Mastering Global Corporate Governance
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Contributors

Bill George – Professor of Leadership and Governance, IMD

Bill George is Professor of Leadership and Governance at IMD and also Visiting Professor of Management at Ecole Polytechnique Fédérale Lausanne (EPFL). He was Chairman of the Board of Medtronic, the world’s leading medical technology company, from 1996 to 2002 and Chief Executive Officer from 1991 to 2001, having joined Medtronic in 1989 as president.

He was named Director of the Year 2001–02 by the National Association of Corporate Directors and Executive of the Year 2001 by the Academy of Management. Mr George is a board member of Novartis and Target Corporations. He also serves as a director of American Red Cross, Harvard Business School, Carnegie Endowment, Allina Hospitals, Minneapolis Institute of Arts, and as Chair of Minnesota Thunder Pro Soccer.

He was an executive with Honeywell from 1978 to 1989 and Litton Industries from 1969 to 1978. From 1966 to 1969 he worked in the US Department of Defense. He received his BSIE with high honors from Georgia Tech in 1964 and his MBA with high distinction from Harvard

**Helga Krapf – PhD student, University of Berlin**

Helga Krapf is a researcher for the Global Corporate Governance Research Initiative. A doctoral student at the University of Berlin, she is writing her thesis on ‘The Context and Shaping Factors for Investor Relations in Global Companies’.

**Peter Lorange – President and The Nestlé Professor, IMD**

Dr Peter Lorange has been the President of IMD since 1 July 1993. He is Professor of Strategy and holds the Nestlé Chair. He was formerly President of the Norwegian School of Management in Oslo. His areas of special interest are global strategic management, strategic planning and entrepreneurship for growth.

Dr Lorange has written or edited 13 books and some 90 articles. He has conducted extensive research on multinational management, strategic planning processes, and internally generated growth processes. He has taught at the undergraduate, Master and Doctoral levels, and worked extensively within his areas of expertise with US, European and Asian corporations, both in a consulting capacity and in executive education.

He serves on the board of directors of several corporations including: ISS – International Service Systems, Christiania Eiendomsselskap, S. Ugelstad Shipowners, StreamServe AB, Pharmasoft AB, Intentia International AB, and Preferred Global Health. He is also a board member of the Copenhagen Business School.
Franz-Friedrich Neubauer – Professor of Multinational Corporate Strategy and Planning at IMD

Dr F. Friedrich Neubauer, Professor of Multinational Corporate Strategy and Planning at IMD, is German; he joined IMI, Geneva, one of the parent organizations of IMD, in 1973.

Fred Neubauer is author of several books (and numerous articles). *Portfolio Management*, originally published in German (1990), now appears in English, Slovenian and Spanish. His present research interests are concentrated in the areas of corporate boards and European management approaches. In the area of corporate boards he – together with Dr Ada Demb – has been involved in a large empirical study on boards. The results of the study were published by Oxford University Press in March 1992 (Demb/Neubauer, *The Corporate Board: Confronting the Paradoxes*). His latest book – *The Family Business: Its governance for sustainability* (Macmillan, 1998) – was published together with Alden G. Lank. It is based on a four-year study of governance issues in family businesses.

Dr Neubauer is also a consultant in the area of strategic management and corporate governance. In the course of his career he has advised a broad range of companies, among them several large multinational car makers, soft drink and fragrance corporations, internationally active banks, packaging equipment manufacturers, building material producers etc. He also conducts in-company board retreats where the whole board of a given company looks at its own performance as a board.

Ulrich Steger – Alcan Professor of Environment, IMD

Ulrich Steger holds the Alcan Chair of Environmental Management at IMD and is Director of IMD’s research project on Corporate Sustainability
Management, CSM. He is also Director of all DaimlerChrysler Partnership Programs, the Allianz Excellence Program and the Yukos Program. In addition, Professor Steger heads IMD’s Global Corporate Governance Research Initiative.

He is also a member of the supervisory and advisory boards of several major companies and organizations. He was a member of the managing board of Volkswagen, in charge of environment and traffic matters and, in particular, the implementation of an environmental strategy within the VW group worldwide.

Before becoming involved in management education, he was active in German politics. He was Minister of Economics and Technology in the State of Hesse with particular responsibility for transport, traffic, and energy. Before that, he was a member of the German Bundestag, specializing in energy, technology, industry, and foreign trade issues.

**John Ward – Wild Group Professor of Family Business, IMD**

Professor Ward is The Wild Group Professor of Family Business at IMD, and also a professor at Northwestern University’s Kellogg Graduate School of Management (USA). He is director of IMD’s renowned ‘Leading the Family Business’ programme, in which he has taught since its inception in 1987. His teaching and research interests are in family enterprise continuity, governance, and sustainable strategy. His MBA and PhD degrees are from Stanford Graduate School of Business.

