About mergers, good governance, egos and myself

Introducing the observing eagle

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Introduction

Lately, I've delightfully been working on my final thesis for my course at INSEAD: Coaching and Consulting for Change.

When in the beginning of the education we were stimulated to think about the theme for the thesis, I almost directly knew what my topic had to be. Good governance in relation to mergers and the ego of CEO's. During that time there was a lot of social commotion surrounding the topic. Mergers are nearly always radical and sometimes there is more focus on the interests of involved management and shareholders, than on the interest of the company, the involved employees and the society. The jobs and the working conditions of thousands of people are at stake. Sometimes there can be a flagrant opposition between the advantages for individual managers and the common interest of the organization. The merger of ABN-AMRO and Barclays/Santander or Fortis, was controlling the news. The role of the CEO was scrutinized from different point of views, his management achievements, but also his exorbitantly high reward. Suiting the way I was raised and the lessons my mother has taught me, there was a moral judgment: "This ought not be."

At the same time, in healthcare, I saw these big merger movements around me. I myself was questioning the rational foundation of these decisions to merging. Sometimes I wonder if the ego of the manager was more important than the focus on an organizationally-wise foundation. Even political parties started to think: "This ought not be", something that led to questions in the House of Commons and whereby even the possibility of substitute law enforcing was investigated.

I myself especially missed in this process the independent and controlling position and/or the checks and balances of the Supervisory Boards. There as well, conversation seemed about the organizational aspects and not about the mark that the ego of the manager pressed on these processes. In the regular decision-making procedures the focus is, according to me, too one-sided in rational processes, while irrational aspects matter as well. And I think it can bring advantage when irrational and unconscious ego-related themes can be brought more to the surface. At the same time there is a risk that behind rational considerations irrational motives are hidden and therefore the rational considerations are colored and less evidence based. And for good governance, a clear transparent focus on all relevant themes is necessary.

Maybe you noticed that till so far the focus is to the outside world. But there is more. My organization and myself were involved in a merger also. The foundations in the rational business world were convincing, but nevertheless the merger was stopped by my colleague of the other organization at the very last moment. After my disappointment about that decision I realized that this also has to do with myself.

I had a similar experience as a member of the Supervisory Board of a bank. The business case was promising, but the personal interest of an involved CEO was the cause of the abortation of the merger. As a member of the board I saw things happen, but I was not capable to change the line of the story.

It seemed like a challenge to me to utilize my INSEAD course not only for moral judgment and feelings, but to search for grounded answers. As a result of my course, I now look at the world through three-focal glasses. Next to a rational view on the aspects of a business case (focus 1) I've also discovered the use and influence of irrational aspects and especially of personal relationships (focus 2) and personality itself (focus 3).

These three-focal glasses thus give me another view on the outside world, while at the same time I've grown more aware of the fact that I myself give meaning to the things I observe. And in that case, not only the glasses/focus on the outside is important. The glasses/focus on the inside of the involved people is certainly significant as well. Consistently is that I start with myself (focus 3) and after that start I will pay attention to the more evidence based approach to business cases about mergers. Because business decision never can be based on intra-personal focus only. It is the well balanced coherence that makes the difference.

After all, I myself was involved with more than one merging plan, successful mergers and mergers that were eventually aborted. And there, the aspects of the business case, the interpersonal relationships and my own personality played a crucial part as well. A relevant question therefore is also how the state of good governance was, there and then.

Therefore, the construction of my thesis is as follows. I'm starting with a final reflection about my own internal process of learning and therewith make a connection to merging processes as well. What brought the focus on my inside? And which advantage do I gain from that for my work as a manager?

An interesting question is whether this learning process had any relevance in relation to merging processes and what, from that perspective, could be the contribution to good governance.

Chapter 2 gives a summary of my "research" on this topic during cocktail party chats.

Because even though it affected my personal life, the professional line of approach is most important. To quote INSEAD's theme once more: "After all, we are a business school where we develop leaders, who develop people, who develop business."

In chapter 3 I will pay attention to the research of Professor Dr. Hans Schenk from the University of Utrecht. His general evidence based conclusion is that 75% of the mergers bring no success. Therefore it is in my opinion even more important to pay attention to a good decision-making process.

I did not find specific research about the correlation between merger decision making and good governance. But professor Cees Cools investigated the relation between fraud in organizations and governance procedures. His conclusions contributed a lot to my learning process and helped me to make up my mind about my recommendations. This is chapter 4.

Based on the results till so far, added to my own experience, combined with the work of the professor Schenk and Cools and after I studied the present good governance code I clearly see there is space for improvement for better governance during mergers.

My conclusions you can find in chapter 5. In chapter 7 I add my recommendations. My first idea was to add direct related to my conclusions my recommendations. Part of my learning process during the construction of this thesis was that I choose another way. My conclusion is that it is more desirable to make regulations built upon values. So before I can make my recommendations I consider the need of values and a moral point of view. This has grown to the in-between chapter 6 about the need of a moral statement. Fortunately I can base this moral statement in the outcome of several literature studies. Some of them are based on solid investigations of successful companies. Building upon that I can make my recommendations for good governance during merger processes related to the ego of the CEO. In a way my recommendations are not restraint to merger processes, but also suitable for management in general. But in this thesis I focus especially on this good governance topic to develop recommendations to improve, quality-wise, the decision-making processes at a merger and pay also attention on the more hidden and unconsciousness processes.

In supplement 1 I propose some additions to the governance code. In my opinion these additions can contribute to the governance code especially in regard to the person related themes.

In supplement 2 I will pay attention to the wonderful and sometimes surprising conversations I had about this theme with several people. All of them had top of the bill experience on this subject and I am very grateful, that they took time for me and that they were so open about there thoughts. These conversations gave a much deeper level to my learning process. You find the list of interviewees in supplement 3.

Gratefulness I feel also to all the involved persons at CCC wave 7. Thanks for the chances and the encounters full of value. It was interesting, confronting and warm. Thanks a lot.

Chapter 1   My personal development

1.1 Professionalism

During CCC I discovered and experienced that, in a very intense way, organizations as systems have a life of their own- a life that's not only conscious but also unconscious, not only rational but also irrational. I learned using the clinical paradigm to provide insight into that life. To fully understand it, I paid attention to the rational issues in the business case, but also to the internal and social dynamics, the effect of the organisational structure on the behaviour of leaders and followers, and last but not least: to the wide variety of unconscious and invisible psychodynamic processes in individuals and groups.

This clinical paradigm, which is now part of my professional toolkit, is based on the following four important premises.

1. There is a rationale behind every human act, even behind those that are apparently irrational. So each human behaviour has an explanation that can be more than only a rational explanation, based on logical elements of the business case. To discover that, like a kind of "Sherlock Holmes", I sharpen my own skills to see, hear and feel at the same time on different levels.

2. A great deal of mental being –thoughts, feelings and motives- lies outside of conscious awareness.
   Even the most balanced people have blind spots and a dark side that they don't know and don't want to know. And the bad news is that those hidden issues do influence actual relationships and decisions. The good news is that other people see and experience these things before you do. So I learned from the feedback I got and tried to change for the better.

3. The way a person expresses and regulates emotions determines, along with cognition, his behaviour and shapes his personality.
   Although all human beings are born with a particular temperament, which only gives a predisposition, one will regulate his emotional life during adulthood. That depends on his life's experience. And experience of emotions enables people to make better contact with them and other people. Later on, this core competence can make the difference between failure and success in careers. I explored my own characteristics related to failure and success. I also used the scientific results of the investigations in emotional intelligence.

4. Human development is an inter- and intrapersonal process. Experiences in our childhood determine the way we relate to other people. The psychological impressions of primarily early caregivers are very powerful. So they can influence our relationships with others. There is even a possibility of confusion in place and time. Old impressions determine our reactions in present relationships. Psychologists call this "transference". I looked into my own transference pitfalls in a more profound way.

So I developed myself as an executive who uses the clinical paradigm. For example, when my organisation has a plan to merge, and that was the case, I also pay attention to the unconscious and irrational issues, next to putting my focus on business. And I see lots of very interesting issues, with my newly gained skills. But I have to be careful with that, because I am also one of the players myself. So to be effective in the field of exploring the unconscious and irrational issues, I have to look at my own inside first. As they say, to mention two well-known proverbs: "If you want to change the world, change yourself" and "People in glass houses, shouldn't throw stones."

1.2 My inner theatre

So I investigated my own inner theatre to explore my irrational and unconscious feelings and motives to improve my professional work as an executive. Although I realise there is always more to explore, I made some progress during the course. I would like to share some headlines with you in this thesis, because it underlines the importance of my main goal in this thesis: to improve good governance during a merger process.

My exploratory expedition into my inner theatre has six base camps: emotional intelligence, my CCRT (core conflictional relationship theme), the 360˚ evaluation, the research of my development since childhood, the observing ego and Nienke Laverman.

1.2.1 Emotional intelligence

I studied the book THE EQ EDGE by Steven J. Stein and others, about emotional intelligence. There is intensive evidence-based data that proves there is a strong relationship between emotional intelligence and the chance of success in the business world and in family life. There is even a Dutch investigation by drs. Jan Derksen and Theodore Bogels which says that there is a significant relationship between emotional intelligence and earning more money. And this also relates to my own experience as a psychotherapist. In our days, we

changed our focus from treating the malfunctioning to building on strengthening skills and competences people already possesed. It was nice to see that the change of former days built upon what we knew, now could be based on evidence. There is also evidence that there are two criteria significantly important for successful leadership. These criteria are a high level of flexibility (notice the opportunities) and independence (listen to others, consider the advice, then go out and make your own decision).

Thus did I pay attention to my own state of emotional intelligence. I evaluated myself on the 16 criteria of the EQ-i. I identified several areas of possible improvement and discussed the results during a session with my fellow students. Next to that, the results of my 360˚ evaluation gave me lots of information into my own state of EQ. The criteria are:

Intrapersonal:	Emotional self-awareness	Assertiveness/Independence
	Self regard/Self-actualisation	Interpersonal motives
	Empathy	Social responsibility
Interpersonal relationships:	Adaptability	Problem-Solving
	Reality-Testing	Flexibility
	Stress management	Stress Tolerance
	Impulse control	General Mood
	Happiness	Optimism

This list changed my performance. I got to a more balanced focus between the results and the way you can reach the results. With more focus on the EQ-criteria, you'll achieve better results. During the merger processes I was involved in, there was hardly a conscious and outspoken focus on the emotional intelligence of the CEOs involved.

A more conscious and outspoken focus on the emotional intelligence of the CEO's involved in a merger process increases the chance of success.

1.2.2 My CCRT

In his book *The Leadership Mystique,* Manfred Kets de Vries introduces the CCRT (core conflictional relationship theme). When we discussed this in class and while we worked on our own theme in groups, it was an intensive eye-opener for me. Each person's CCRT has the following three components:

1. A wish in the context of a relationship

2. Our anticipation of how others will react to us in the context of this wish

3. Our own reaction to this response; be it behavioural or affective.

Our expectations of other people's responses in the present, are coloured by our feelings, attitudes, and behaviour towards significant people from the past. (in psychology this issue is called "transference") As a result, we sometimes unconsciously tempt people in the present to respond in ways that we expect from them. In other words, we help to create what we most fear.

This core conflictional relationship theme gets about in our personal lives and it is the heart of all repetitive relationship difficulties. And I am no exception to this general rule. I discovered that it colours my personal life, but also things I do in my professional life. Manfred Kets de Vries made it clear to me the effects are far-reaching for all those who are in leadership-positions. It is most likely that my CCRT determines the organisational culture and the decision-making processes of the organisation. When there was a conference in my present organisation, I also invited some members from the management team of my former organisation. One of them said to me: "Pieter, it is like coming home again." This was his comment on the organisational culture that he experienced in my new organisation, and he recognized the positive elements of it from knowing my former organisation. I was proud of this compliment. However, I have to admit that there is a reverse angle. Also the negative aspects, presented in my CCRT, can influence the organisational culture. And while this is more or less unconscious (to me it was), there is no opportunity to manage the negative effects. I am sure that this can be the difference between failure and success of a merger. You can imagine that I connected this insight to the three last merger attempts that I was involved in and why they all failed.

My CCRT has something to do with my habit to make statements with lots of vigour. Others are sometimes shocked by the sharpness and the intensity of these statements and at first they disagree on an emotional level. I was unaware of the cause of this reaction. And because I got no positive reaction, I sometimes repeated my statement with even more vigour, which naturally led to poor results. Or I felt uncertain or disappointed after the negative reaction of others and I withdrew; again, with the same poor results. In the end I did not reach my goal and I was disappointed that the others did not grasp the value of my point, but when I discovered a pattern, I had to admit that it possibly had more to do with me than with the other people involved.

The good news was, because it was about me, I could change that position/pattern. In my exploratory expedition to my inner self I found that the source of the problem had something to do with me being the youngest child in my family. The experience in our childhood determines the way we relate to other people. The psychological impressions of crucial early caregivers are very powerful, so they can influence our relationships with others. There is even a possibility of confusion in place and time. Old impressions determine our reactions in present relationships. It is hard to see it all by yourself. So you need an outsider for a sharp look. During a merger process there is a final task for the Supervisory Board, because of the intensive consequences this can have.

> When both the Supervisory Boards involved in the merger process know the CCRT of their CEO's, it would give more of an overview to the things that (could) happen during a merger process.

1.2.3 The 360˚ evaluation

My Global Executive Leadership Inventory (a 360˚ evaluation) gives a very interesting insight between the differences of scores from different observants. After the failure of the merger attempt, I invited the CEO of the involved organisation to be part of my 360˚. You can see the results in the group "Others". He was in this group together with my former colleague on the board (who left after a co-operation problem). I was evaluated on 12 criteria:

A	**Visioning**	Sees new opportunities, enterprising, gives direction and guiding.
B	**Empowering**	Expresses high expectations for, and confidence in his employees
C	**Energizing**	Proactive and action orientated, mobilize "his" people trough his enthusiasm
D	**Designing and Aligning**	Gives his vision a solid structural foundation. Hold people accountable for commitments and deadlines.
E	**Rewarding and Feedback**	Knows how to reward and compensate their people
F	**Teambuilding**	Builds alliances and creates commitment among co-workers
G	**Outside Orientation**	Builds a relationship of trust with shareholders. Pays attention to the customers needs.
H	**Global mindset**	Has a strong awareness of the global economic scene
I	**Tenancy**	Courage and tenacity to defend unpopular decisions
J	**Emotional Intelligence**	Manages his emotions well and strives to expand self-awareness
K	**Life Balance**	Creates a balanced lifestyle for himself
L	**Resilience to Stress**	Makes an effort to manage stress in his own life, recognizes the importance of health

The score classifications were:

Excellent	70%-100%
High	40%- 70%
To improve	0%- 40%

The results:

Personal Graph
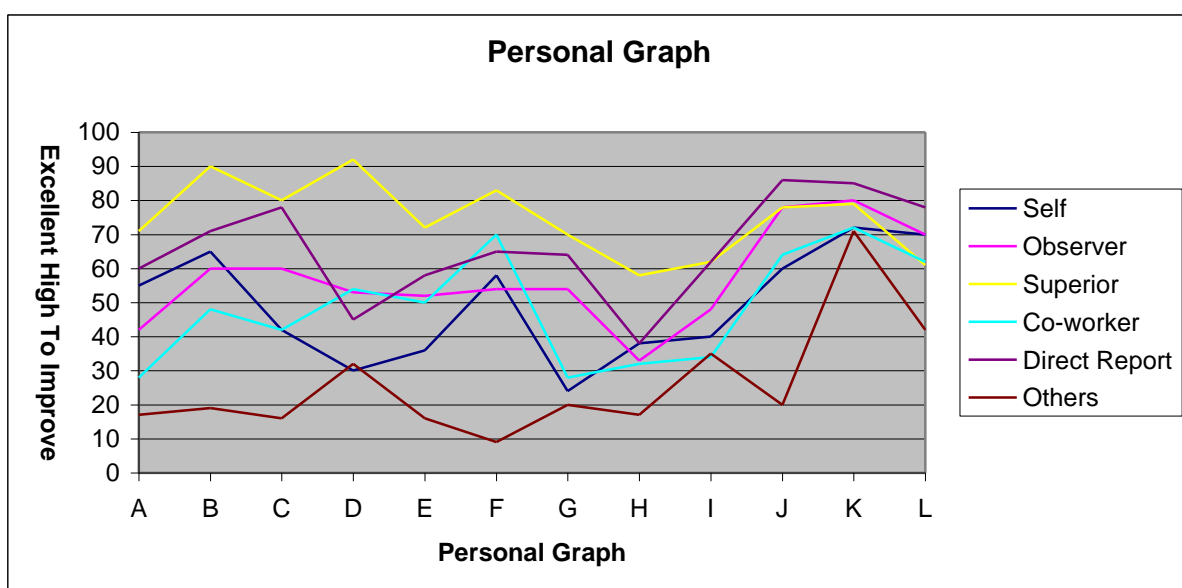
Significant scores:

Empowering:	Superior 90%	Self 68%	Others 20%
Energizing:	Superior 75%	Self 30%	Others 18%
Teambuilding:	Superior 86%	Self 60%	Others 8%
Emotional Intelligence:	Superior 80%	Self 50%	Others 18%

In the "other group" there was an observant who was the CEO of the merger-partner. I can imagine that you don't want to attempt a merger and then be on a board with a colleague, who has (in your opinion) no competence to empower other people, who cannot convey energy to people and projects, who is no team-builder and lacks emotional intelligence. Then there is a chance that even if the business case of the merger is very positive, the merger will not take place. Of course this is not only about me, but also about the others.

