Baldomero Falcones Jaquotot
Chairman & CEO
FCC, Spain

"ENHANCING BOARD EFFECTIVENESS"

Lisboa, September 18th 2008

Board Composition and Directors' Profile

- BOARD COMPOSITION
  - Size of the Board
    - Unified Code of Corporate Governance: between 7 and 15 members
  - Term
    - Unified Code: <12 years
  - Equilibrium between Managers / Independent / Sunday – Directors
    - Unified Code: >1/3 of independent directors
  - Equilibrium between controlling and other shareholders
- DIRECTORS' PROFILE
  - Professionalism
  - Excellent Reputation
  - Financial Skills
  - Absence of Conflicts of Interests
  - Diversity

Board Dynamics

- MEETINGS
- COMMITTEES AND COMMISSIONS
  - Strategy Committee
  - Audit Committee
  - Remuneration and Nominations Committee
  - Management Committee
  - Executive Commission
- DOCUMENTATION

Role of the Board in Strategic Planning

- The board should play a key part in crafting company's strategy
  - Focus on adding value to the process of running the business
- Open and honest debate is fundamental to encourage participation
- Further immersion of the board in company's affairs, such as visiting the company's different sites or departments and reporting back to colleagues, could also be useful
- Wide role: Bringing a broader perspective to the company, balancing the views of management
- Directors should be deeply engaged with company plans and executive decisions
- The board should insist on high ethical standards throughout the company

Role of the Board in Managing Crisis and Succession

- Selecting a CEO is the single most important decision of the board
- Initiate succession planning immediately after a new CEO is appointed
  - Include an updating of succession planning at board meetings
- Different process whether the replacement is planned in advance or the CEO is fired
- Sense of nervousness and crisis when a new leader takes over
  - Even when the succession is planned
  - During the transition period the company should generate confidence and calm
- A main choice is whether to hire an external CEO or to promote an internal candidate
  - The board should constantly monitor two layers of leadership beneath the CEO
- Companies can take advantage of mergers, public stock offerings or crisis to revamp their boards

Control, Evaluation and Compensation of CEO and Top Management

- Management operates the core business while it needs oversight from the board to make sure shareholder interests are maintained
  - Boards should monitor management in order to avoid “the agency problem”
- The board of directors should evaluate the chief executive
  - Clear performance metrics
  - Constructive feedback
- Monitor the strategic plan with clear milestones
- Compensation tied to Performance
  - Stock Options
  - Other performance metrics

Role of the Audit Committee

- Audit committees need direct access to company accountants and auditors, not through senior management
- Difficult to catch on if management and its accountants are intent on wrongdoing
  - Essential for members of the audit committee to be experienced in finance and accounting
  - Rest of board members do not require the deep, technical expertise of accountants, but should have some knowledge
- Environment getting increasingly litigious and risky due to increased pressure from legislators (specially in the US)

Stakeholders' Relations

- Boards should represent interests beyond their own and those of top executives and major shareholders
- Boards should also take into account the interests of other stakeholders
  - Small investors
  - Employees
  - Customers
  - Suppliers
  - Community and Environment
  - Others
- Boards should set up the appropriate social responsibility policy and spread it out to the ranks

Evaluation of the Board

- Good corporate governance can be a competitive advantage if the board focuses on performance, not conformance
- Board members should be evaluated, the way executives are
  - Academic research showed in 2002 that only 20% of corporate directors in the US faced performance measures
  - Executive compensation is frequently tied to performance and equity ownership is required. The same could be demanded of the board
  - Transparency on how the company is performing and the board compensation structure is a key issue
- The board should conduct an annual evaluation of its own performance and compensation

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