Ward has authored several books, including the bestselling *Keeping the Family Business Healthy, Creating Effective Boards for Private Enterprises,*
and the just published *Strategic Planning for the Family Business*, as well as the Family Business Leadership Series (published in four languages) and numerous articles. He serves on the board of several companies in Europe and North America.

**IMD**
IMD is one of the world’s leading business schools. Located in Lausanne, Switzerland, IMD has been helping organizations improve their performance for over fifty years. Its high standards are recognized by hundreds of the best companies around the world.

IMD was founded by a group of leading corporations to address the real challenges that international business executives face and, in the final analysis, need to win. To this day, IMD remains focused on real-world management issues – developing leadership capabilities and offering state-of-the-art concepts and tools. While other business schools primarily teach full-time graduate university students, IMD keeps an unwavering focus on the learning needs of executives and their organizations.

**Executive Development from IMD**
*Executive Development from IMD* provides cutting-edge thinking from the faculty of one of the world’s leading business schools.

Each book presents concepts and insights for today’s most important business and management challenges. The tone is straightforward. The message is practical. The ideas are tested and ready for managers to apply in their companies.
Each book follows a similar format: key-point summaries reinforce the message of each chapter and learning points translate concepts into action. Every chapter is illustrated with relevant international case studies that bring the discussions, analysis and recommendations to life.

Executives attend IMD programmes not only to learn but also to be inspired. The books in this series, like IMD programmes, provide executives with inspiration as well as with tools to improve themselves and make an immediate contribution to their companies. The focus is executive learning – engaging, energizing and impactful.
Preface and Acknowledgements

In times of massive public outcry, of the type we recently observed with regard to corporate governance, it is sometimes difficult to switch from a scandal-driven to a value added-oriented approach. Corporate failure always contains important lessons, if one focuses not on moral outrage and condemnation, but rather on digging out the lessons to be learned and transforming them into an idea of how to do things better. We began this research in autumn 2000 (the pre-Enron period) under the heading of the ‘Global Corporate Governance Research Initiative’ and tried not to become too distracted by the volatility of the political debate.

Our main research tool was a very personal, confidential, one-on-one discussion with board members across the world (62 at the last count), in addition to the many discussions I had with participants of IMD’s board programme and other programmes since 2000. Valuable input also came from the board retreats I run at IMD. To these retreats in particular I owe the insight into the relationship between corporate governance and strategy.
I know that this type of loose, unscripted, face-to-face discussion violates the rules of normal academic empirical research. But is there another way out? A chairman of a board rarely tells you why and how he had to kick out his CEO when a tape recorder is running. And I wanted to avoid the typical black box approach of academic research: take one input variable (e.g. independent directors) and measure output (e.g. financial performance), as this normally leads to inconclusive and impractical results. When one wants to shed some light into the black box, I see no other way out. My personal experience, both as a member of a managing board and numerous supervisory board assignments, certainly helped me to put unstructured information into context. But the reader should not only trust my fairness and accuracy in representing and aggregating the data – not least given my previous track record as an empirical researcher – but is also invited to test the fruitfulness of this research, especially in the two cases: War at the Helm of Elicore and National Life. These cases were written on the basis of discussions of the variety described above. They could probably have never been written as public cases.

So my thanks go to all the interviewees who devoted their time and brains to my pertinent and insistent questions, and to the participants of board retreats, who probably suffered as much from my German scepticism and punctuality as from my curiosity. But I hope that they too got something out of these discussions. Their contribution, as well as the input from various IMD participants, is especially appreciated at a time when corporate governance had become fashionable and I was most probably not the only one asking for their time.
The second source of information was the survey, where I have to praise Helga Krapf for her patience and diligence in pushing for a high response rate, and I hope that all her efforts in our research cooperation are now paying off with her PhD thesis on which she is currently working. (As this is under my supervision, I have to be careful with too much praise . . .)

While the academic literature and the many (too many?) articles in journals did not so much provide new insight, as help me to benchmark my own information and frame the hypothesis that I wanted to test. Additionally, it provided me with more details about governance systems that I was until then unfamiliar with.

This book could definitely not have been written without the support of IMD.

First, our President Peter Lorange, who not only participated as a researcher in IMD’s Global Corporate Governance Research Initiative (see Chapter 6: ‘The Role and Responsibilities of the CEO’), but is also responsible, together with Jim Ellert, John Walsh and their teams, for the creative research culture at IMD (including the necessary budgets). Fred Neubauer, now Professor Emeritus, pushed me to gain interest in this research beyond my personal experience and helped me to set up the research project, based on his tremendous experience and insights in this area (see his article on board evaluation). Bill George and John Ward were not only valuable contributors to this book (see the case commentary by Bill George and John Ward’s contribution ‘How Governing Family Businesses is Different’), but helped me to understand the US system better, so that we can live up to IMD’s commitment as a truly global research and learning platform. In addition
John made sure that our corporate governance research did not neglect the many other forms of incorporation aside from public quoted companies. The finance dimension of corporate governance was a useful correction to the temptation to look solely at structures of power.