Knowing that "your" CEO is viewed by the merging partner as someone they rather see going than coming as a colleague, could be information for the Supervisory Board which they can use further on in the process.

1.2.4 Childhood research

The experience in our childhood determines the way we relate to other people. The psychological impressions of crucial early caregivers are very powerful, so they can influence our relationships with others, as I wrote before. There is even a possibility of confusion in place and time. Old impressions determine our reactions in present relationships. This is a key-insight used in the clinical approach. You can only handle this issue the right way in your professional life if you've explored your own childhood too. Because I was a psycho- and family therapist until 1988, I was involved in lots of training of this kind. For two years, I was even in (learning-) therapy on analytical lines. Nevertheless, during the CCC-college I have gained insight into lots of issues from my childhood that I didn't have before.

In a way this is a very strange experience, because I travel trough fields to discover something you cannot directly see, because the underlying hidden meaning is the important issue.

My trip started with the beginning of CCC and became more intense when my father died in April 2007. The death of my father was the starting point of conversations with my sister and brother about the life of my father and the lifes we have lived so far. Very important in our stories is the early death of my mother, who died at the age of 46, when I was only 15 years old. At first we were in the conversations focussed on the decisions my father made after the death of my mother. He fell in love with a woman, who did not really want us (the children of my father) in her life. Our family fell apart in a way. But the common belief in the family was not to talk intensively about this unpleasant situation. We had social chats, did nice things together and apparently led a normal family life. After the death of my father we could talk this trough and we more and more felt the sadness of this situation. For example, our children did not have grandparents.

My part for all those years was to challenge that situation from time to time, and simultaneously I was always aware to keep the balance between honesty and openness and my need to be accepted. Therefore I had to repress a lot of feelings I think. Now, my most dominant feeling is sadness about the contact, the interactions and events with my father that I missed.

Insight 1

When I am in touch with my sadness I become gentler, so there is more space to say things distinctly. Quite a difference if you say to yourself, after being too distinct, be less distinct or notice the need to be in touch with your sadness more.

In these conversations, the focus was on the past 40 years of our family life. But what about the first 15 years of my life? I do not have many memories about my mother and how our family life was. The most vivid memories are of illness and fights on the one hand and about memories of parties to celebrate a successful harvest on our farm and beautiful vacations on the other hand. To get more in touch with this period of my life, I spoke to a brother in law of my mother: he is 100 years old, but still in very good shape[1]. He talked about the incompleteness of my mother's life. She died far too soon and her (short) life was not satisfying to her.

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[1] Unfortunately he died September 9.

She was born in a poor family without much love. When she was 13, she had to work to assist a farmer's wife in the household. She developed left-wing political ideas, was a strong fighter against alcohol abuse and participated in youth movements concerning this topic. After her marriage she quit this active participation in social activities and according to my uncle she lived in a hostile village and was not accepted in the family of my father because of her stern ideas. She was disappointed with the world and she didn't trust people easily. She hoped her children would have a better life than she had. During the last period of her illness, my brother and sister were already adults with spouses and my mother felt that her task with them was done. However, she was anxious about me. She recognised some things of herself in me and was concerned whether I would be capable to maintain myself or that my own strong ideas would get me into trouble. On the other hand, her judgment about people, who make compromises to be successful, was unscrupulous.

My uncle said that the theme in the life of both sisters (his wife and my mother) was: "We are worthless and we cannot achieve anything". This has to do something with the fact that they came from working class families. The paradox was that she condemned the upper class (gaining prosperity by trampling on the working class) while at the same time she was jealous of their lifes.

Insight 2

Maybe my fight for people who have less (whether it's money or intellect), has something to do with my wish that my mother could have lived a more satisfying life. More consciousness about this possibility brings more relaxation in my attempt to reach these goals. There were times when I tried to convince everybody Bbut when I can restrain to my own wish, there is more space for other people to make their own choice of participation or not. More consciousness will overcome the aggressive part of fighting for others.

Insight 3

Currently, we might buy a new house, which would be considered an upper-class residence because of its appearance. I am very doubtful on the decision yet and that partly has to do with my mother's beliefs. She condemned upper-class people living in luxury (yet she was jealous of them). I am very curious how I will work this out and where we will live within a year. I felt the same when I joined The Rotary.

Insight 4

In my daily work I have to deal with the secretary of state, among other institutes. In the past, these people seemed to live such different lifes to me and I could not imagine I would ever reach a position like that. In that framework, it does make sense that I entered all my jobs as "second" man, before I became the chairman. I am sure that this has something to do with the assumption I gained during my youth. More consciousness about this hidden assumption brought me more realistic self esteem.

Insight 5

During the last months, I have been criticised by the labour council and the family board. At the same time, we achieved a lot in the organisation for which they could be grateful. My assumption is that there is something in my behaviour that evokes this criticism. Maybe, deep inside, I have the fear to be the condemned employer that gains his results by trampling on the staff members and the families and maybe they sense that and react unconsciously to that message. It's something that needs further and deeper exploration.

What I did not realise myself up until the past few months, was my special position at home. My brother is ten years older than I am and my sister is 5 years older. So I really was the youngest. When I was 5 years old I was very playful and had lots of imagination. One of my amusements was to fantasize about participating in sports competitions and in the end I always was the best: I won the "Tour de France" for example. Now I wonder why there's this need to be the best and to be the greatest. Was it to compensate for certain things in reality? In sports games, it appeared that I did not have much talent. Nevertheless I gained several prices if only because I always gave all I've got and because of my enormous perseverance. And maybe it had to do with something deeper. I was the youngest in the family, so I had to do something extra to get the attention. I was a busy bee, had great stories to tell, which I sometimes exaggerated. Simple effort was not enough.

Insight 6

Maybe my feeling was that I had to exaggerate to be noticed and oftentimes people do not like that. As a reaction to that I sometimes withdrew myself and at other times I would even put more passion into my attempts to make myself clear. This relates to my CCRT very closely. Thanks to an earlier comment during CCC "It seems that you are afraid that people do not appreciate your contribution and that you put (too much) passionate effort in it, so you achieve the opposite effect."

My hypothesis is that I can be more successful in relationships, now that I've gained these insights. Maybe it can be a task for the Supervisory Board to stimulate "their" CEO to explore things from his childhood that influence present relationships in a hidden unconscious way.

1.2.5 My observing ego [2]

During CCC I developed an "observing ego". That is a kind of third eye and ear, which I place outside of my own body. Most of the time I glue this third eye/ear to the ceiling above the conferencetable. From that position, the third eye/ear observes the conversation and what is happening there on different levels. The third eye/ear is specialized in irrational inter-personal and intra-personal issues, and I can make a connection to it at any time. I always make the connection, when I get an uncomfortable, but unspecific feeling during a conversation. I ask my observing ego: "Hey, what is going on here? What about me? What about him/her? What about the relation? What about my CCRT?" And the answer makes me more aware of the hidden things that are at/under the table and then I can make the next steps into the conversation with issues in the back of my mind that were until then, unconscious.

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[2] One of the conservations I had related to this thesis, was with Lense Koopmans, chairman of the Advisory Board at the Rabobank. He misunderstood the word "observing ego"and thought I said "observing eagle."Later on I thought that the metaphor "Observing Eagle" would be great for Supervisory Boards. During a meeting, the Eagle is above the meeting table and observes, with his sharp eyes, the things people cannot see. At the end of the meeting, where for example a far-reaching decision about a merger is down for consideration, the last point of that consideration should be: "Obersvations of the Eagle". Every member of the Advisory Board makes a connection and tells the others what he or she thought the Eagle had seen.

In a way it is my "take it back" button[3]. Since I use this third eye/ear, I experience that conversations develop on a deeper level and are therefore far more effective [4]. Important elements of the observing ego:

- focus on listening and processing info rather than speaking
- the goal is to fully understand the other and what it is that is going on
- mentally registering and recording facts/observations for later use
- confirms listening by sounds, gestures and expressions
- actively seeks to understand, asks clarifying questions, offers observations or conclusions, deepens the conversation
- pays attention to non verbal communication. Is it in-sync with what is being said? What is not being said? What gaps are there? What are you feeling?

This is a method to use yourself as an instrument/tool for gaining a deeper understanding. This way of working brought a new level of consciousness to the conversations; I give more attention to the things I cannot hear or see, but which come to my mind unexpectedly, apparently from nowhere. In a way, what I experience is that this has a great influence on me. I feel that my level of consciousness is deeper. Although I am relaxed, I am keener in my comments and my observations and it seems that I take more risks. There are indications that this helps to realise pleasing results. Maybe there is an undercurrent you cannot see or hear, but which has effect. You can notice I am quite satisfied with that. But I can assure you all these things did not reveal themselves to me by accident; I worked on it.

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[3] The "take it back" button is a key point in the work of Arnold Cornelis in the book "Logica van het gevoel"
[4] I try to develop the same skill in relation to my horses. When we had just bought a horse and we tried to get the horse in the trailer, he refused to get in and just stood there motionless. We called our trainer for advice and she came along. And this is what happened; the horse followed her and walked very quietly into the trailer. Same horse, same trailer, same halter, same rope and apparently the same movement of the person, who led the horse into the trailer. The non-verbal behaviour (hidden energy) of the person made the difference. So there is "something" for sure, nobody can see it, nobody can feel it, but the horse felt it. And I have the feeling that there is no difference with people. Sometimes there's something you cannot see or hear, but there is also something in the air that can influence the reaction of the people we interact with. You can improve your effectiveness if you can discover your own hidden language.

1.2.6 Nynke Laverman

Gerda, my wife, loves the chansons of singer Nynke Laverman. Through her interest I've become acquainted with this music as well. A DVD about "the making of" intrigued me especially. The director and the singer were working very hard on improving the performance. Authenticity and connecting to one's own emotions are central factors on this production.

At the moments where the singer was capable of making a connection to her own emotions, she could convey her musical and vocal performance to the audience with great impact. Apparent was that when she sang in the Frisian language, the meaning of the lyrics and the music came across more clearly than when she'd sing in Dutch. Even if the audience does not understand the Frisian language.

This difference in being able to convey a message in one language better than another, was because Nynke's first language, the language of her parents, is Frisian. Singing in Frisian enabled her to get closer to her feelings and emotions. The audience therefore understood what she meant, even if they weren't acquainted with the Frisian language. It were not just the words that mattered and communicated the music, but the connection to one's own emotions.

This brought me back to my own speeches in the organization. How much time do we spend worrying about words? And how much time do we spend on thinking about feelings and emotions? Unfortunately I had to see that the emotions, up till now, were much too minor, eventhough research proves that emotions are best understood and therefore have most impact. In that sense, learning about Nienke and her director weren't that sensational, but I realized that I did not take the consequences from that insight in my own organization. .

This links to the following quote from the book: The leader on the coach (Kets de Vries).

"Everywhere in the world there are people complaining about the great discrepancy between what their leaders say and what they actually do. This discrepancy is rooted in a lack of consciousness of the leaders into their own psychological motivations and moods – their inner theatre. Because of this, they are prisoners of the hidden powers that determine their decisions and behavior. As long as leaders and followers are not conscious of the makeup of their inner theatre, they'll keep sending out mixed messages of contradiction.

However, bringing these unconscious patterns to the surface can be very unpleasant, terrifying and confusing. Going one step further; changing the script of one's inner theatre, is even more radical. People who are struggling with a personal trauma are usually more willing to open up their inner theatre than people who are content with themselves. For the first group, the hurt of not-doing-it proves to be worse than the hurt of coming to terms with their own inner truth. Thus, the extent to where one is willing to change is different from person to person, whereby power is often times the modifying factor.

Much more so than their subordinates are people with powerful positions who tend to make up excuses not to work on emotionally painful and personal matters. The fact that leaders can work off their shortages on others, can blame them for poor achievements and disrupted communication, makes such a strategy of avoidance even more tempting."

CCC has helped me to face this strategy of avoidance and put (even) more focus on emotions and authenticity, as a direction towards more success for the organization.

> *Would this also apply to the members of the Supervisory Board? In my opinion, yes! All the things I mentioned about the CEO's apply also to the individual members of Supervisory Boards.*

Chapter 2 Cocktail party chat

In the first chapter I underlined the influence of the (perception of the) personality of the CEO in the decision-making process during a merger. I wonder if this is only my own experience or is this a more general phenomenon.

So the last couple of months I've been asking questions about this subject to several people. Although I expected some recognition, I was very surprised with the answers. Very often my question about their experience with the influence of the personality of a CEO in a merging process provoked a lot of emotional reactions. A few expressions:

- "Pieter, I can tell you, the only reason for our merger is the ego of our CEO"

- "Listen to my story: Our CEO couldn't listen anymore to one reasonable argument about the risks. He had put on blinders; he only saw his own possibilities of gaining power. And I am convinced that he was not aware of this himself. He truly believed he did the best thing for his organization. It was as if he had fallen in love with someone and could not see the personality of his "girlfriend" in realistic and adult proportions."

- "The merge was the worst event for the organization the past years. We are still struggling with the effects, we did not reach our business goals and our former CEO is still at the top of this huge, new organization"

- "Our organization did not merge, only because the personalities of the two CEOs did not match, so we missed great business opportunities"

So it was clear to me that I shared my personal experiences with many people in my immediate vicinity. The comments of the people I spoke to came mostly from people of the more low-profiles within the organization. And I do not know in what way their comments are infected trough inter- or intra-personal dilemmas, but nevertheless these comments are meaningful.

The comments of the CEOs were most of the times more balanced, but nevertheless all of them also saw the great part the personality of the (most of the time the other) CEOs plays in a merging processes. And for all of them it was clear that there has been poor governance on that specific issue. Anyway lots of CEOs did not like the idea of direct influence of the Supervisory Boards. What about the ego's of the members of the Advisory Boards I heard many times.

But when I write my thesis I want to do more than building a case upon own feelings and experience and what you can hear at cocktail party chats.

Therefore I studied some books about mergers and acquisitions and the role of governance to give my knowledge about merger processes more depth. This is consistent to my new gained focus and the balance between person related (irrational) themes and evidence based material about mergers. In my thesis I will present to you the results of the investigations of professor Hans Schenk first.

Chapter 3   Mergers

Professor dr. H. Schenk did a thorough research into the backgrounds and results of mergers and acquisitions; partly by intensive studies in literature and partly through authentic research. The key questions are what the possible results of mergers can be and what the real results are in the end. Then we have to look at different levels. In the first place we need to look at the level of the single enterprise, but also at the level of society as a whole. It is relevant to know whether the collectivism of mergers has positive or negative results for the economy in general. In other words: if a merger only leads to a transfer from one party (taxes, clients, suppliers) to another party (an enterprise, which strengthens its position in terms of power), then this merger is not desirable from an economic point of view for the society as a whole.

3.1 Sources of performance improvement

But first let us focus on possible sources of performance improvement.

Most of the times mergers start with questions about "economy of scale" or "economy of scope". For the economy of scale we have to focus on MOS (minimal optimum scope) or MES (minimal efficiency scope). There comes a point when the company has reached a scale of optimum efficiency. Till that point, improving results can be achieved by enlarging the scale and there comes a point when enlarging the scale causes inefficiency.

You can see this in the next graphic:
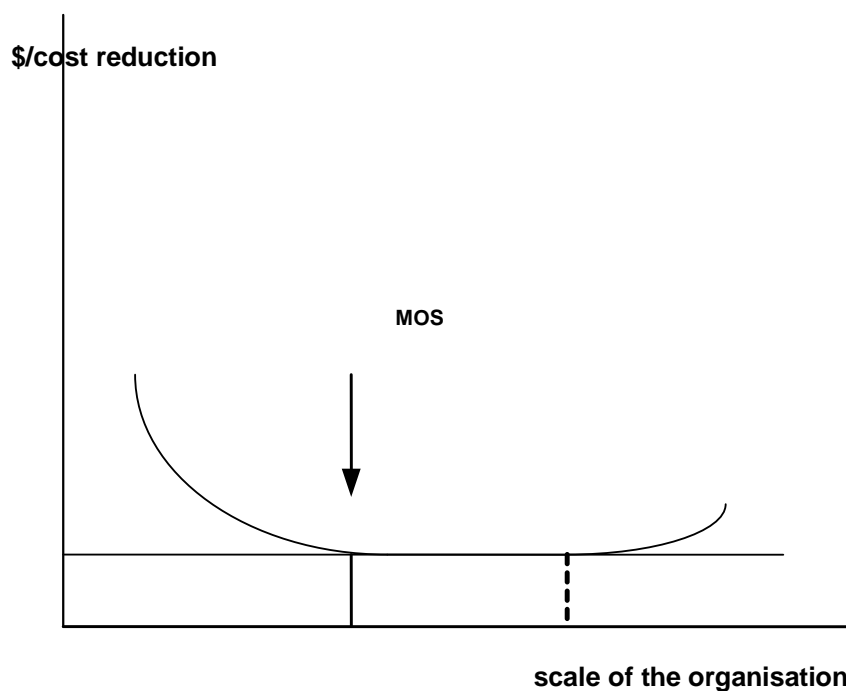
CEOs of companies involved in a merger are nearly always convinced about the benefits that the enlarging scale will bring.

