, because it becomes that much harder to scapegoat for poor performance when both hats are worn by the same head.

## **Who's really in charge?**

Separating the CEO and Chairman roles, and delegating executive responsibilities among various senior directors, makes the decision of pinning performance to one individual much more complex.

An example is the TV channel Antena 3, which has Chairman and Deputy Chairman posts, as well as a CEO, all with board-level functions and responsibilities. A similar structure exists at Prosegur.

Adding to this complexity is the fact that there were as many as 11 different ways of referring to a company's chief executive. Some companies, such as the airline Vueling, operated through executive committees.

Clearly, each company is a world unto itself, and executive responsibilities vary greatly, depending on each one's corporate charter. That makes apportioning blame an even greater challenge.

[www.iese.edu/insight](http://www.iese.edu/insight)