

International Conference on Quality October 15-18, 1996 Yokohama

QUALITY ON THE BOARD OF DIRECTORS

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The role of the Board of Directors is becoming increasingly important due to the globalisation of economies, the rapid changes in technology, the need to be competitive and to meet the requirements of the stakeholders of the industrial and service companies.

Three members of the International Academy for Quality (IAQ)**, with many years of experience on Boards of both industrial and service companies as well as non-profit institutions, studied the functions of Boards, the distinction between direction and management, what makes a good quality Board and to what extent the Board should get involved in Quality matters. Several experienced external Board Members were interviewed in the USA, Europe, Japan and Argentina.

There is an increasing number of cases of very professional Boards with internal and external members in companies that, discovered the significant contributions an effective Board can make to meet the needs of all stakeholders.

The process of evolution of the direction of a corporation usually starts with one owner-director, better described by the French and Spanish word "patron" or by the English and French word "entrepreneur". Survival and growth will, in this case, depend on his or her abilities.

There are millions of business of this kind in the world. When very successful, the following stages would be, to become:

- a) a medium size business, with the need to incorporate functional management and a Board of Directors, required by law.
- b) a large business, most probably today with international subsidiaries, where it will also be required by law to have a Board of Directors on each of them.

There are a great number of Boards of Directors in the many medium and large companies of the world dedicated to industry and services.

The national laws that regulate the functioning of Boards are, in most cases, more than 50 years old; therefore, in reality, the Board role goes well beyond law requirements in many successful companies. Legal aspects related to responsibilities of Board members vis a vis society, taxes, etc. according to local laws that vary from country to country, are not reviewed in this study because it is assumed that all legal requirements are known and respected.

The purpose of this International Academy for Quality study is to find out what makes a good Quality Board and to what extent the Board should get involved in Quality matters.

Several external Board Directors, participating in more than one Board, with broad experience as professional Directors, were interviewed in the USA, Europe, Japan and Argentina.

The method followed was to develop a "Questionnaire for External Board Members" (see Appendix) which was sent out beforehand thus contributing to ensure a better prepared and fruitful interview.

Following are the major findings on each of the Questionnaire subjects:

1. WHY A BOARD

Many, small and medium size companies have a Board of Directors because it is required by law. As most of them are family-owned, they include only close relatives on the Board.

When shareholders belong to different groups and/or families, they appoint Directors representing the different interests, to defend them and keep them informed.

There are very few exceptions in Argentina but only in some large companies. During the past five years this country went through deep political and economic changes, resulting in a significant increase in competitiveness due to deregulation and an opening to world markets.

Lobbying with the government for customs protection and/or price increases is not a key success factor today. Some large companies realized that the Board of Directors could play a significant role in this new and healthier economic environment.

In Japan, the Board of Directors is composed of internal executives. Very few companies have external Directors. The internal executives on the Board establish the vision, mission, major strategies and study major projects.

It is in Europe and the USA where most major companies have professional Boards with the separation between Directors and Executive Managers clearly established.

2. SIZE, COMPOSITION AND RESPONSIBILITIES

No conclusions regarding Board size. It varies considerably from 5 to over 20 members. According to those interviewed it should not be too big, this in order to avoid having a two-speed Board. It is difficult to work with groups over 20 persons around a table. It is necessary to work with committees, therefore those that are not in committees are only assisting.

The number of external members also varies considerably, from all external with the exception of the CEO, to all internal as is the case in most companies in Japan and in subsidiaries of some European and USA companies. The arguments in favour of all external and the CEO internal are:

- Good Managers not necessarily make good Directors. There is a significant difference between direction and management.

- Directors, who bring an external and independent view of the company' environment, must challenge the sometimes introverted thinking of Managers.
- A strong Board is necessary to assure that the Executive Management prepares suitable plans for the operation. Also to remove, appoint and approve succession plans for the Executive Management.

Those in favour of all internal say that it is preferable to have external expertise as consultants and let the Managers be fully responsible for the business.. . Mainly because it is difficult to separate the direction and management roles of the Board and Executives who would frequently perceive interference rather than collaboration, due to the fact that professional directors are difficult to find and usually there is no formal training available for them.