The results of several investigations do not confirm this assumption.

A sample survey of 38 enterprises concluded that with only half of the companies involved in merging there wasn't even a directed plan to improve the efficiency. (Newbould, 1970) In the majority of the cases, the CEOs had no fixed ideas about improvement of productive efficiency (Sirower, 1997). Investigations of Pratten (1988), about the MOS in various types of industries, found that in the food and stimulant industry there was hardly any space for improvement via economy of scale. Surprisingly, the sector was very active in the merger business. Most of the times, the concerns are that large that they have a multi plant strategy. Various more or less independent plants are (loosely) coupled to a chain and then there can hardly be economy of scale benefit in the traditional way.

What you see in the foundations for the mergers, is the idea that cost reduction and quality improvement can definitely be reached in the research and developmental department. This argument makes sense. It seems quite obvious that the concentration of R&D activities can be more efficient and effective if you combine the laboratories and the programmes. Instead of doing a research twice; restraint related to limited costs and restraint knowledge, you can do it in a central framework with less costs and with more knowledge quality. Although it sounds obvious, the investigations concerning this issue show different outcomes. The conclusion of the American National Science Foundation said that small research enterprises (with less than 500 employees) were more than 4 times as productive than medium sized enterprises and more than 24 times as productive than the largest of enterprises (Adams and Brock, 1986). Additional to this outcome, Acs and Audretsch (1987) found that 42% of the 4531 technical innovations introduced in the American industry were developed in companies with less than 500 employees. Sometimes there is the suggestion that large companies can benefit from the innovative strength of smaller companies by a takeover. In reality, there's a chance that the original innovative power of the smaller companies evaporates by the syrupiness of the decision-making process in the new large company (Chakrabarti et al. 1994).

The economy of scale can also be found in chain-scale benefits. For example, a company that produces articles for the consumers' market also has a transport company to deliver the goods to the shops. When there is one integrated company there can be a cost reduction, because information can get to the right place faster and therefore the planning process can be improved. But Hayes and Abernathy (1980) found in their investigation the risk of decreasing

flexibility. A non-integrated company can easily switch to another supplier c.q. another transport company if there is a need to. And there are also indications that there is less stimulus for innovation in a related company than in an autonomous one.

An example is the bankruptcy of Fokker, a Dutch aircraft industry. A key problem was that Fokker was involved in a chain economy of scale. The produced aircrafts were sold to a domestic lease and finance company and therefore they lost the direct connection to the actual market. The same thing is happening with the bankruptcy of the DAF trucks industry.

Thus, the general conclusion is that there are many questions marks when the decision of the merger is based on the economy of scale argument.

And what about the economy of scope? Economy of scope has to do with diversity. Is there a possibility of synergy between plants, which have different products and are active in different markets? Maybe it can be an assurance against sales fluctuations. There can be the opportunity of inverts related market fluctuations. Also, there is the probability of cost effectiveness when the products, the production process, the sale channel from one plant, can be used in another sector of the market. So diverted companies do have lower costs than specialized companies. Empirical studies on the effect of diversity to the performance of (diverted) enterprises, did not always show the same outcomes, but in general, the conclusion is that diversity does not improve the performance. (Schenk et al. 1997)

19 out of 29 studies published between 1971 and 1995 concluded that the performance of diverted enterprises performed worse on the issues of profitability, cost-effectiveness on one's own power, yield from investments and cash flows, than specialized enterprises.

All these findings give sufficient ground for the conclusion that there is a reasonable doubt surrounding the profitability of diverted enterprises after mergers or acquisitions.

In this framework, there is an interesting investigation of Simmonds (1990) about the influence of the history of diverting. The results were that enterprises, which realised their diverts from the inside out, performed significantly better than the enterprises which realised their diverts trough mergers.

3.2 Conclusions

- It is doubtful that economy of scale leads to performance improvement

- Small companies are very often more innovative than large ones. It is doubtful that merging can improve innovation

- After a merger/acquisition, small companies loose lots of their strength and glow

- Economy of scope through creating chains (vertical integration and diversification) brings lots of risks, which are not compensated by the benefits

- Diverted organisations seem to underperform in comparison to specialized companies.

And when mergers in general do not give better performances, then the conclusion has to be that the CEOs (possibly) systematically put their enterprise at risk, or something other than bettering the performance is their aim.

3.3 Stockholders' value

So far we have focussed on the profitability of the companies involved after a merger. We can also look at the stockholders' value after the merger or the acquisition. Schenk (2002) concluded, after dozens of "event studies", that the stockholders' value of the buying company is going down. But on the other hand, before the takeover, the stockholders' value of the bought company increases till the takeover has been realised.

The results of the investigations are consistent. From the moment the merger should bring added value to the stockholders, instead of increasing there are declining stock market value drops.

**profit dutch acquisitions
1990 - 1995**
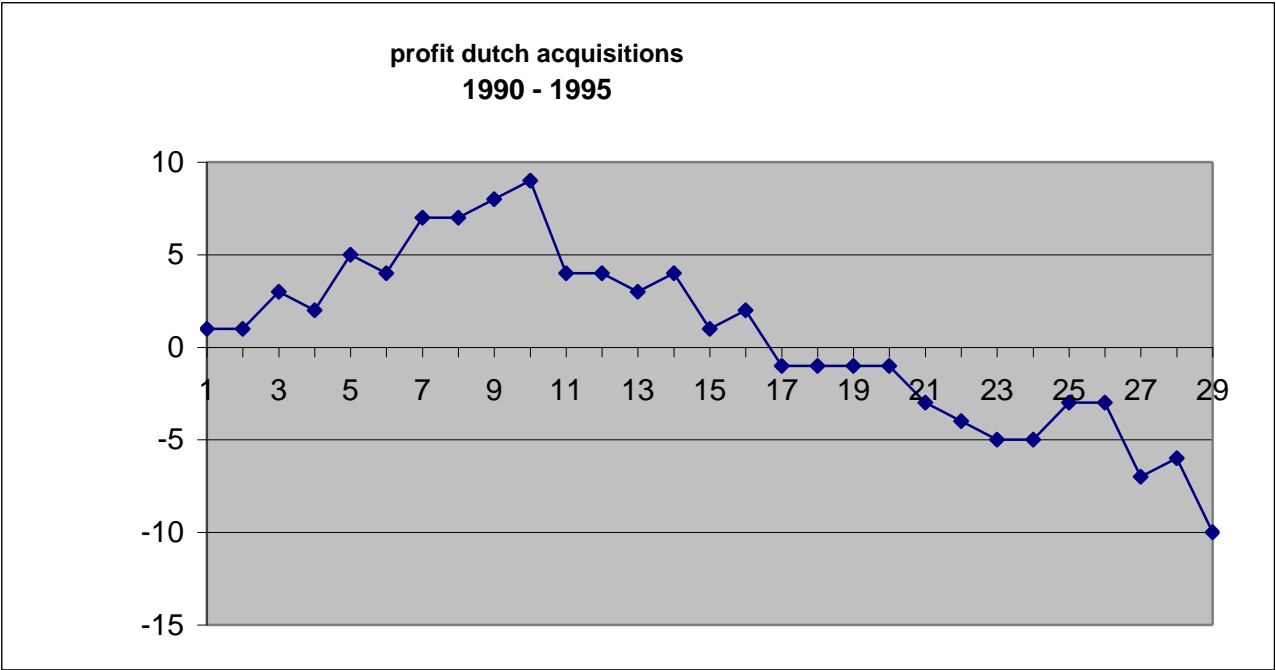
CAR (cumulative average residual=profit after acquisitions related to "normal"profit) during 29 months)

**Profit development (CAR%)
European mergers 1995-1999**
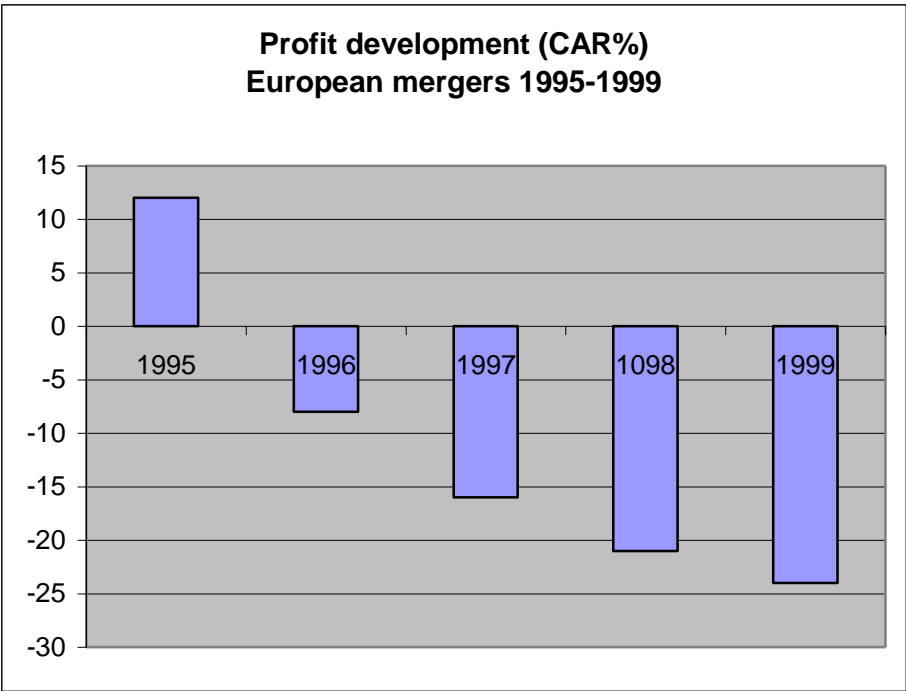
KPMG did a study on 700 international mergers between 1996 and 1998 and they explored 107 of the 700 cases more intensely. 82 % of the involved CEOs were very satisfied about the results of their mergers, but the outcome of the "event studies" was that 83% were failures. 53% of the mergers even ended in a destroyed stockholders' value.

The large majority of event studies give no ground to the conclusion that merging has a positive effect on the stockholders' value of the buying companies.

Schenk concludes, that a substantial part of the means obtained by acquisition simply "evaporated". Among other things, in his book "Fusies en acquisities" (mergers and acquisitions) he relates to an investigation of Ravenscraft and Scherer. He summarises the investigation, which included 6000 companies, into the following conclusions:

a. the companies which were acquired at first and were then rejected were in good health before the acquisition but got seriously ill afterwards;
b. in those cases where the acquired institutes showed comparatively negative achievements before the acquisition, these achievements worsened after the takeover;
c. rejected divisions proved to do better after the rejection than before:
d. divisions who were obtained by means of acquisitions were rejected more often than divisions who were, for some time yet, part of the parent company;
e. between 19 and 47 percent of all acquisitions were eventually rejected, with an average delay of almost 10 years;
f. the problems of the later on disinvested divisions, were worst at divisions which were obtained by diagonal acquisition;
g. the acquisitions that were done, were - relatively speaking - loss-making for the enterprises which were taking over.

There are plenty of findings from other investigations that agree with those of Ravencraft and Scherer. A team led by Mueller investigated the effects of mergers in Belgium, Germany, France, The Netherlands, Sweden, The United Kingdom and The United States, by means of a standardized methodology. The results somewhat varied per country, but investigators had to conclude that on the whole, mergers were not capable of strengthening the profitability of the overtaking companies.
(Mueller 1980), Copeland et al. (1994) spoke of an internal study of McKinsey & Cy, in which 116 acquisitions were investigated.

All these acquisitions were done by undertakings which were part of the 200 largest undertakings according to *Fortune*, or the 150 largest according to *The Financial Times*. Only 23 percent of these mergers managed to recover the investments that were at stake. Thus, 77 percent turned out to be loss-making.

3.4 Who benefits from mergers

If the profitability of the companies involved is not at stake and there are also no positive results for the stockholders, then who benefits from mergers? This is the next question the economist will ask. Studying the first 4 merger waves, substantial profits can be found for the merger broker, bankers and "strategically placed insiders" like CEOs who gain enormous amounts of money during the merger processes.

Within this framework, Roll (1986) says that companies which are very active with mergers and/or acquisitions are led by CEOs with an above average of hubris. In other words: an exaggerated self-esteem and overestimation of oneself. A strong correlation was found between the height of earnings of the CEO and the benefits for the organisation. And the correlation was negative. The higher the "reward" of the CEO; it shows a direct correlation with the loss of value of the organisation (Hayward and Hambrick, 1997).

But this discovery does not explain the behaviour of CEOs and the decision-making process of organisations completely. Competiveness on the market sometimes seems like a game. When A merges with B, there will be consequences for C. C will react etc. etc. The next step will always be connected to the moves others make. Schenk told me about a beautiful example:

"One morning, the news of the acquisition of Ben and Jerry's by Unilever reached the headquarters of Nestlé. The board was completely surprised. They did not expect this and entering the ice-cream business was not part of their strategic plan. What to do now? Every member on the board felt some uncertainty to a certain extent. Their has to be a good reason for the decision of Unilever. They knew the board there as very capable; at that time led by Morris Tabaksblatt. The strategy of Unilever had been consistent and successful in the past couple of years. Sometimes the shareholders used the annual meeting of Unilever as an example for Nestlé. The board wondered if they were missing something. They could not think of what, but they had to make a decision. If the acquisition Ben and Jerry's appeared to be a great success, then there would be thorough questions at the next shareholders' meeting.

To avoid that, they had better react directly. Are there ice-cream companies comparable with Ben and Jerry's? Yes, there was the possibility of taking over Häagen Dazs. The business plan was not very solid and the due diligence should be under time pressure, but recent results were no worse than Ben and Jerry's, so if difficulties would occur, Unilever would suffer from them too. If Nestlé made a mistake with the acquisition of Häagen Dazs, it would be the same for Unilever and the competitive position would not change. So the balance for the board of Nestlé was clear: to do nothing was more risky for their position towards the shareholders than to act with the acquisition of Häagen Dazs."

Ceyert and March investigated the decision-making process in organisations intensively. Enterprises are seldom capable to predict relevant surrounding conditions. Such structured long term planning does not make much sense. Decision-making in companies is far more complex than a systemic searching process in which companies cross off economic insufficient solutions till the best economic solution is found.
Instead of that, most decisions are made founded upon "the logic of appropriateness, obligation, identity, duty and rules"; as the board of Nestlé did.

Often times there are more players and unknown profits and it's practically impossible to find an ideal approach. That's why it's most obvious that the players will try to simplify the game. This can be done most effectively by transforming it into a sequential game (so, not really the realistic simplification of reality), which means that it's a game where players can take actions successively. They wait until one of the players makes the first move and they react to that accordingly.

3.5 An epidemic

We're really talking about an epidemic: one person infects another. Schenk now speaks of the theory of regret, which is a fascinating analysis of the motives on which people base their decisions. In general, decision-makers are triggered more by preventing disadvantages than by obtaining a possible advantage. This is analogous to the prospect-theory by Yversky and Kahneman. About the behaviour of CEOs concerning mergers, we can conclude that they're more regretful to not have imitated a (possible) successful merger than to have imitated a (possible) non-successful merger. Thus has the board of Nestlé, probably unconsciously, been a perfect follower of the prospect and regret theories.

Schenk finds this especially interesting, because he can give a rational explanation for imitative behaviour without having to rely on special "psychological", economically probable

irrational characteristics of decision-makers. Thus, individual rational behaviour can lead to collectively irrational outcomes, just as in the famous game "prisoners' dilemma".

Naturally, this last statement seems completely irrational to me. After all, with my newly gained clinical view on things and my own experience, my point of view is that, and with emphasis, the irrational aspects matter as well, and it's particularly dangerous to ignore these. The clinical approach can actually give an additive value to gaining a better view of the game and can be the deciding difference in the discussion making process for the CEO and/or the Advisory Board.

Let's get back to the boardroom of Nestlé. For me it's quite obvious that there are, next to business talk, also psychological processes at stake. How does a board member deal with the threat that he misses the boat? Maybe in his family there was an older brother he had to deal with. Or maybe there was a younger one and he tried to overrule him. It is possible that there have been successes or failures in the past, which influence the psychological process in the present. I am sure that this can make a difference. Here I will refer to my own experience, but also to comments of people involved in cocktail party chats.

