

The Need for Investors to Wield More Board Influence

Do investors and board chairs see eye to eye on corporate governance? A 2009 study by IESE Prof. Pascual Berrone, in association with Russell Reynolds Associates, highlights the points where the two sides converge and diverge.



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The financial crisis has put the spotlight on the way boards of directors are managed. For this reason, a 2009 [study on the structure of these boards](#), based on interviews with around 30 institutional investors and board chairs, makes for timely reading.

Of note is the surprisingly low level of direct or indirect influence that institutional investors have on corporate governance. According to the authors of the study, IESE Prof. [Pascual Berrone](#) and Russell Reynolds Associates, 60 percent of the board chairs they interviewed stated that they exercised little or no involvement.

That figure is even more surprising when taken alongside institutional investors' belief that boards do not meet their expectations regarding equity, independence and management

control issues.

Another fact worth noting is that more than a third of the businesses interviewed (36 percent) do not separate the two roles. This means that, in the context of boards feeling they play a limited role, there is ultimately one person making the final decisions regarding strategy, evaluation and remuneration.

Given this, the growing importance that investors say they place on corporate social responsibility (CSR) seems paradoxical: Board chairs claim that CSR is a key aspect for the effectiveness of good corporate governance. Yet, as the study points out, institutional investors often do little more than pay lip service to this aspect.

What Inspires Investment?

The study examines the aspects influencing the decisions that institutional investors make when betting on a company. The governance structure of companies emerges as a key factor when deciding which one to invest in. Institutional investors prioritize the following in particular: transparency of information (96 percent), equity in the treatment of shareholders (92 percent) and alignment of the remuneration for executives and board members with company objectives (86 percent).

In terms of compensation for executives and board members, both chairs and institutional investors realize this must be in line with the company's long-term objectives.

The study also reveals some of the difficulties encountered when looking for board members of a certain profile. For instance, there are very few foreign board members with knowledge of the Spanish market, or Spanish board members with relevant international experience.

Present and Future Challenges

Most institutional investors (75 percent) and board chairs (64 percent) believe that existing governance mechanisms have been significantly or highly responsible for the current crisis. However, their opinions differ regarding the challenges that companies will have to face in the coming years.

Investors target the following challenges:

- Improving the management and control of risks by promoting a long-term perspective and avoiding short-sighted compensation policies.

- Ensuring the independence of board members by adding members from outside the board and separating the roles of chair and CEO.
- Promoting professionalization and greater interest among board members.
- Evaluating the functionality and effectiveness of the board and its true impact on the company's performance.
- Guaranteeing greater protection for majority shareholders.
- Adjusting the role of the regulator by balancing intervention and corporate self-check mechanisms.
- Adopting practices of good governance by focusing on effective implementation.

Board chairs, meanwhile, emphasize the following:

- Emerging from the crisis stronger by seeking growth opportunities, balancing risk management and reflecting on the mistakes made.
- Reinforcing a strategic vision, so that short-term performance can be balanced with long-term positioning.
- Improving the transfer of ideas within the board.
- Increasing gender diversity on boards.
- Enhancing investor relations.
- Promoting a global vision.
- Offering equitable treatment to all shareholders by adopting good corporate governance practices.

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