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Boardroom Superheroes? The Challenge of Independent Directors

Paulo Vasconcellos, ProxyCon:

Can a single director make a difference?

In my opinion, the answer is yes. Having someone on the Board can be very instrumental to assure minority shareholders that the controlling shareholders and the company executives are focused on creating value for all shareholders.

The presence of an outsider with independence to raise tough questions or to argue against some proposals brought to the table, may avoid wrong decisions. In that sense, the independent director can be a powerful tool to create value.

There are several definitions to classify someone as independent. In my view, more than rules, I see five key characteristics to make a director truly independent and really effective:

- 1) Care for reputation
- 2) Commitment to the job
- 3) Have an Investigative Mind
- 4) Keep the right distance
- 5) Be ready to leave at anytime

1) Care for reputation

Reputation is the most important asset of anyone. It takes years to build a professional reputation and seconds to destroy it. Being negligent, complacent or making a wrong decision may hurt a director's name.

2) Commitment to the job

Directors are humbler mortals, neither superheroes nor gods. Therefore, anyone with the honor of being a board member, should take the task seriously

and put in long hours. Someone with many board positions can not perform a good job. So, think twice before running for a board seat and don't forget to consider all risks involved, not only the legal ones.

3) Have an Investigative Mind

Top management must feel that they are accountable to the Board. Shareholders expect the Board to perform the role of investigators, acting as the devil's advocate. This task can be better performed by someone who has no ties.

4) Keep the right distance

This is a very important factor. To deeply know the company and be able to contribute with opinions and suggestions, the director must be close to controlling shareholders and executives. The director needs to understand the organizational culture and hidden agendas of decision makers. However, he needs to be close but detached, in a way not to have his independence negatively affected.

5) Be ready to leave at anytime

Compensation needs to be high enough to motivate directors, but not so high that someone may hesitate to let it go if he needs to step down to make a point. Furthermore, the director must be aware that his position is not forever. The shareholders who elected him this year may not do the same next year. We notice that some directors get so much emotionally involved with the company, that may their judgement is sometimes affected.

In addition to those five characteristics, a very important issue is that interests must be aligned.

It is always a great experience to be a Board member, but in the end, compensation is important for everybody, independently from personal wealth. The best way to align interests, is through a long term compensation package, something still very uncommon for directors in Brazil. When the company does not have a variable package linked to results, directors should invest a portion of their compensation in the company's stocks.

With the basic qualifications for the job and paying attention to the key issues I mentioned, I believe that an independent director can give a real contribution to the company and make a difference.