3.6 Why it goes wrong

Nevertheless, the rational findings of Schenk are of great importance in the decision-making process. When my goal is to overlook the rational case of the business case, the interpersonal and the intrapersonal themes, for me his conclusions deepen the insight into the business case enormously. The interesting part is that, to a certain level, he makes of probable irrational issues more rational economic rules. He also makes and analysis of the fact why it often goes wrong when it comes to the decision to merge.

1. Underestimating defeat and directorial problems.
   Even though the research here concerns undertakings quoted on the stock exchange, I daresay that this also happens with undertakings who are not quoted on the stock exchange and in non-profit organizations. In my direct surroundings, our organization actively participated in care for disabled people, in collaborative projects with a large organization in domiciliary care. After a merger, another organization caring for disabled people was a part of this organization in domiciliary care. For longer than three years after the merger, there were more collaborative projects between us than within the organization for domiciliary care between the different segments.

2. Exceeding overtaking premiums.

   The duel about ABN-AMRO was a beautiful example of this. At a certain point you already sense it, even as an outsider. What is going on here? It is about eliminating a possible future competitor against a huge sum of money, or is it about striving for a wholesome company? Scientific research confirms the idea that eliminating a competitor is usually more the case than anything else. In Healthcare, a similar process is going on. If everybody is going to merge, then we cannot stay behind, can we?

3. Over-commitment.

   At a certain point, rejecting a merger becomes a downhill road, something very difficult to explain. All psychological processes are aimed at gaining success. Realization of the merger becomes a goal itself. Deciding not to follow through with it on realistic grounds, can become a judgment about those people who took up the plan.

4. Neglecting base tasks.

   There's the danger that all the attention on core business slackens and that the directorial focus goes to realizing and implementing the merger.

3.7 Guidelines

Based on these considerations, Schenk and his colleagues established a few guidelines, which ought to rationalize the policy concerning mergers. This is the most important conclusion:

- growing organizationally as long as possible; merging when necessary;
- crux: constant consideration of positive (noble) motives in contrast to minimax-motives of regret and defensive operations;
- secure and broad monitoring and permanent dialogue with obstructionists are of vital importance;
- disconnecting personal motives/decision-making to merge is crucial (corporate governance);
- redefining merging supervision is inevitable.

I take these considerations to heart. A similar process will strengthen the rationality of decision-making. I'd like to add something to that. If I, with my three-focal glasses (clinical paradigm), look at the analyses of Schenk, I think that the irrational processes between and within people play an important part.

3.8 My comment

In his recommendations, Schenk agrees on the importance of disconnecting personal motives and decision-making to merge. In that framework, he points out the importance of good governance. Obviously it is clear that when there are big individual motives involved[1], this can influence the behaviour. However, there is more: it can also concern unconscious and hidden motives. I'd like to second that, and make recommendations to extend good governance to irrational aspects and involve the impact of the personality of the CEO with good governance in particular. Schenk's investigation supports this. The high percentage of failures alone, asks for sharpening the context of decision-making. With a similar high percentage of failures because of a lack of additional return and financing costs which are too high, an anorexic management is usually the consequence: dismissals, shrinkages, cutbacks, mergers that are (partly) being undone, disinvestments take place. All of this doesn't contribute to economical growth and it certainly doesn't contribute to the well-being of the employees that are involved.

That is the joint motive to involve all relevant aspects in decision-making processes. In the next chapters I would like to elaborate on the governance' answer to this problem, as it was set down in among others the Code Tabaksblatt, and contemplate on its relevance.

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[1] Rijkman Groenink makes more than €20.000.000 after the merger. This shows that in a case like this, a huge appeal is made to the integrity of the director involved. According to me, he needs help from good governance indeed. Also, there's only a gradual difference with the increase of salaries of directors in the non-profit sector.

Chapter 4   Control is good, trust is even better?

4.1 Introduction

Before, I've underlined that my own specific psychological processes can make the difference in decision-making processes. There is no reason to assume that a merger process is an exception. People around me all agree on that issue and when more than 75% of the mergers fail, there is a serious problem. How can a supervisory board govern merger processes in a transparent and a responsible way? This an international question and governance rules have been made to make the difference. But are they really making a difference? That is a very interesting question. I do not know about specific investigations on this subject, but I found some very interesting material related to this issue.

On the request of Stichting Management Studies, professor dr. Cees Cools conducted a study with a build-up of several parts. One of the key issues was to investigate whether the newly introduced governance rules made a difference to transparent and responsible business policies. He investigated the correlation between business integrity and the quality of governance. My hypothesis is, when the correlation is high, in other words, if businesses with low integrity (the lowest is fraud and scandals) also have a low score on governance, you can assume that good governance in the present framework makes a difference. And therefore there is no need to change governance rules. When there is no correlation, we have to think about changing the governance rules.

First of all, it was fascinating to read about the 400 years of history concerning this dilemma.

"The first and most celebrated attempt by shareholders to hold managements accountable for a company's performance and pay-out policy, occurred 400 years ago, at the start of the world's first listed company. For years, the Heren XVII (Lords XVII) management team of the Dutch East India Company (VOC), which was founded in 1602, had driven its shareholders to tears by refusing to pay dividends year after year. Eventually, the shareholders established a group known as the "Weeping Participant" and demanded greater transparency in the company's results, a degree of control over the company and an end to the "Gentlemen's " self-enrichment, taking their protests all the way to national government and parliament.
Four hundred years later, the shareholders, employees and customers of Ahold, openly revolted over identical issues"

You might argue that this is not the theme of my thesis, but I see a clear relationship between the irrational aspect and fraud. In both cases, ego-oriented motives influence the business policy. And for governance reasons there is no difference. How can the commissioner control or influence the CEO to act in a transparent and responsible way? Resulting in a policy that has a good balance between the interest of all the shareholders of the company and the interest and the motives of the CEO and the board? There's no difference in how to deal with these issues from a governance point of view if the motives are hidden for unconscious or conscious (fraudulent) motives. Cools final conclusion on this issue is (in short): The general response to the scandals was to resort to stricter laws and regulations and tighter control, even though four hundred years of corporate governance have shown this doesn't work. Codes and legislation lay down markers for correct behaviour and moral justice, but are never enough to prevent problems and scandals. In fact, economists have not been able to find any convincing correlation between the quality of a firm's corporate governance system and the risk of fraud or the company's profitability. As one CEO said, "There's nothing wrong with these Codes, but they won't solve anything."

He based this conclusion on the following research.

4.2 The research

In this research, 25 enterprises were selected. The enterprises were involved in serious financial fraud. The focus was on big fraud. The result is in figure 1. All well-known scandals: Enron, Worldcom and Ahold are included, but also a few lesser known scandals in Western-Europe which had a huge impact as well. A scientific responsible control group was put together.

The results are:

Average Corporate Governance -scores
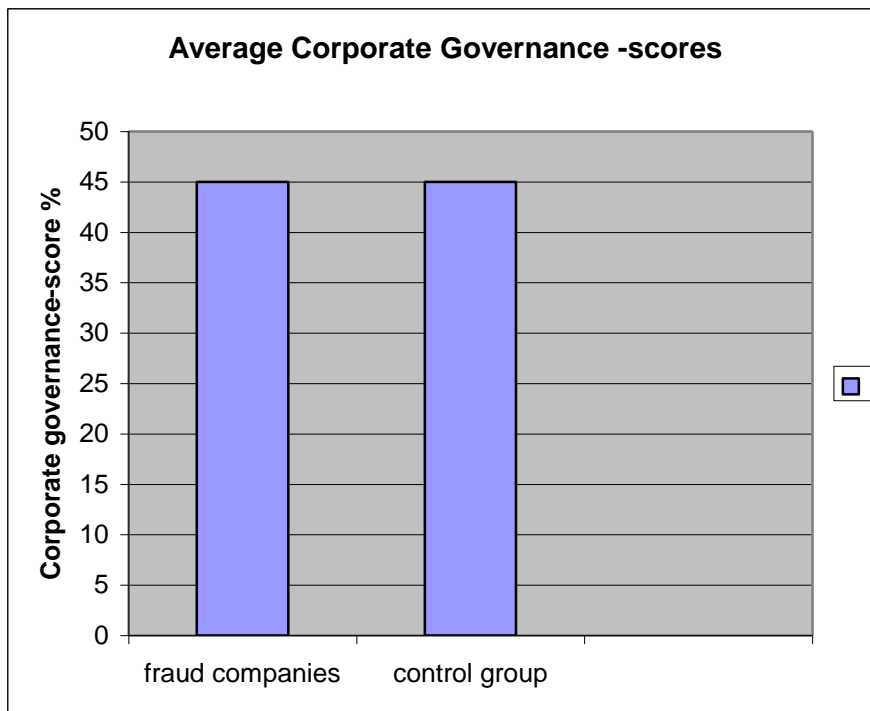
Formal corporate governance does not make the difference. Although it is remarkable, that there is relative low score on the governance, even though it is clear that there is no difference in applying to the governance rules.

In the investigation, formal governance is based on themes like independency of commissioners, the functioning of the audit committees and the presence of independent financial specialists in the audit committee.

In a way this is breaking news. Even though there has been invested in laws for good governance, the effectiveness to prevent financial fraud by introducing and practising of governance codes is in-effective. This outcome is in line with other investigations concerning this theme.

4.3 Towering Rewards

If failing with the formal governance did not make the difference, Cools curiosity grew towards finding differences between the two groups. This gives us more of an insight into the causes of the financial fraud in the involved enterprises.

In general, CEOs of enterprises which are involved in fraud have more than 8 times larger bonuses, stocks etc.

Average height payment components of CEO's
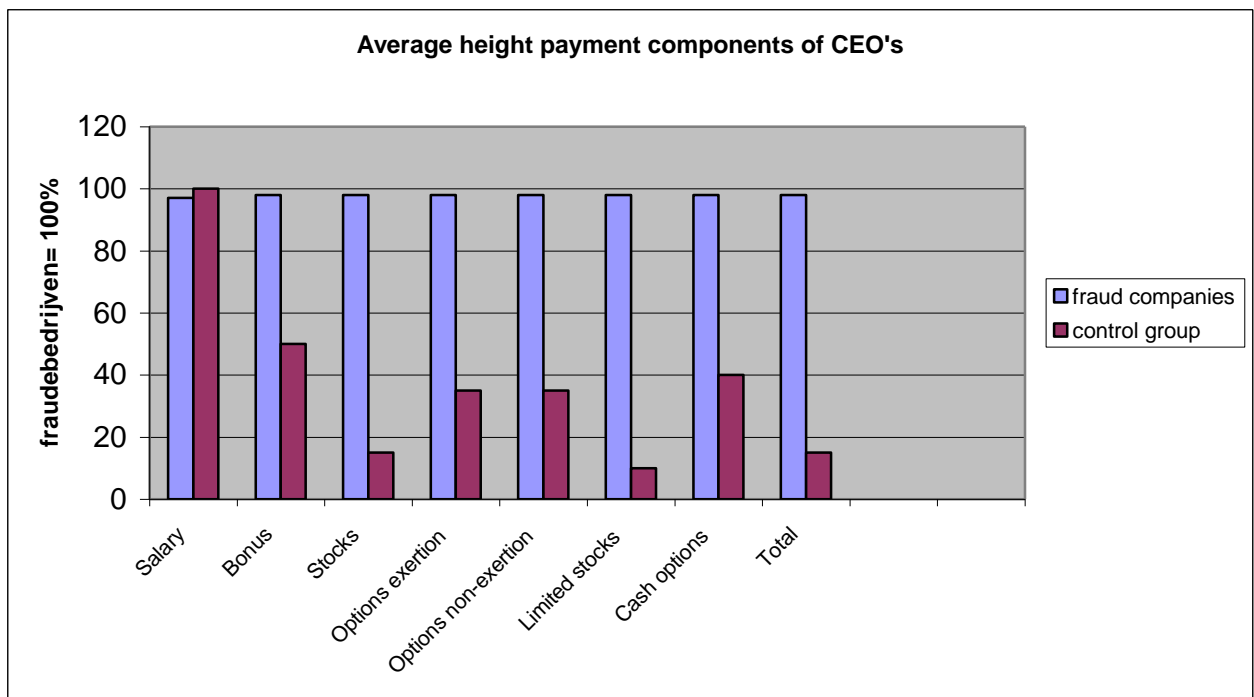
There is a very strong message in the results: there is a strong correlation between the excessive rewarding of CEOs and fraud.

In general, money is not the strongest career motive for people. When doing more interesting work, power and status become more significant for people in the long run. But a CEO cannot make a promotion. The only opportunity he/she has is to merge with other companies or do acquisitions. However, in his current job he is on top and for some people that is boring in a way. The stimulus is then to increase the earnings related to performance criteria. After I read the book about the Ahold disaster, my conclusion was: "If the rewarding indicator is good financial figures, there will be good financial figures. Whether they are correct is less important."

4.4 Extreme targets

The main purpose of targets is to stimulate people to work hard(er), to gain the goals of the company. And at the same time the personal goals are served, because the earnings are related to the targets.

It is a shocking result when we compare the differences between the companies involved in fraud and the "sane" companies.

Companies with annual growth targets above 10%
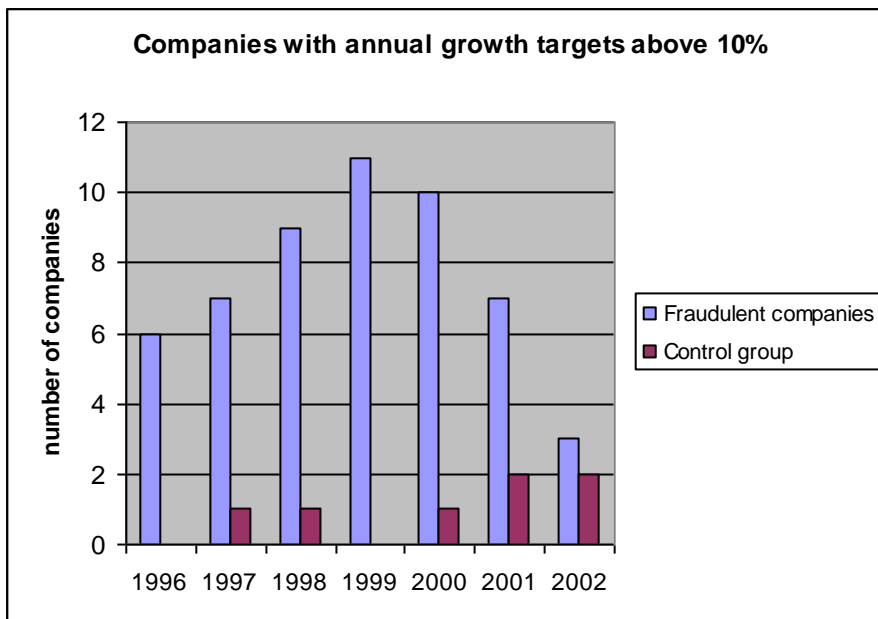
These results are in line with the findings of the SEC (U.S. Securities and Exchange Commission). Their conclusion was that in 16 out of the 25 cases, extreme targets were the cause of the fraud. There is a detailed report of the day to day events in these enterprises.

Quest predicts a 15% growth for each quarter of a year. The prediction was published in the newspapers. The management of Quest, with CEO Joe Nacchio at the frontline, put great pressure on the staff to reach this target. The Wall Street Journal wrote: "Nacchio preternatural ability to push the buttons of fear and greed that would make his salespeople "make the numbers": three words that at Quest acquired an uncanny power. "If one of the managers failed, dismissal was unavoidable."

Of course, in an environment like that, nobody wants to be the first person to not make his numbers. The automatic result is to muddle, to cheat and to fraud. The corporate culture at Enron was comparable. When a target could not be realised, the results were accomplished by an accounting trick.

Scrushy, the CEO of Healthsound, was well known for his very strict attitude towards colleagues who did not agree when he set very high targets to reach and brought it to the newspapers. He set the targets, and the task of his managers was to reach these targets.

Razmilovic, the CEO of Symbol Technologies, created a culture driven by figures and was obsessed with Wall Street targets. "Everyone has to make their numbers" was the credo of CEO McKesson of HBO. And when Lucent was still a part of AT&T Network Services, everybody was satisfied and proud of an annual growth of 7/8 percent. When Rich McGinn

became the CEO of the independent enterprise Lucent, all of a sudden there was a different culture, so concluded Carly Fiorina, former CEO of HP and at that time member of the board at Lucent: "Rich wanted us to grow between 12% and 15% straight out of the box."