Very few companies in Argentina had answers to the questions in the Questionnaire beyond the above mentioned.

Only those with a first-class management according to world standards could do it. This was also the case in USA and Europe, with the difference that there, many large and medium-size companies have professional Boards.

Directors dedicate an average of 160 hrs. a year to Board matters. The responsibilities are clearly established and a job description is available for each Director. .They are carefully selected.

Following are the more frequently mentioned abilities a Director should have:

- Strategic thinking.
- Long-term vision.
- Know-how of business environment.
- Understands distinction between Governance/ Direction and Management clearly.
- Objectivity.
- Communication skills.
- Ability to handle disagreement without confrontation.
- Proactive rather than reactive.

3. ORGANIZATION AND MEETINGS

Board authorities are generally those required by country laws for corporations. The influence of these laws in the structure and functioning of Boards, should be a matter of another study, particularly in the case of medium and small-size companies, where ideally the law should guide them towards an effective and good quality Board.

The relevant answers to the other questions on this part are considered in the interviews that follow,

4. BOARD PERFORMANCE

5. QUALITY ON THE BOARD

For this part of the questionnaire, two interviews were chosen, one in Europe and one in the USA, that perfectly illustrate what is being done by the most advanced companies that fully profit from an effective Board.

- Fred-Henri Firmenich is Chairman of the Board of Firmenich International, with Headquarters in Geneva, Switzerland. Is also member of the Board of the Sandoz Corporation and the Swiss National Bank.

He believes that a strong board makes a first-class management even stronger and that a professional board makes management even more professional. Being a multinational group, he states that local Boards should be an extension of the Group Board.

The Board should have more outside members than internal and, in addition to control management should participate in developing the vision, mission and major strategies, inter-acting with the executive management. The objectives should be proposed by management and approved by the Board.

The drawing of the line between the two bodies (Board and Management) should be carefully done. A good quality Board does not invade the management functions.

Regularly there are a- minimum of four meetings per year and one full-day seminar per year, in addition to the Annual General Meeting with shareholders. Meetings have to be carefully prepared. An experienced Director needs at least two hours for the preparation of each meeting. They should receive the agenda and complete information on the subjects to be discussed with enough anticipation.

The job description for each Director should clearly indicate what is expected from him. In some cases, such as management salaries, special Board committees are necessary. Directors are chosen for their quality as people as well as a high level of professional competence.

The Board should challenge management objectives and plans, approve them and follow up progress.

Regarding Board performance, it is measured in an informal but effective way. Criteria includes shareholders' satisfaction, management satisfaction and the conclusions of the yearly seminars where the subject is "What is the contribution of the Board members to the company" and "Contribution of the company to the Board members".

One Board member makes periodic audits to the group subsidiaries world wide using a list of questions on the areas of Management Leadership, Human Resources, Quality, Safety & Regulations, Legal and Finances as a guide. The conclusions are discussed with the local Boards and General Management.

The Board, according to Fred-Henri Firmenich, must have an informed and independent view of the company. A high quality Board should be the primary force pressing the company to the realization of its opportunities and the fulfilment of its obligations to its shareholders, customers, employees and the communities in which it operates.

- A.V. Feigenbaum is the President of the General Systems Company, Inc. in the USA. He has a wide experience as external Board member.

Board members in the USA, according to A.V. Feigenbaum, are generally selected from other companies' top corporate officers and their performance is periodically reviewed. They should provide active advice on the business and have the experience and reputation to do so.

Boards not only study matters such as mergers, acquisitions, investments or specific subjects such as financial, executive salaries, quality, environment, etc., but have the decision responsibility on them...Directors are increasingly informed at periodic times about key areas of total quality, particularly customer satisfaction and its business results which are now recognized as central requirements for acceptable senior executive performance in the corporation.

The idea of an audit on quality performance is not much accepted because it is thought of as too much at "arm's length" for Directors who want their involvement with corporate quality to be more frequent and personal and "hands on". As mentioned before, many CEO's of large companies are principal members of the boards of directors of other large companies. This is not for the purpose of "interlocking directorates" as in some Asian companies, but because of the experience they bring.