In this book, authors are responsible for the content of their articles, but we made sure as a team effort that there is a ‘red thread’ (as outlined in the Introduction, which provides a roadmap of this book) and a common approach of ‘Real World, Real Learning’.

The collaboration was a great experience, partly because all authors shared the same curiosity and knack for relevance, but also because most of us have had personal experience as board members in different countries, industries and company sizes, making for an extremely rich experience. However, while IMD’s culture emphasizes teamwork, the final responsibility has to be taken by the person who spearheaded the effort. In this case it is I: a privilege that I definitely enjoyed, and a responsibility to which I hopefully live up to.
Introduction – A Roadmap for the Book

Many recent efforts of consultants and academics focus on the compliance part of corporate governance, i.e. how to keep the CEO out of jail. In contrast, our main assumption is that the major role of the board – as the company’s central lever – is about leadership: setting directions, providing value added, selecting the best people and coaching them, and walking the talk. In doing so, however, every board faces several dilemmas; the why, what and how are by no means obvious – not least because the shaping influences for corporate governance differ widely and there is no one-size-fits-all approach (which today is often the implicit assumption of regulation and codes of conduct).

In Part I, ‘Global Corporate Governance – Issues, Framework and Evidence for Board Leadership’, Ulrich Steger introduces the basic framework and its results to shed some light into the ‘black box’ of corporate governance. It starts out with a critical review of the current debate to then focus, using the Swissair case as a template, on the four dilemmas the board is confronted with (often in varying, but never in irrelevant degrees): micro-management versus detachment (the division of labour and cooperation
INTRODUCTION – A ROADMAP FOR THE BOOK

between management and board), risk taking versus financial control (the system and processes to set directions and monitor results), the eroding boundaries in global companies versus national frameworks and the conflicting expectations of stakeholders for the licence to operate.

Second, shaping factors of corporate governance – personalities, capital markets/owners, strategy and cultural/legal influences – lead to a broad variety of corporate governance systems. These are clustered into four types: CEO-dominated, checks-and-balances, owner-centred and consensus-oriented. The basic mechanisms and how they function are explained. It is argued that each of them works and is a national response to the context and needs to be met by corporate governance.

Third, the specifics of corporate governance in global companies are outlined, using DaimlerChrysler as a template. The DaimlerChrysler case is analysed to offer lessons on how such complexity can be managed.

The second part of the book deepens the analysis of three ‘burning questions’, touched on in Part I. Peter Lorange (‘The Role and Responsibilities of the CEO’) discusses in detail the relationship between the CEO and boards. Especially now that boards are more ‘empowered’ and stronger, each party has a responsibility to make this relationship work and complement one another in the best interest of the company.

Fred Neubauer and Helga Krapf report on framework and experiences with the evaluation of CEOs and boards. In addition to being a hot topic, evaluation is a long-standing practice in best practice boards.
In corporate governance, family business differs most from public companies (which does not mean that they cannot learn from one another). John Ward discusses these differences, specifically with regard to the different phases of the life cycle of a family business. He reviews the different roles that should be played by boards and the family in a transparent way.

In Part III, Bill George discusses three case studies, as well as providing his interpretation of the Swissair case. The first case deals with conflict in boards, focusing on the role and responsibility of the independent director. Conflict between the chairman of the board and the CEO is explored in the second case. The third case raises corporate governance issues and the stewardship responsibility of management in case of a raider attack. All three cases, plus the Swissair and DaimlerChrysler cases, were recent outputs of IMD’s Global Corporate Governance Research Initiative, as was the survey that provided empirical evidence for the first part of this book.

Each of the chapters is easy to read (at least that was our intention). In addition to raising relevant issues, they also provide proven solutions to problems and ways to professionally manage the dilemmas that arise. At IMD, we meet rigorous global academic standards in our research, but we care equally about practical relevance. While the primary target group of this book are board members, company secretaries and other corporate officers, the academic world might benefit from our research, as well as the evidence and cases presented. After all, few academic institutions enjoy such a close working relationship and easy access to its research subject as IMD.

You are invited to provide your feedback on how well we measured up to our intentions by sending an email to Ulrich Steger at steger@imd.ch.
Part I

Global Corporate Governance – Issues, Framework and Evidence for Board Leadership

Ulrich Steger