When Cees van der Hoeven was the CEO of AHOLD and a couple of years in charge, he increased the annual profit target from 10 to 15%. The pressure on the managers of the business units became unbearable and finally brought Ahold to the edge of bankruptcy. At the beginning of 2002, less than a year before the final disaster, Van der Hoeven declared that Ahold's growth would be 50% within three years. More than a 15% growth, three years in a row.
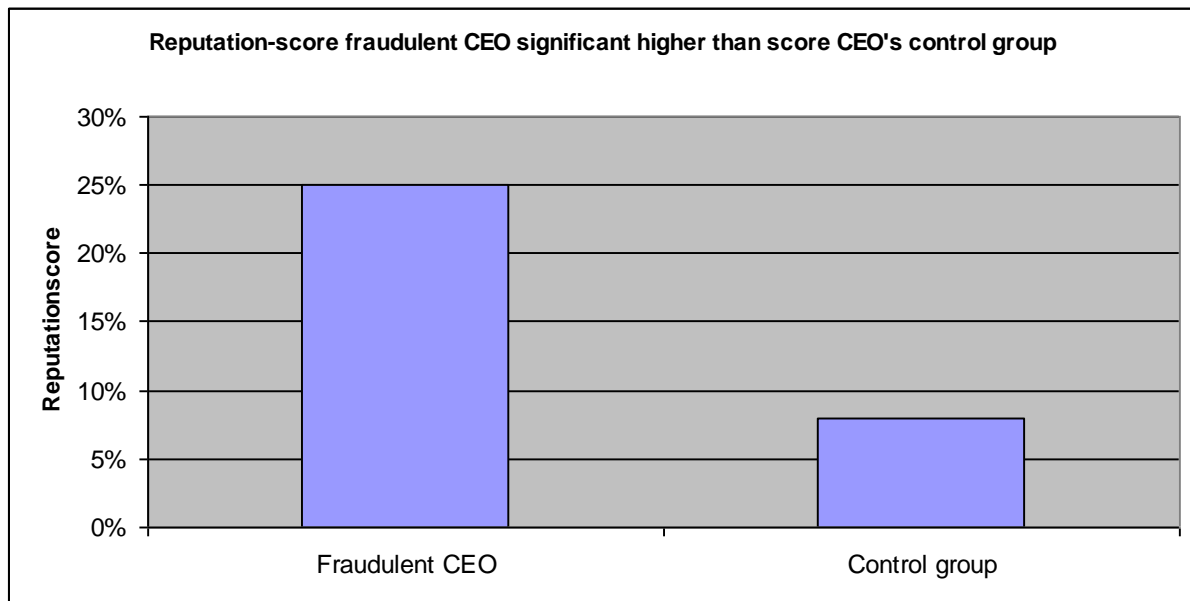
An the end of 2004, the NRC Handelsblad published an article on how it was possible that in Shell a culture could develop that stimulates high ranked managers to set unrealistic, but fantastic targets. Only when they presented very ambitious and optimistic plans, they could get the funding for their projects from the headquarters. The enterprise was victim of a collective delusion. While there were hardly any new exportable oil or gas resources found, the enterprise increased their ambitions; more growth, higher production, extra resources. And at the same time, most of the managers knew that the figures they presented were unrealistic. The foreman of this development was CEO Philip Watts who had to leave when the cheat about resources was revealed.

To set targets on an annual growth of 12, 15 or even 20%, is an excellent example of Hybris, who, in spite of warnings from his father, flew too near to the sun, and therefore his wings melted and he crashed. A number of CEOs probably kidded themselves with their own fairy tales, and therefore Cees van der Hoeven, when he got questions about the possibility of the annual growth of 15%, always said: 'We did it last year, so we will do it again next year."

4.5 Sun Kings admits no contradictions

It is obvious that CEOs who predict the successes' of their companies will be admired in the company and also outside. If their predictions came true, they would be heroes. It would be interesting to know if there is a difference between the CEOs of the fraud companies and the control group related to the desire of the CEOs to be admired. There is no well known research on this subject. And therefore Cools investigated this subject himself. He developed a new method to measure public reputation and popularity. Therefore they investigated the

appearance of the CEOs in public. There is a significant difference between the public appearance of CEOs of the fraud companies and the really successful control group. The investigation was only in the period before the fraud.

Reputation-score fraudulent CEO significant higher than score CEO's control group

A bar chart comparing reputation scores. The y-axis "Reputationscore" ranges from 0% to 30%. The "Fraudulent CEO" bar reaches 25% and the "Control group" bar reaches 8%.

Cools sees all this findings as a proof of his Sun King hypothesis. It is very interesting that he refers to Hybris too. (See also Schenk, chapter 3.) When the CEO is on the front page of the newspaper there are hardly any limits to the Hybris.

And Hybris can be very dangerous, because it be can be the offshoot of uncontrolled narcissism. Manfred Kets de Vries gives in many publications a deep insight in the effects of reactive narcissism[5] of the leader on the organisation culture. Such leaders may easily retreat into a world of their own and have that much self-esteem, that they are not able to accept any advice from others. As you see in the comments above CEOs can create their own reality and remain resolutely blind to the possible consequences of doing so. Manfred continues: "The situation can be further aggravated by the relationship between leader and followers, which is not always of a rational nature. At times a kind of mutual regression occurs and gives rise to behaviour that is inappropriate to the circumstances. Transferential patterns, whereby a leader is idealized and mirrored by followers, seem to be at the heart of these regressive processes, during which the reality is lost." In my recommendations I will refer to this issue again, because it can be so decisive and devastating for infected companies.

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[5] In the theory of Kets de Vries there is a clear distinction between constructive narcissism and reactive narcissism. Constructive narcissism is in a way a precondition for success of a leader and reactive narcissism is the over the top narcissism, that can be very dangerous for the organisation.

4.6 Governance issues

How to deal with this challenge from a governance point? For me it is clear, that the Supervisory Board has a task here. But confronted with the result of his own research, Cools solution is to focus more on trust than on control, because as all of us could see: control is not enough.

Although the importance of control must not be underestimated, there are limits. Because additional controls and better management of risks and performance reduce the danger that value will be destroyed, they do not create it: control does not inspire or motivate. Cools thinks that a much more promising approach is "trust-based management", where leaders give staff the freedom and room to take their own decisions. Trust and integrity would then be an intense part of corporate culture.

4.7 Cools advice

Trust-based management

- Additional control is good. Better risk management – of strategic and commercial risks, as well as administrative and operational risks – combined witch more reliable information, not only prevents the destruction of value; it provides the conditions needed to create value. It improves the quality of operational and strategic decisions, produces better management and gives staff greater freedom to make decisions in order to unlock their entrepreneurial potential.

- Trust is even better. Additional control makes it possible and necessary to manage on the basis of trust. Giving managers and employees greater scope to make decisions will motivate them and stimulate entrepreneurship, leading to superior results.

- Corporate culture. Develop 'shared beliefs' based on respect, trust, collaboration and ambition by setting an example in everything you do, big or small. Ensure that narcissistic 'superstars' don't get ahead and reach the top. The old heroes were the arrogant, narcissistic 'superstars'; the new heroes are 'in control' but leave room for others and manage on trust.

Financial markets, press and public

- Watch your shares' prices. In almost every case, the medium-term movement of your share price relative to your competitors is the best measure of success. If your share price lags behind the index, your company probably has a serious problem.

- Inform investors of your targets. Only specify targets when the external uncertainties are limited. Set realistic targets, taking market growth into account. Long term growth in excess of twice the rate of growth in the sector is unrealistic. Don't issue any targets if external factors make the situation very uncertain, but do provide a clear and detailed insight into your strategy and results so investors can assess them. If necessary, 'just say no to Wall Street'.

- Control your company's image. Ensure the CEO does not become a public superstar. 'Just say no to journalists', especially if they play the man (CEO) rather than the ball (the company).

Senior management

- Genuine corporate governance. Recruit a truly independent chairman of the supervisory board and a strong CEO. Recognize the limits of the CEO model.

- Independence as well as involvement. Recruit powerful, expert and intrinsically independent members of the supervisory board or non-executive board members, including individuals with in-depth knowledge of your sector; formal independence is less important. To involve members of the supervisory board more fully in the company, arrange company visits for them, as well as discussions with second-line management and informal 'feet up' meetings to discuss important issues.

- Avoid creating a 'state within a state'. The audit committee must closely monitor the figures and risks management systems, and ensure it does not dominate the figures and risk management systems, but ensure is does not dominate the supervisory board. The audit committee should produce timely and transparent 'reports' for the full supervisory board; the supervisory board, in turn, should devote sufficient time and attention to real strategic and financial issues.

- "Philosopher-kings" The supervisory board should see to it that the CEO is surrounded by people within the company who motivate and stimulate him, but also by some of Plato's 'philosopher-kings': wise, independent, critical minds to whom the CEO listens.

Performance-related pay

- Performance-related pay for senior managers. Pay relatively small sums in variable pay, and tie any options or bonuses to relative performance, for example in relation to relevant competitors.

- Differentiate performance-related pay by job. Performance measures must be established for each job on the basis of two basic criteria: the degree to which the performance measure can be influenced by the people performing a particular job; and the (cor)relation of each measure with the company's goals. This will lead to different performance measures for different jobs and determine the amount of variable remuneration for each.

Codes and laws

- Avoid checklists. Corporate governance is about everyday behaviour, including attitudes towards integrity, transparency and accountability. It's about corporate culture, not formal rules and checklists. If necessary 'just say no to formal corporate governance'.

- Realize that the additional time and bureaucracy involved in complying with the recent corporate governance codes and laws are temporary.

4.8 Comment

What do I see when I examine these suggestions with my newly gained tri-focal spectacles? On a business case level, I fully agree with his suggestions when it comes to rational issues. Every proposal makes sense and it broadens my knowledge on the rational themes of governance. But I want to add some observations. He found lots of evidence proving that there is a strong correlation between the ego of the CEO and the existence of a culture, which makes a company more vulnerable for fraud. And to me, fraud is an extreme form and a metaphor for the influence of the hidden motives of CEOs in decision-making processes. I think there is a need to highlight the ego and the irrational motives of the CEO from time to time. Control is good; trust is perhaps better, but not best enough. Trust does not prevent narcissistic "superstars" reaching the top. There has to be done more. Awareness is the first step in the problem solving process. And we have to design a logic model to protect companies for the Sun Kings. This will be hard, but all the material Cools brought to the surface does not leave any room for just letting it go. [6]

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[6] You can image that I read the newspapers about the credit crisis in the US with my three focus spectacles. And I do not know all the backgrounds, but there are indications that the bankrupt companies were led by leaders of the Sun King type. .

Chapter 5 Conclusions

When I focus on the conclusions so far, these are the headlines to me:

- The inner theatre of the CEO[7] can make the difference between success and failure of the merging process.

- The inter-personal relationships between the CEOs of merging companies can be of decisive importance in a merging process. At the start as well as during the process, and during implementation.

- There is enough scientific proof that there is reasonable doubt concerning all the goals which mergers are build on. Several research results show that 75% of all mergers do not achieve their goals.

- Existing good governance codes do not make the difference to protect companies from fraud, but personal characteristics can make the difference (mess).

- Mergers can be easily effected by (hidden) inter-personal and intra-personal issues and there is reasonable doubt that good governance codes bring enough awareness to these issues.

- There are clear indications that the decision-making process to merge is incomplete. The inter- and intra personal issues of the CEOs involved are not always sufficiently included on a conscious and outspoken basis.

- More regulations are not the only adequate answer. When there is not a value based approach, regulations will end in bureaucracy.

- There is a need for integrated governance which includes focus on inter- and intra-personal themes.

- Additions to promote integrated governance –as mentioned above- to the existing governance code(s) can be helpful.

My first idea was to add some principles and best practise provisions to the governance code, based on my conclusions. This aim I still have, but it's been pushed into the background now. I like to explain why.

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[7] Is also important for good governance during day-to-day executions in companies.

In the first place there is the paradox. Irrational themes and feelings cannot be caught in rules. This was also the theme in many conversations on the topic. Wim Kok, former prime minister of the Netherlands and now commissioner, said to me: "It is impossible to catch ego in rules and regulations. The only thing that will work is a firm conversation with the person (ego)."[8]

But what will be the subject of this firm conversation? In essence it will be about moral standards. How you act here has nothing to do with "it ought to be". Most of the times, it's not about regulations.

There is a higher order which has to manoeuvre the behaviour. This is about moral ethics. And it is hard to capture moral issues in rules, because it's more about the inner self civilization. So I like to present some theory and literature related to manoeuvring the behaviour driven by moral standards.

I will therefore, in the next chapter, discuss the book "Logica van het gevoel" (The logic of emotions) from Arnold Cornelis and some important studies by Kets de Vries, Collins and Covey.

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[8] In a way I agree. But on the other hand it was too diffuse for me: "This ought not be". So I will return to this subject in chapter 6.

Chapter 6   Considerations

The ultimate goal of my recommendations is to increase good governance in the decision-making process to merge, which includes also the relevant issues of the interpersonal and intra-personal themes. I realised that good governance during merging processes is basically nothing but good governance during day-to-day executions in companies. Therefore, my final recommendations will be about general management as well, although some will specify on the merging process. First of all, I'd like to share my thoughts on moral standards which can steer behaviour.

6.1 Cornelis' model

Cornelis describes a model to view and understand the world to get to self- direction based on moral standards. He assumes a certain unconscious logic already present in humans and that this logic should persued so that the human being can develop himself as a self-directing individual. The firm conversation Kok spoke of, is about self direction c.q. self regulation based on moral standards. Of course, this kind of self direction is not possible in the life of a very young person, but Cornelis has built a model to help understand and develop the road to self-direction in a responsible way.

Therefore, he translates the developmental flow of the human being to the development of groups, organizations and eventually, to society as a whole. I will describe this model first and then I will relate this self steering goal to governance during the merging process.

The development of the human being in three phases:

1. **Natural system**[9]

    At birth, the human being is completely dependent on his surroundings. Security and safety are crucial. For the child, his surroundings are a given; he's living in a mythical world. "Mummy knows everything, daddy can do everything." If things go the way they should go, the upbringing plays a stabilising role.

    * Where there is stagnation in this development, fear is the predominant emotion.
    * Takes up the period of ages 0-18/20 years old.

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[9] Of course I realize that I'm simplifying the world. In spite of the complete incompleteness, I'll still take my opportunity to describe this and to take the reader along in my line of thought, which eventually comes to a hold at considerations about the importance of transformation of the social structure of rules for communicative self-direction.

2. **Social system of regulation**

   Social identity plays an important part here. "I'm my social role"

   Ability and specialization are important. Where am I and where do I want to be?

   If everything goes well the logic development of the security of love leaves the natural system and shifts to social security and the social system of regulation.

   - Where there is stagnation in this development, anger is the predominant emotion.
   - Takes up the period of ages 18/20 to 36-40 years old.

3. **Communicative self-direction as a destination**

   "This we will do, this we won't" is the new motive. Faults in one's self-image are corrected by means of communication[10]. Quality of life, purpose and values hold a prominent place. Based on communication, the self-directing capacity is being realized.

   - Where there is stagnation in this development, sadness is the predominant emotion.
   - Takes up the period of ages 36/40 to 72/80 years old.

The striking thing in Cornelis' findings is that he translates these basic perceptions of the developmental flow of the human being to the development of society as a whole. In that sense, the three phases transform themselves to beats of stability in culture. Model-wise, you'll get the following picture, now with the first stage at the bottom:

COMMUNICATIVE SELF-DIRECTION

AS A MODEL FOR THE FUTURE

The philosophy of quality and values

Insight in direction as a cyberdigm

SOCIAL SYSTEMS OF REGULATION

CURRENT SOCIETY

The philosophy of equality and justice

Scientific specializations as paradigms

NATURAL SYSTEMS

OF CHILDHOOD AND PAST

The philosophy of home and security

Myths as absolute truths, and dogmas

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[10] It proves that even at 57 this is still possible, see chapter 1.

With that, it is important to add here that we're talking about beats of stability, which build on each other. In other words; there is no possibility of communicative self-direction when the social structure of regulation isn't intact. Disturbances in the natural system, e.g. famine, threaten the social system of regulation. Besides, it is interesting to link to Pascal: "Emotions have their reasoning, which the reason does not know."

Here, he points out that the natural process of learning gains new insights which through methods of the structural learning process couldn't have been thought of or constructed in the rational system of regulation.

An example of this: in my practice as a family therapist, we sometimes worked with a one-way screen. My colleague therapist was working with the family in the room and I was behind the screen. Through the glass I saw, as a product of my rational knowledge, a relational theme of which you didn't understand that your colleague did not bring it up. When we changed positions, I immediately felt, without being able to define it, why this remained unspoken. This wasn't something you could solve with knowledge, but it eventually asked discussion to sort it out in another layer of awareness.

Cornelis' own favorite example was the immeasurable wisdom of the pregnant woman, who without having studied it, knew exactly what the chemical construction of amniotic fluid was, when she wanted to give her baby the right possibilities to grow.

He looked at this as a metaphor, that there's much more in us than we realize ourselves. In his vision, human emotion is innate. The origin he believes is in the human organism. For a starting point as well as basic material, just as typical for the human being as his physique and other innate aspects of his appearance. Feeling and sensitivity are things we cannot learn, what we can learn is the meaning of feeling. This is the basis of the "This Ought not be"-emotion. We immediately feel that it's not right that Rijkman Groening earns over a 20 million euros as a result of an unsuccessful acquisition. But when you look at the regulations, all is in order. If we do not succeed to integrate the "This ought not be"-emotion into the regulations, we will fail in building credibility to good governance.