These CEO's in all probability have strong quality programs that they lead within their own firms. They require "hands on" reviews of quality in the firms on whose board they serve - just as they do in their own firms - and they bring great direct personal experience to this. For them in the USA successful CEO's like to be directly involved.

CONCLUSIONS

There is a strong trend, world wide to consider a professional Board of Directors a critical success factor for the business, due to the rapid changes in markets and technology, the need to be competitive and to meet the requirements of the stakeholders.

Good professional Directors are not easy to find today, but it is also a fact that in the future, there will be no room on Boards for amateurs. For this reason, a growing group of leading companies include the training and development of directors and the formal organization of the Board operations in their plans. Two of the major subjects considered are how to measure the Board performance and degree of involvement in Quality matters.

APPENDIX

QUESTIONNAIRE for External Board Members

Please give us your opinion, according to your experience on the Boards you participate. We are not including legal aspects related to responsibilities of Board members vis a vis society, taxes, etc. according to local laws that vary from country to country, because it is assumed that all legal requirements are known, and respected.

1. WHY A BOARD ?

a) Only because it is required by law.

- b) Because it is a family-owned company, only family members are on the Board.
- c) To represent and defend shareholders' interests. Controlling the Executive Management and keeping shareholders informed
- d) To have a clear separation between Owners and Executive Management.
- e) To establish Mission/Vision and major strategies.
- f) To be thought-provoking on Executive Management.
- g) Study major projects (mergers, acquisitions, investments) and specific subjects (financial, executives salaries, quality, environment, etc.).
- h) Others (please specify).

2. SIZE, COMPOSITION AND RESPONSIBILITIES

- a) How many members.
- b) How many external and how many executives.
- c) How many external are full time. If not full time please indicate No. of hours of dedication required per year.
- d) Are the Board responsibilities clearly established and written. Please indicate the most important regarding both shareholders and executive managers.
- e) Which are the most important for each External Director.
- f) Do external Directors have a job description.
- g) How would you describe the professional expertise of each of the external Directors (Financial, Legal, Operations, Public Relations, Business contacts, Commercial, Other: Please indicate).
- h) How Directors, both internal and external, are selected.
- i) In your opinion, which are the ideal professional profiles for members to have an excellent Board.
- j) What is the role of the Board in the Company Business Plan.

3. ORGANIZATION AND MEETINGS

- a) Which are the Board authorities (Chairman, Vice Chairman, Secretary, Treasurer, other: Please specify).
- b) Are they permanent Committees or for special projects. Please specify. ,
- c) What type of information is circulated to the Board on the company operations. (Financial, Accounting, Commercial, Business Plan progress. Please specify including frequency)
- d) Please indicate frequency of Board meetings, including who has the responsibility of the agenda and minutes.

4. BOARD PERFORMANCE

- a) How the Board measures its own performance.
- b) How would you define a high quality Board.

5. QUALITY ON THE BOARD

All National Quality Awards (Malcolm Baldrige, EFQM, Argentina) have Evaluation Criteria for all Key Business Factors, that are today widely used by many companies around the world in order to evaluate their performance (self assessment). In the Wall Street stock market, for example, the stock of companies that won the Malcolm Baldrige Quality Award performed significantly better than the market average. Market analysts are now calling the Model for Total Quality Management described in

detail in the Award Criteria, the "software" of a company. To meet them assures a successful future. The past is the "hardware", the traditional Financial statements.

- a) Is the Board aware of this subject and do they consider it very important.
- b) What is the role of the Board. Please see the attached Model for Total Quality Management and indicate on which subjects the Board is involved and to what extent.
- c) What information does the Board receive on . each of the Model subjects from Executive Managers.
- d) Do External Directors interact with the Executive Management on Quality. How ?
- e) Is there a Board audit on Quality same as done by the traditional auditors for financial statements. If yes, who makes it.

ACKNOWLEDGEMENTS

** Dr. A.V. Feigenbaum, IAQ, Honorary Member (former Chairman,- President and Founder) and President of the General Systems Company, Inc., USA, provided guidance and information

Mr. Kenzo Sasaoka, IAQ Member and Chairman of the Board, Hewlett Packard, Japan.