This is his essence of the self-directing human being. The information not only comes from the external like in earlier phases of development (the hidden human being -natural layer- and the normative human being -social regulations layer-), but emotions are transferred into logics of direction and that becomes the new object of communication.

With that, there is a definite goodbye to the logic of power, whereby it was normal not to listen to what people wanted and what they valued or not.

The new knowledge has a dimension of direction after all, and there is a direction of meaning; the question whether people agree with what is happening; the question whether giving meaning to things is valid, becomes a part of cultural reality.

Now look at this, the constructors on poisonous soil of twenty years ago, even though it occurred completely according to the rules, have become incapable constructors. So the moral issue of a higher level (this ought not be) is transformed to first self steering logic and then to regulation. The interface between the different layers of stability become clear, when now it is a reaction to this new information about direction from the highest layer of stability; even the enforcement of regulations are being adjusted.

Actually, we're now climbing to higher logic levels in a communicative point of view, and as a side effect of the development of science. First, one could only see the material level of a perceptible world, which was shown as constant and objective. The only thing one did was make an inventory of the system of possible bearers for meaning.

Accordingly, one builds the science of a working system, a comprehension of reality which was social via the systems of regulation of a socially controllable and regulated methodology. This is how one added meaning to the bearers of meaning.

Eventually, there was the question about meaning, the 'giving meaning to' or the direction, and with that, the communicative problem why some consequences were uncalled for and which possible consequences from then on were meant as values.

The new communicative approach introduces the direction of meaning and thereby also the portrayal of mankind from that direction, from where this direction is being thought of as a safe place to derive from.[11]

The logic of feeling then searches for its self-recognition in science. The built-in, initially hidden, being striving to self-recognition, is to get to self-organization and self- direction. Without knowing it, the logic of our emotions has directed the cultural learning processes in science towards emancipation. Added to a system of simply material and organic existence, was the taking part in a social system of regulations, and accordingly; the communicative participation to the direction of that system.

With that, emotional backgrounds play a part. They remind us of the primary relationships so characterizing for living in the natural system. This is why characteristics, of firstly a personal identity, can get a social countenance.

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[11] A fantastic example of this theory I found in the "Volkskrant" of 25 September 2008. The article was about a farmer, who had changed the animal unfriendly circumstances at his farm. The farmer said: " It is obvious that wisdom comes along with getting older. At first you follow your colleagues, then comes the moment you realize you have to make your own choices. I felt the duty of good stewardship."

Cornelis describes that the new cultural layer of stability of the communicative system adheres to two poles of a field of tension which are logically in conflict. Namely; the human identity and the social structure. Both poles alter each other in the communicative learning process. This process occurred also with governance themes and with the governance code as a result. But the governance code is still part of this process and I hope to contribute.

Now, we've come to the core of my point concerning the governance code. It's not about adding or adjusting rules anymore. No, also the conversation about 'giving meaning to' and self-direction needs to be open and stimulated. From there, there possibly can be a change of the rules/regulations.

In connection to that, Cornelis talks about the cultural progress of a society. As a result of this progress, the social structure is so open, that "giving meaning to" from the human identity, will be taken on as a meaning of direction within the structure.

In my opinion, this process is also of eminent importance in organizations.

The directors of society (organizations) indirectly direct individuals via systems of regulation. But who directs the directors? Who directs the systems of regulation? Eventually, only individuals can do this. This raises the following question: what or who directs these individuals? Thus will there be more and more of a need for communicative self-directors and not for human beings who follow the rules and carry them out. [12]

Freud had a point about the unconscious in connection to being ill, but the unconscious self isn't ill and also touches our motives when we're healthy.

Creativity and innovation means that we draw from a source of unconscious logic and make it conscious, test it and show it communicatively.

And with that, Cornelis predicted that the current century will be a philosophical one.

The logic of emotions is an omen, because 'emotions' is the name for the integrated system of knowledge. The progress of culture is there to make the unconscious logic of emotions conscious.

And there is my challenge to improve governance during mergers. Is it possible to bring the unconscious logic of emotions to a conscious and transparent model, which can be communicated and through that be a compass for self steering and good governance?

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[12] You can compare this to "independence" , see page 5 on emotional intelligence.

6.2 Governance and morality

In the following literature by three well-known professors, I found many key notions which can contribute to the development of this compass of self-steering based on values. I would like to present this insight to you as a contribution to communicative self steering. I call this "a moral compass used by leaders".

6.2.1 Manfred Kets de Vries

He is convinced that organisations that meet human needs (in a sense from Cornelis' "natural layer") will set the standard for the twenty-first century.[13]

He calls organisations like these "authentizotic". Authentizotic organisations are built on two important pillars.

The first pillar is authenticity. The word authentic describes something that conforms to fact and is therefore worthy of trust and reliance. Applied to an organisation, it describes a place where the leadership walks the talk.[14] Furthermore, it implies that the organisation has a compelling connective quality for its employees, through its vision, mission, culture, and structure. In an authentic organisation, the leadership communicates clearly and convincingly: not only on the *hows* but also on the *whys* of the business, revealing meaning in each person's task. As a result, people find the sense of "flow", they feel complete and alive.

The second pillar is "vital to live" (Gr. "zoteekos"). In the organisational context, it describes the way in which people are invigorated by their work. People in organisations to which the "vital to live" label can be applied, feel a sense of balance and completeness. The human need for exploration closely associated with cognition and learning, is met. These organisations allow their staff members for self-assertion and they produce a sense of effectiveness and competency, of autonomy, initiative, creativity, entrepreneurship and industry. In a way, these organisations contribute to the happiness of their workers.

And so, Kets de Vries, thinks the primary challenge of organisational leadership is to create corporations that possess these authentic qualities. And these qualities are based on the two meta-values, which we can call "love" or "community" (a sense of collegiality with co-workers and a sense of belonging to a company) and enjoyment (joy at work).

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[13] A remarkable coincidence: in 1994, Arnold Cornelis wrote in my copy of "The logic of emotions": "To Pieter, as a preparation for self steering in the next century".
[14] See chapter 1: Nienke Laverman.

A summary of the characteristics of a twenty-first century corporation:

- a sense of community

- an orientation towards fun and enjoyment

- a sense of meaning (both personal and societal)

- a safe holding environment

- selectivity in entry

- a sense towards ownership and empowerment

- emphasis on training and development

- a levelled hierarchal structure and small units

- accessibility of leadership

- accountability

- people-orientated.

6.2.2 Jim Collins

So far we've seen that mergers do not bring all the benefits the CEOs predicted. When we talk about values, the question is: are there values which can bring organisations and their people to great results? If there are CEOs and Supervisory Boards have to consider this when there are plans or ideas to merge. I personally think there is a lot of value in the glaring contrast of the results of mergers (Schenk a.o.) and the results of the investigations of corporations with great performances (Collins). Collins was focussing on the question how good companies, average companies and even poor companies can achieve enduring greatness. What are the universal distinguishing characteristics that can lead a company from good to excellent? His team analyzed the histories of twenty eight companies during a period of 5 years. After going through mountains of data and thousands of pages of interviews, Collins and his crew discovered the key of excellence why some companies make the leap and others don't.

A short summary of the answers:

The investigation is about the timeless principles of good to excellent. It is about how you take a good organisation and turn it into one that produces sustained excellent results, using whatever definition of results best applies to your organisation. And as a result, which they did not expect, leadership made the difference. The good-to-excellent executives were all made of the right stuff. It didn't matter whether the company was consumer-focussed or industrial, in a crisis or in a steady state or whether it offered services or products. It didn't

matter when the transition took place or how big the company was. All the good-to-excellent companies had Level 5 leadership. A level 5 leader builds enduring excellence through a paradoxical blend of personal humility and professional will. Level 5 leaders channel their egocentric needs away from themselves and into the larger goal of building a great company. It is not that Level5 leaders have no ego or self-interest. Indeed, they are incredibly ambitious-*but their ambition is first and foremost for the institution, not just for themselves.*

The key points of the Jim Collins results are the following:

- The good-to-excellent leaders began their transformation by first putting all the right people on wagon (and the wrong people off the wagon) and then figured out where to drive it to.

- The key point is that "who" questions come before "what" decisions -before vision, before strategy, before organizational structure, before tactics. First who, then what- as a rigorous discipline, consistently applied.

- Do not follow the "leader with the helpers" model. Instead of that: good-to-excellent managementteams consist of people who debate vigorously in search of the best answers, yet who unify behind decisions, regardless of parochial interests.

- The good-to-excellent leaders were rigorous, not ruthless, in people decisions. They did not rely on lay-offs and restructuring as a primary strategy for improving performance. The comparison companies used layoffs to a much greater extend.

- There was no systematic pattern linking executive compensation to the shift from good-to-excellent.

- There are three practical disciplines for being rigorous in people decisions:
  * When in doubt, don't employ – keep looking
  * When you know you need to make a people change; act.
  * Put your best people on your biggest opportunities, not your biggest problems.

- The old saying "People are your most important asset" is wrong. The *right* people are. Whether someone is the "right" person has more to do with character traits and innate capabilities than with specific knowledge, background or skills.

6.2.4 Stephen R. Covey

In his book from effectiveness to greatness Covey introduces habit 8. Habit 8 is: "Find your voice and inspire others to find theirs".

A habit 8 is built on the first seven habits. These first seven are:

1. be proactive,
2. begin with the end in mind,
3. put important things first,
4. think win-win,
5. seek first to understand, then to be understood,
6. synergize,
7. sharpen the saw.

These seven habits are about high, personal effectiveness. They are timeless, universal principles. In modern life, individuals and organisations have to be effective. But to survive, to grow, to innovate, to go from good-to-excellent asks for more. It is about satisfaction, passion, to be reckoned with. These habits are in a different layer and sound like an inner voice. These habits are needed to cope with the new challenges of modern times in our information era of the new information worker.

Research on this issue gives no optimistic outcome about how people in today's companies are satisfied, feel space for their capacities and passions and feel like they're humans to be reckoned with by their employer.

Harris Interactive, which organised the "Harris Poll", asked 23.000 people in the United States about their job. These people had a full-time occupation and worked in key-professions[15].

Here some of the shocking conclusions.

- Only 37% understood the what's what of the goals of their company.
- Only 20% was enthusiastic about the goals of their own team
- Only20% saw the connection between the task of the own team and the company's goals
- Only 50% was satisfied with their own results at the end of the week
- Only 15% felt the support of their own company by reaching their team-goals
- Only 15% had confidence in their own work environment

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[15] Key professions are: accountants, secretaries and administrative coworkers, people in marketing and commercial positions, executives, IT specialists, administrative positions in education, financial professionals, civil servants, positions within healthcare, salesmen/representatives.

- Only 17% experienced open communication in the work environment and felt respect for new ideas.
- Only 20% had complete trust in their own organisation

Imagine a soccer team had a score like this, then only four out of eleven players knew in which goal they had to score. There is something very wrong and the conclusion is that it's a long way to the top.

Covey's conclusion is that we need another orientation in the 21 century and therefore he encourages people to find their own voice and to inspire others to find theirs. He summarizes his ideas in the next diagram:
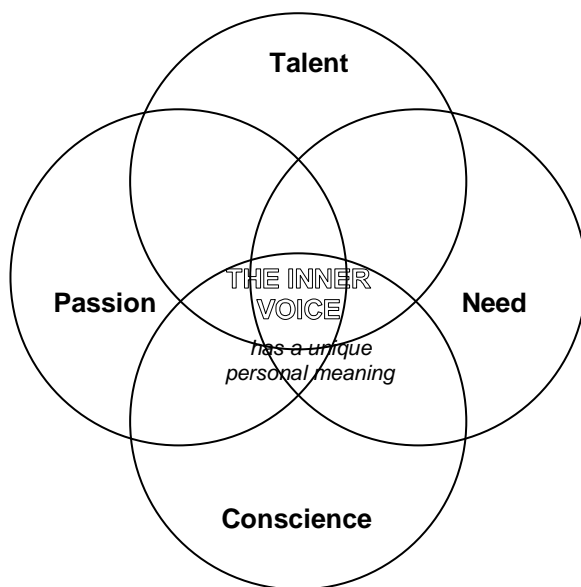
In the diagram above, the inner voice is in the middle, among: talent (gifts by birth and strength), passion (things which give energy and inspire), needs (including the environment, which wants to pay) and conscience (the little voice that whispers "what is ok and what is not"). You reach your utmost effectiveness if you do something where your talent is wanted and it's something you feel passionate about. The world needs this and when your little voice inside agrees, then you're listening to your inner voice. Covey is convinced that everyone longs, deep inside, for the discovery of their inner voice.[16] According to Covey's theory, the inner voice has four dimensions: needs, talent, passion and consciousness.

He relates these four dimensions to the complete human being: mind, body, heart and soul. When you combine these, you get the next picture:

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[16] In a way you can compare this to communicative self-steering (see chapter 5.3)

Whole person	4 basicneeds	4 abilities	4 manifestations	Inner voice
body	to live	physical intelligence	discipline	**Need see the needs**
mind	to learn	mental intelligence	vision	**Talent disciplined focus**
heart	to love	emotional intelligence	passion	**Passion lovely to do**
spirit	**leave behind**	**spiritual intelligence**	**conscience**	**Conscience to do good**

Built on this model, Covey gives us the next definition of leadership:

> "Leadership is communicating people's worth and potential so clearly that they are inspired to see it in themselves."

6.3 Building blocks for leadership in the 21ˢᵗ century

All this inspired me to think about the sort of leadership needed in the 21ˢᵗ century. Leaders with a moral compass; modern leadership starts within oneself. This way, leadership is not just a position, it's a choice. The new leaders are not fighting each other, do not look for compromises, but they always strive for synergy. Covey calls this "the third way" (transformation). He describes two steps to get to synergy.

1. Would you be willing to search for a solution that is **better than** what either one of you have proposed?
2. Would you agree to a simple ground rule: No one can make their point until they have restated the other person's point to his or her satisfaction?

This is the choice new leaders have to make in my opinion, and there should be no difference with decisions in general or decisions during merging-processes.

In his book "From effectiveness to greatness", Covey shows us a step by step figure to the important role of leaders in the 21ˢᵗ century.

He distinguishes four important roles for leadership:

Be a role model	This creates trust without expecting it	
	Personal moral authority	
Choose the right direction	This creates order without demanding it	
	Visionary moral authority	
Streamline the organisation	This creates vision and empowerment without proclaiming it	
	Institutional moral authority	
To empower	This provides space to human talent without external motivation	
	Cultural moral authority	

This gives a clear framework to compare the (needed/wanted) leaders of the 21st century to the CEOs of companies which were involved in fraud (see chapter 6). Leadership execution

	Past?	21st century
Clarity	To proclaim	Identification and commitment
Commitment	To sell	A whole person in a whole job
Translation to action	Job description	Goals tuned for wanted results
Enabling	To reward and to punish	Keeping structure and culture in line
Synergy	Cooperation	Third way communication
Accountability	Performance reward	Transparent, open, mutual-accountable, a clear scoreboard.

It's obvious to me that if the CEOs I described in chapter 4 of the companies involved in fraud, had strived for the leadership execution rules of the 21st century; the fraud wouldn't have occurred. And the CEOs who planned the mergers would have reconsidered their plans in a completely different framework. But that asks for a lot of courage of the persons involved: "Don't join the mainstream". Of course, courage isn't the only thing that matters.

According to Covey, important characteristics for leaders of the 21st century are:

Modesty

Courage

Integrity

Wisdom

Mentality of abundance.

It is quite clear that these leadership characteristics have a lot to do with level 5 leadership, which Jim Collins found in his investigations. And leaders like that can build organisations. That's great news, because that means that all those soft, friendly human skills can bring excellence to companies; including good figures.[17]

The chance that level 5 leadership brings more prosperity to companies than a merger proposal of Sun Kings is 100%. (see chapter 4)

But we also know we cannot proclaim level 5 leadership. And the person who claims he is almost certain he is a level 5 leader, is telling a lie, because it is a contradiction with the important modesty characteristic. Most of the times, he doesn't know that. Very often there is a hidden motive based in his childhood. For example, if he reacts from emotional deficiency relating back to his childhood, he cannot live on the mentality of abundance, he is always competitive. He cannot inspire others to find their inner voice, because he will feel envy if they find it and he does not. And then we have a vicious circle and we arrive at Kets de Vries with his description of reactive narcissism.

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[17] Henriette Roland Holst

De zachte krachten zullen zeker winnen
in het eind - dit hoor ik als een innig fluisteren
in mij: zo het zweeg zou alle licht verduisteren
alle warmte zou verstarren van binnen.

The victory is for the tender forces
in the end – I hear as a profound whispering
in me: as it was silent, all light would dim
all warmth would fossilize inside.

De machten die de liefde nog omkluistren
zal zij, allengs voortschrijdend, overwinnen,
dan kan de grote zaligheid beginnen
die w'als onze harten aandachtig luistren

The powers still grasping love
she will, drifting apace, defeat
then the great delight can begin
which we, like our hearts, will follow.

in alle tederheden ruisen horen
als in kleine schelpen de grote zee.
Liefde is de zin van 't leven der planeten,
en mense' en diere'. Er is niets wat kan storen
't stijgen tot haar. Dit is het zekere weten:
naar volmaakte Liefde stijgt alles mee.

In all tendernesses rustles are heard
like in tiny shells the big blue sea.
Love is the meaning of planets' life
and people and animals. Nothing can disturb
rising toward her. This is knowing, for sure.
to perfect Love, everything will climb.

Henriëtte Roland Holst-van der Schalk (1869-1952)
From: Verzonken grenzen (Drowned borders), 1918

6.4 Moral compass for the 21st century

So, when I oversee this in totality, the real challenge for good governance is to stimulate the CEO to find his inner voice and to watch whether he encourages others to find theirs. Then people feel alive and complete in organisations which are "vital to live".

All the things I mentioned in this section, contributes to the moral compass, which is necessary for leadership in the 21st century. CEOs can use this moral compass as a frame of reference in their work.

And for the members of the Supervisory Board there is the challenge to supervise their CEOs on these themes. Therefore it is needed that they all know this frame of reference and can relate to it themselves: that is their challenge for the 21st century.

In my opinion, this will contribute to good governance in general, but also to merger processes. In my recommendations I will build on this statement. In the last chapter I'll try to translate the themes I discovered about values to the governance code.

Chapter 7   Recommendations

7.1 Introduction

At first, my idea was to bring the focus of governance to the inter- and intrapersonal themes also. When I went through all the literature, I got a new insight. The governance code is about regulation and does not hit the individual communicative self steering, which is what we need in this century. It is complicated to introduce this theme to the governance practise. However, I think it has to be done to benefit many shareholders and it is of importance for the society as a whole.

And then it struck me very intensively that most of the findings in the chapter 3 (investigations of Schenk a.o.) and also the results of Cools are comprisable with the leadership execution from the past. In that framework, the following conclusion is unavoidable: Leadership of the 21st century has to be about identification and commitment, a whole person in a whole job, goals tuned for wanted results, keeping structure and culture in line and third way communication. You have to add Level 5 leadership to these themes. In a way, we have got a norm here for well-considered leadership in the 21st century. To me it is not a matter of law that every leader has to act in that way, but it does make sense to raise these principles to best practise. Not only for the well-being of many individuals, but also for the prosperity of society. At the same time there is plenty of evidence that this kind of leadership also brings lots of benefits to the companies. Therefore it is responsible to base good governance and also the governance code (see chapter 9) on these principles. I integrate this vision in the governance recommendations during merging processes.

7.2 Three pillars

My recommendations are built upon three pillars: the CEO, the relationship between the CEOs of the merger-partners and a new merger coping strategy for the Supervisory Board. My recommendations are partly based on a well-known tool during merge processes: the due diligence. When businesses plan to merge, a part of the preparation process will always be a due diligence. This is an investigation of the performance of a business and always includes an intense research of the financial figures. The relevant areas of concern may also include intellectual property, real estate and personal property, insurance and liability coverage, debt instrument review, employee benefits and labour matters, immigration, and international transactions. Companies put in large amounts of effort and money to get to these conclusions.

When you compare this to the depth of the investigation of the leadership characteristics and the specific influence of the CEO, this is almost nothing. I think that if you complete the due diligence with a risk analysis of the CEO, the relationship between the CEOs of the merger-partners and create a new merger coping strategy for the Supervisory Board, this would be mounting up.

7.2.1 "Due diligence" about CEOs

First of all, there is the position of the CEO. We saw in my own learning process, but also in the literature I studied, that the personality and the behaviour of the CEO can make the difference. This conclusion was shared by all the CEOs and commissioners I have spoken to. Some of them were even more outspoken.

"The personality of the CEO and the fit between CEOs is the only decisive theme for success or failure during the merging process. First of all, you have to make a decision about the positions of the new top-management team. If that hasn't happened yet, I do not put any effort in a merger attempt." (Blankert)

And then it is surprising that there has hardly been put any systematic effort in solving this theme.

I see several possibilities to construct a due diligence for the person-related and (un)conscious themes of the CEO.

1. The CEO himself has a responsibility in the first place. When he is fully aware of his responsibility, then he has to do something about this. You can compare this with healthy behaviour and the care you take of your body. The CEO can choose to develop this in a way that fits with his personal preference. There will be some who go to the CCC at INSEAD, others will go to supervision sessions, some will prefer a learning therapy. The important issue is not what they do, but that they do something in this area. And in the annual evaluation session the Supervisory Board asks for the results. If the CEO cannot report specific results in this area this is a climber in the risk analysis for the companies in general and especially when there is merger at stake. And the Supervisory Board has to act and make specific agreements on this issue (see 2). In a merger decision-making process, the Supervisory Board has to be sure that the other companies take their responsibility in the same transparent way.

2. The Supervisory Board can hire a specialized external coach for the CEO. Of course this has to fit in with the preference of the CEO, however the CEO cannot decide all alone who will coach him. If he could, there's a risk that the possible blind spot of the CEO does

not enter the spotlights. The Supervisory Board has two choices when it comes to getting reports of this external coach. Because the coaching will be about personal issues, it makes sense that the CEO will be in charge of the report and conveying it to the Supervisory Board. In that case it is necessary that the coach signs for the professional credibility of the report. It can also be the other way around, the coach reports directly to the Supervisory Board and the CEO signs for the credibility.

3. In a way it is logical that the focus of this due diligence is not very strict. Although I promote the 21st century leadership as described before (see 4), it is also about personal related (un)conscious themes, so it would be paradoxical to put this in a strict framework to be measured. The well-known instruments like the 360 evaluations which we used at INSEAD are very suitable for this purpose as well. On the other hand, there are quite particular issues during mergers. Issues about power, megalomania and anxiety. It can thus make sense to develop a special instrument for merger CEO due diligence. There is a great chance that there will be universities or advisory organizations that will bring this to practice. It will be a new product with great possibilities and great social importance for them to put on the market. I will take initiatives to build an instrument like this.

4. My recommendation is to set a norm in this due diligence also. You compare this to the due diligence of the accountant. There is a norm for risk areas. With unconscious themes this is more complicated, but in my opinion it is possible to make a reference framework too. The work of Jim Collis and Covey about Level 5 leadership and habit 8 give a great framework for a 21st century leadership profile, as I mentioned before. When a Sun King is born in the organisation, the Supervisory Board ought to know this and the CEO should be supported to become aware of it too. The CEO can intensify his awareness by ranking his own conscious and unconscious styles to this leadership profile. There is no law and there are no rules, that say you have to conduct you leadership in that specific way but it can bring lots of benefits to the company and the merger if there is awareness of the ranking to 21st century leadership by the CEO as well as the Supervisory Board.

7.2.2 Due diligence for the CEOs

The most likely way to construct a due diligence for the interpersonal issues of the CEOs involved.

1. An external advisor makes an inventory of the possibilities and risks of the interpersonal (team) themes of the involved CEOs, under the authority of the Supervisory Boards, which are involved in both. Are they capable enough to manage themselves in a position in the new organisation? What is their style of leadership? How do they cooperate? What are the risks? The external advisor makes a report of his findings and will advise on the next steps. They can choose from lots of existing instruments. From assessments to the well-known Belbin tests. Again, the main goal is to raise the awareness to all the involved stakeholders (CEOs and Supervisory Boards of the companies that are involved) of the person-related issues, and to raise awareness to (un)conscious themes, which are relevant during the negotiations and in future cooperation.

2. Teambuilding in the merged organisation.
Investigate the capability to find "the third way"[18] transformation in the new company after the merger. Think about Jim Collins' Good-to-Excellent advice. Who is on the wagon? The "who" question is more important than the "what" question. For great performance "who" comes first. But after that, teambuilding has to be a transparent focus: who will steer the new organisation (wagon)? Does she/he have a thorough command of establishing the third way? The results of the findings in the teambuilding are directly reported to the Supervisory Board.

7.2.3 Merger coping strategy for the Supervisory Boards

The main goal is to create more awareness in the Supervisory Board about the importance of the inter- and intrapersonal themes of the managing and supervisory board members who are involved during a merging process. There are various ways to reach this goal.

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[18] See page 58: two steps to get to synergy.

1. Would you be willing to search for a solution that is **better than** what either one of you have proposed?
2. Would you agree to a simple ground rule: No one can make their point until they have restated the other person's point to his or her satisfaction?

1   The most important thing for me is, obviously, that they take my recommendations 7.2.1 and 7.2.2 very seriously. In this way they supervise that the CEOs make it clear that they are fully aware of the risk that inter- and intrapersonal themes can influence the decision-making process in a non-desirable way. The Supervisory Board has to monitor this in a responsible way using the 21st century leadership framework as a reference. Transparent reports are of crucial importance.

2   When recruiting members of the Supervisory Boards, pay attention to their skills on the person-related and (un)conscious motives. This competency has to be present in every board. Especially the chairman of the Supervisory Board has a specific responsibility when it comes to this theme.

3   Nevertheless, special education for Supervisory Board members will be needed. In general, members of the Supervisory Board are recruited based on merits they've shown in the past. It is the same as it is with stocks: "Merits in the past are no guarantee for the future." Therefore I recommend special education for members of Supervisory Boards related to person-related and (un)conscious themes. Maybe you can even consider a special quality mark for 21st century commissioners. [19]

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[19] Certified Supervisory Board Members
It is impossible to reach the desirable new governance for the 21st century if the Supervisory Board is no part of the process. The Supervisory Board should act in a new way with the CEO to reach the new governance for the 21st century. Besides that, the Supervisory Board needs new skills to use a new merger coping strategy. At the same time the Stakeholders like to know if the Supervisory Board Member has the skills and the attitude for new governance of the 21st century.
So it is my recommendation to install a register of Certified Supervisory Board Members (Eagle Quality Mark (see 6, following page). The persons in the register have proven that they want to act according to the new governance for the 21st century and have studied the recent scientific research of for example Cornelis, Collins, Covey and Kets De Vries
The new governance for the 21st century should become a new movement like "maatschappelijk ondernemen" (social undertaking) started at the end of the past century. So the register can be named New Society Governance (Eagle Quality Mark) and can be held by the Union of Supervisory Board Members. However, the requirements should be drawn up by the Government. The method is similar to the drawn requirements for lawyers, medicines, truck drivers and football trainers. Supervisory Board Members are very important to not only the stockholders, but to the entire society, the stakeholders and the employees. That 's why it is allowed to draw requirements and keep a register.
In the good governance rules, a statement can be added, like: "The greater part of the Supervisory Board of a company with more than 250 employees should be registered as Supervisory Board Member for New Society Governance, member of the Eagle Quality Mark. (Apply or explain)
I will investigate the possibilities to establish this Quality Mark next year.

4	At least three times during the merger decision-making process there is a meeting of the Advisory Board without the CEO and the other board members. During this meeting, the focus is on person-related and unconscious themes. What does that little voice inside say to the commissioner? Very often this is a subtle process and when you verbalize it and share it with others the meaning comes to the surface. When the CEO is present during the meeting there is a risk that the voices related to this issue are too soft and too subtle to be heard.

5	The Advisory Board asks an outsider who, or an advisory organization which is specialized in the inter- and intrapersonal themes to make a risk analysis of the CEOs who are involved in the merging process. The Supervisory Board will only then take its final decision after they've studied the advice of the specialist. You can compare it to an advice of a law centre on legal issues or an accountants firm's advice on financial issues.

6	Introducing the observing Eagle. I have a great contribution to Supervisory Boards. It is an Eagle with very sharp eyes and special skills. He can mentally register and record facts and observations for later use. His observations are specific and are about person-related and unconscious themes, things you cannot see or hear during a meeting. And he has this incredible skill that when you make conscious contact with his registered and recorded data, they are transferred automatically to your awareness. You can get a complete picture of his observations if you at the end of a meeting stop the regular agenda and all the members make contact with the eagle. If all report the observations they find, the picture will be complete. It is necessary that everyone reports, because the eagle has the habit to give his observations in a fragmented way and all the pieces are needed for solving the puzzle. This "gift" is for free and there is no energy needed to operate. The only food he needs is your awareness. Let him fly above the table in the meeting room. My advice is to use his appearance, at least when there are far reaching decisions about mergers on the agenda. It works most effectively if you first use the eagle in presence of the CEO and secondly without his presence. That way, the Eagle gives the most complete data.

And this completes my recommendations to improve governance during merger processes.

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Supplement 1   Additions to the good governance code

Good Governance and the Code Tabaksblat

During the last years, there has been a focus on good governance in the business and health care world not only in the Netherlands, but in the whole of the industrialized world. In 2003, the corporate governance committee was installed. In the course of its work, the committee focused on the definition and adaptation of roles, tasks and responsibilities of the various corporate bodies and the external auditor. The term "checks and balances" was central in this endeavour. Good corporate governance essentially revolves around efficient supervision of the management board (the "checks") and a balanced distribution of influence and power between the management board, the supervisory board and the general meeting of shareholders (the "balances"). The external (financial) auditor plays an important role in the supervision and assists the supervisory board that, in turn, operates on behalf of the shareholders and other stakeholders. The bankruptcies of several large corporations, a series of high-profile accounting scandals and significant increases in the remuneration packages of some management board members have created widespread public doubts concerning the accountability and supervision of corporate policy-makers. The position of the management board is said to be too dominant. Another claim is that the supervisory board is not sufficiently involved with the company and fails to exercise proper supervision over the management board. In addition, anti-takeover measures and statutory two-tier rules (structural regime) prevent the general meeting of shareholders from acting as an effective correcting mechanism to correct mismanagement and failing supervision. Further question marks were placed at the independence and expertise of the external auditor. In this light, the central question for the committee was whether the checks and balances within the corporate governance structures of Dutch companies were functioning well. There was a broad support for this new balance. The new balance is reaffirmed in the definite version of the code Tabaksblat (Morris Tabaksblat was the chairperson of the committee). The code is one step towards restoring the public's trust and confidence in the honesty, integrity and transparency of the management and operation of Dutch listed companies. Five years after the introduction, the code is successfully implemented in nearly every company. There are great results, but also questions about the effectiveness. In my opinion, the balance is being moved towards the stockholders too much. And with that, the focus is on the financial aspects. What about the interests of the other shareholders, for example the employees, clients and the society as a whole? According to the latest investigations and insights in respectable businesses, there is a demand for a moral compass. A moral compass can contribute to the greatness of companies

and bring prosperity to the community as a whole. This comprehensive summarizing gives an idea of the utmost care and the integrity of the committee and the code, and a first impression of how a moral compass can be integrated into the code.[20]

Comprehensive summarising[21]

The Dutch corporate governance code

Principles of good corporate governance and best practice provisions

- The code is based on the principle accepted in the Netherlands that a company is a long-term form of collaboration between the various parties involved. The stakeholders are the groups and individuals who directly or indirectly influence (or are influenced by) the achievement of the aims of the company. In other words; employees, shareholders and other providers of capital, suppliers and customers, but also government and civil society. The management board and the supervisory board have an overall responsibility for weighing up the interests, generally with a view to ensuring the continuity of the enterprise. In doing so, the company endeavours to create long-term shareholding value.

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[20] *My additional proposals to the governance code are marked in red.*

[21] The governance code is clear in his goals:
- Efficient supervision of the management board
- A balanced distribution of influence and power between the management board, the supervisory board and the general meeting of shareholders
- The external (financial) auditor plays an important role in the supervision and assists the supervisory board

At first my idea was to broaden the focus of governance also to the irrational (inter- and intrapersonal) themes. When I went through all the literature I got a new insight. The governance code is about regulation and does not hit the individual communicative self steering. That is what we need in this century. It is complicated to introduce this theme to the governance code, but I think it has to be done to benefit many shareholders and it is of importance for the society as a whole.

And then it struck me very intensively, that most of the findings in the chapter 3 (investigations of Schenk a.o.) and also the results of Cools are comprisable with leadership execution in the past. In that framework, the next conclusion is unavoidable: Leadership in the 21st century has to be about: identification and commitment, a whole person in a whole job, goals tuned to reach wanted results, keeping structure and culture in line and third way communication. When you add Level 5 leadership to these themes we have got a norm for well-considered leadership in the 21st century. To me it is not a matter of law that every leader has to act in that specific way, but it does make sense to raise these principles to best practise. Not only for the well-being of many individuals, but also for the prosperity of society. At the same time there is a lot of evidence that leadership like that also brings lots of benefits for the companies. And therefore it is responsible to base the governance code on these principles. Here I refer to my recommendations in chapter 5. I will try to integrate these recommendations in the governance code.

The management board and supervisory board should take the interests of the different stakeholders in account. The confidence of the stakeholders in the fact that their interests are represented is essential if they are to cooperate effectively within and with the company. Good entrepreneurship, including *the importance of human orientated company policy* and integrity and transparency of decision-making by the management board, and proper supervision there of, including accountability for such supervision, are essential if the stakeholders *and the other shareholders* are to have confidence in the management board and the supervision. These are the two pillars on which good corporate governance rests and on which this code is based.

- The code contains the principles and concrete provisions which the persons involved in a company (including management board members and supervisory board members) and stakeholders (including institutional investors) should observe in connection to one another. The principles may be regarded as reflecting the latest general views on good corporate governance, which now enjoy wide support. Each year in its annual report, the company states how it has applied the principles of the code in the past financial year. The Committee does not prescribe what form the relevant chapter in the annual report should take.

- The principles have been elaborated on in the structure of specific best practice provisions. These provisions create a set of standards governing the conduct of the management board and supervisory board members (also in relation to the external auditor) and shareholders. They reflect the national and international 'best practices' and may be regarded as an elaboration of the general principles of good corporate governance.

- Unconditional freedom to decide whether or not to apply the code is not desirable. In international legislation and codes, the flexibility is limited by the obligation of listed companies to explain in their annual report whether, and if so why and to what extent, they do not apply the best practice provisions of the corporate governance code (known as the 'comply or explain' principle).

- The code is based on the system in which a separate supervisory board exists alongside the management board, whether under the statutory two-tier rules (*structural regime*) or otherwise.

PRINCIPLES AND BEST PRACTICE PROVISIONS

I. Compliance with and enforcement of the code

Principal: The management board and the supervisory board are responsible for the corporate governance structure of the company and the compliance with this code. They are accountable for this to the general meeting of shareholders. Shareholders take careful note and make a thorough assessment of the reasons for any non-application of best practice provisions of this code by the company. They should avoid adopting a 'box-ticking approach' when assessing the corporate governance structure of the company.

II. Management board

II.1 Role and procedure

Principal: The role of the management board is to manage the company, which means, among other things, that it is responsible for achieving the company's aims, strategy and policy and results. The management board is accountable for this to the supervisory board and to the general meeting of shareholders. In discharging its role, the management board shall be guided by the interests of the company and its affiliated enterprise, taking into consideration the interests of the company's stakeholders. The management board shall provide the supervisory board in good time with all information necessary for the exercise of the duties of the supervisory board.

The management board is responsible for complying with *a human orientated policy,* all relevant legislation and regulations, for managing the risks associated with the company activities and for financing the company. The management board shall report related developments too and shall discuss the *state of the organisation (do people feel alive and complete in organisations which are "vital to live"?),* internal risk management and control systems with the supervisory board and its audit committee.

II.2 Remuneration

Amount and composition of the remuneration

Principal: The amount and structure of the remuneration, which the management board members receive from the company for their work, shall be as such that qualified and expert managers can be recruited and retained *and the credibility for all the stakeholders is beyond doubt*. If the remuneration consists of a fixed and a variable part, the variable part shall be linked to previously-determined, measurable and influence-able targets, which must be achieved partly in short term and partly in long term. The variable part of the remuneration is designed to strengthen the board members' commitment to the company and its objectives.

The remuneration's structure, including severance pay, is such that it promotes the interests of the company in the medium and long term, does not encourage management board members to act after their own interests and neglect the interests of the company and does not 'reward' failing board members upon termination of their employment. The level and structure of remuneration shall be determined in the light of, among other things, the results, the share price performance and other developments relevant to the company. The shares held by a management board member in the company on whose board he sits are long-term nvestments. The amount of compensation which a management board member may receive on termination of his employment may not exceed one year's salary, unless this would be manifestly unreasonable under the circumstances.

Determination and disclosure of remuneration

Principal: The report of the supervisory board shall include the principal points of the remuneration report of the supervisory board concerning the remuneration policy of the company, *including a credibility declaration*, as drawn up by the remuneration committee. The notes to the annual accounts shall, in any event, contain the information prescribed by law on the level and structure of the remuneration of the individual members of the management board. The remuneration policy proposed for the next financial year and subsequent years as specified in the remuneration report shall be submitted to the general meeting of shareholders for adoption. Every material change in the remuneration policy shall also be submitted to the general meeting of shareholders for adoption. Schemes whereby management board members are remunerated in the form of shares or rights to subscribe for shares, and major changes to such schemes, shall be submitted to the general meeting of shareholders for approval. The supervisory board shall determine the remuneration of the individual members of the management board, on a proposal by the remuneration committee, within the scope of the remuneration policy adopted by the general meeting of shareholders.

II.3 Conflicts of interest

Principle: Any conflict of interest or apparent conflict of interest between the company and management board members shall be avoided. Decisions to enter into transactions under which management board members would have conflicts of interest that are of material significance to the company and/or to the relevant management board member require the approval of the supervisory board.

III. Supervisory Board

III.1 Role and procedure

Principle: The role of the supervisory board is to supervise the policies of the management board and the general affairs of the company and its affiliated enterprise, as well as to assist the management board by providing advice. In discharging its role, the supervisory board shall be guided by the interests of the company and its affiliated enterprise, and shall take into account the relevant interests of the company's stakeholders *and shareholders*. The supervisory board is responsible for the quality of its own performance.

III.2 Independence

Principle: The composition of the supervisory board shall be as such that the members are able to act critically and independently of one another and of the management board and any particular interests.

III.3 Expertise and composition

Principle: Each supervisory board member shall be capable of assessing the broad outline of the overall policy. Each supervisory board member shall have the specific expertise required for the fulfilment of the duties assigned to the role designated to him within the framework of the supervisory board profile. The composition of the supervisory board shall be as such that it is able to carry out its duties properly. A supervisory board member shall be reappointed only after careful consideration. *The majority of the Supervisory Board of a company with more than 250 employees should be registered as a Supervisory Board Member for New Society Governance, member of the Eagle Quality Mark.* The profile criteria, as referred to above, shall also be fulfilled in the case of a reappointment.

III.4 Role of the chairman of the supervisory board and the company secretary

Principle: The chairman of the supervisory board determines the agenda, chairs the supervisory board meetings, monitors the proper functioning of the supervisory board and its committees, arranges for the adequate provision of information to the members, *which can be, next to pure business information, also interpersonal and intrapersonal themes*, ensures that there is sufficient time for making decisions, arranges for the induction and training programme for the members, acts on behalf of the supervisory board as the main contact for the management board, initiates the evaluation of the functioning of the supervisory board and the management board, and ensures, as the chairman, the orderly and efficient conduct of the general meeting of shareholders. The chairman of the supervisory board is assisted in his role by the company's secretary.

Best practice provisions

III.5 Composition and role of three key committees of the supervisory board

Principle: If the supervisory board consists of more than four members, it shall appoint from among its members an audit committee, remuneration committee and a selection and appointment committee. The purpose of the committees is to prepare the decision-making of the supervisory board.

III.7 Remuneration

Principle: The general meeting of shareholders shall determine the remuneration of supervisory board members. The remuneration of a supervisory board member is not dependent on the results of the company. The notes to the annual accounts shall, in any event, contain the information prescribed by law on the level and structure of the remuneration of individual supervisory board members.

V. The audit of the financial reporting and the position of the internal auditor function and of the external auditor

V.1 Financial reporting

Principle: The management board is responsible for the quality and completeness of publicly disclosed financial reports. The supervisory board shall see to it that the management board fulfils this responsibility.

Best practice provisions

V.2 Role, appointment, remuneration and assessment of the functioning of the external auditor

Principle: The external auditor is appointed by the general meeting of shareholders. The supervisory board shall nominate a candidate for this appointment, for which purpose both the audit committee and the management board advise the supervisory board. The remuneration of the external auditor, and instructions to the external auditor to provide on-audit services, shall be approved by the supervisory board on the recommendation of the audit committee and after consultation with the management board.

Best practice provisions[22] [23]

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[22] So far I did not summarize the best practice provisions; they are too detailed to do that. Now I will make some exceptions, because in my recommendations I will use some of the best practice provisions mentioned here.

[23] *It is recommendable to appoint also, next to the financial external adviser, an external adviser with the following assignment: Investigate and make a report about the leadership style and the company's culture regarding human orientated policy.*

V.2.1 The external auditor may be questioned by the general meeting of shareholders in relation to his statement on the impartiality of the annual accounts. The external auditor shall therefore attend and be entitled to address this meeting.

V.2.2 The management board and the audit committee shall report their dealings with the external auditor to the supervisory board on an annual basis, including his independence in particular (for example, the desirability of rotating the responsible partners of an external audit firm that provides audit services and the desirability of the same audit firm providing non-audit services to the company). The supervisory board shall take this into account when deciding its nomination for the appointment of an external auditor, which nomination shall be submitted to the general meeting of shareholders.

V.2.3 At least once in every four years, the supervisory board and the audit committee shall conduct a thorough assessment of the functioning of the external auditor within the various entities and in the different capacities in which the external auditor acts. The main conclusions of this assessment shall be communicated to the general meeting of shareholders for the purposes of assessing the nomination for the appointment of the external auditor.

V.3 Internal auditor function

Best practice provision

V.3.1 The external auditor and the audit committee shall be involved in drawing up the work schedule of the internal auditor. They shall also take cognizance of the findings of the internal auditor.

V.4 Relationship and communication of the external auditor with the organs of the company

Principle: The external auditor shall, in any event, attend the meeting of the supervisory board, at which the annual accounts are to be adopted or approved of. The external auditor shall report his findings in relation to the audit of the annual accounts to the management board and the supervisory board simultaneously.

Best practice provisions

V.4.1 The external auditor shall in any event attend the meeting of the supervisory board, at which the report of the external auditor, with respect to the audit of the annual accounts, is discussed, and at which annual accounts are to be approved or to be adopted. The external auditor shall receive the financial information underlying the adoption of the quarterly and/or half-yearly figures and other interim financial reports and shall be given the opportunity to respond to all information.

V.4.2 When the need arises, the external auditor may request the chairman of the audit committee for leave to attend the meeting of the audit committee.

V.4.3 The report of the external auditor pursuant to article 2:393, paragraph 4, Civil Code shall contain the matters which the external auditor wishes to bring to the attention of the management board and the supervisory board in relation to his audit of the annual accounts and the related audits. The following examples can be given:

A. with regard to the audit:

- information about matters of importance to the assessment of the independence of the external auditor;
- information about the course of events during the audit and cooperation with internal auditors and/or any other external auditors, matters for discussion with the management board, a list of corrections that have not been made, etc.

B. with regard to the financial figures:

analyses of changes in shareholders' equity and results, which do not appear in the information to be published, and which, in the view of the external auditor, contribute to an understanding of the financial position and results of the company;

- comments regarding the processing of one-off items, the effects of estimates and the manner in which they have been arrived at, the choice of accounting policies, when other choices were possible, and special effects of such policies;
- comments on the quality of forecasts and budgets.

C. with regard to the operation of the internal risk management and control systems (including the reliability and continuity of automated data processing) and the quality of the internal provision of information:

- points for improvement, gaps and quality assessments;
- comments about threats and risks to the company and the manner in which they should be reported in the particulars to be published;
- compliance with articles of association, instructions, regulations, loan
- covenants, requirements of external supervisors, etc.
- *compliance with the best practice human policy: do people feel alive and complete in their organisations which are "vital to live"?*

Here I summarized the Dutch governance code. This code is highly comparable with the UK code and the codes in the US, for example Sarbanes-Oxley Act and numerous SEC provisions.

The code is founded in the observation that a "principle based" approach cannot do without a number of concrete rules. This is evident from e.g. the Dutch "principle based" accounting and reporting rules and the "principle based" International Financial Reporting Standards. A purely "principle based" approach provides too little direction as to how the principles should be implemented.

I fully agree with all the things in the code. To me it is a beautiful example of how a delicate subject can be dealt with. The principles are well-balanced and the best practice provisions can make the difference. By the way, if you see this code as unwelcome bureaucracy, then there will be no positive results. *And when we integrate the human policy of companies into the code, there will be more effectiveness for long lasting credibility and prosperity.*

Supplement 2   Inspiring conversations

While in the process of writing this thesis, I contacted several people with lots of experience as CEOs and/or chair(wo)man of Supervisory Boards. Without any exception, these were inspiring conversations. I like to share some of the headlines of these conversations.

1. All of them of them agreed on the issue, that person-related and unconscious themes can make the difference during decision-making processes to merge.

2. Most of them agreed on my hypothesis that Supervisory Boards can do a better job on the governance of these issues, but all of them saw it as the very first responsibility to do so.

3. All of them hesitated when they heard of my plan to add rules to the governance codes to handle these themes in a better manner.

4. All of them pointed out that there's the specific responsibility of the chairman of the Supervisory Boards as well.

5. All of them responded positively to most of my recommendations. I interpreted this as a "no" to more rules and a "yes" to more governance professionalism.

6. All of them encouraged me to further exploration of my ideas to support good governance: especially on the issues of person-related and unconscious themes.

And thus, that's what I will do. I will continue my self-assigned job to contribute to good governance, while keeping in mind the inspiring remarks sprung from the different conversations I have had.

An anthology:

- "You cannot catch an ego in rules and regulations"

- Minister Bos should only appoint commissioners at the Fortis bank who are certified and admitted to the register you proposed: the Supervisory Board Members for New Society Governance.

- "The most important (and sole) task for the Supervisory Board is to recruit the best CEO"

- "The first thing you have to do after the first ideas of a merger is to make decisions about the important positions in the new organisation"

- "It would be a major step if you succeed in integrating the new theories about leadership into the governance codes".

- "In the new century, it is not about "what can I get from it?", but about "what can I add to it?"

- It's a misconception to think that commissioners aim more for professionalism than anything else. They also want to have something enjoyable to do and are interested in a nice network.

- Perhaps you could build up a collaboration with Register.

- As president commissioner I spend a lot of time on contacts with individual members of the Supervisory Board. I do this especially to bring yet unspoken themes under discussion at a meeting.

- Your starting point is too idealistic. Commissioners don't want to revise books anymore, the already have a lot of books.

- You're making it a very personal this way.

- In The Netherlands they're way too lousy about leave-regulations. In a certain sector there are a few big egos obstructing large social improvements. Let the commissioners act, buy out the current CEOs with a couple of million and make a bucket of money.

- When important decisions are at stake, shareholders: eg. clients and co-workers, ought to get and play a more important role.

- Our Supervisory Board has been dozing, even while we were already fighting over the chairmanship. With that, an important merger for the sector was torpedoed.

- Start a new movement with a couple of idealists among the colleagues. Perhaps the time is fit for that.

- According to me, we should always fall back upon the rational decision-making process. We should switch off the interpersonal and intrapersonal elements particularly. That is the essence of good governance.

- Initially I was quite anti-sceptical about the book I read. After all, young and inexperienced readers often think that money makes one happy. After the reading "Geld speelt geen rol" (money isn't part of it) I made an about-turn, because the crystal clear vision of the main character uncovers the filthy lucre in all its appearances. At the risk of his own life, this man of rank opens the eyes of every up-and-coming prosperous man in a shocking way. Thereby he leaves Marx and Mao far behind in the profound flight of his high-minded deeds. A masterwork that no commissioner should miss!

Supplement 3   List of interviewees

Ms **Hanneke Elink Schuurmans BSc,** independent consultant.

Ms **Klaar Meekhof MA**, commissioner in several corporations.

Ms **Hildegard Pelzer MA**, CEO of Governance Support.

Ms **Suzanne Dorssen MA**, independent consultant.

Mr **Dr Wim Kok**, former prime minister of the Netherlands and commissioner of several huge companies.

Mr **Prof Dr Lense Koopmans**, president of RABO and commissioner in several organisations.

Mr **Hans Blankert MA**, former president of the employers union and commissioner of several organisations.

Mr **Boudewijn Dessing MA**, commissioner of several organisations and advisor of the National Register for members of Supervisory Boards.

Mr **Rikus Fijen MA**, CEO of a health care organisation and experience specialist in mergers.

Mr **Frits Brink MA**, CEO of a health care organisation and commissioner of several corporations.

Mr **Elco Brinkman MA**, CEO of Bouwend Nederland and commissioner in several organisations. Also won the most powerful executive Award in The Netherlands in 2006.

Mr **Dr Peter Prud'homme van Reine BSc**, Senior Research Fellow, Center of Innovation Studies, Radboud University Nijmegen, independent consultant and commissioner.

Mr **Dr Leo C. Aukes MA**, Senior Research Fellow, Center of Innovation and Investigations, UMCG Groningen.

Mr **Prof Dr Hans Schenk**, Professor of economics in Utrecht and held chairs at several foreign institutions, is also commissioner.

Mr **Prof Dr Cees Cools,** Professor in Corporate Finance RU Groningen and winner of the Award for the best management book in 2006. Senior Advisor of the Boston Consulting Group.

Mr **Prof Dr Jaap van Manen,** professor in accountancy RU Groningen and partner PWC.

Mr **Ollie B Bommel,** independent man of rank.