Board Management Excellence Model 2018

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Editing team: Betina Bensignor, Marcos E. J. Bertin, Alejandro Carrera, Mario Lombardozzi, Alejandro Marchionna, Alejandra Mastrángelo, Juan Javier Negri, Carlos Pace, Alberto Placenti, Nelson Roca, Raúl Angel Rodríguez and Hugo Strachan.

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Board Management Excellence Model

Introduction

The increasing degree of volatility, complexity and demand of the context in which companies and organizations in general operate in today's society makes it indispensable to emphasize the relevance of their good governance. Having good governance is not simple, but not having it can have irreversible consequences.

The management of the governing bodies of companies and organizations to provide a context that facilitates their proper performance, setting the course and creating an environment of trust, transparency and accountability, is a key element for the viability and sustainability of these companies and organizations in time.

The body responsible for conducting the governance management in the company is the **board**[1] or equivalent body (in non-profit organizations -NPO- is its Management Committee / Management Board).

Board Management can be defined as the set of tasks and activities that, apart from execution, are concerned with providing continuity to organizations and protecting their essential elements, arbitrating legitimate interests, ensuring governance and ensuring the election of a realistic and possible future for them.

Within this framework, the National Quality Award Foundation (FPNC, its initials in Spanish) is pleased to present the National Quality Award in Board Management (PNCGD, its initials in Spanish) 2018 for companies and non-profit organizations. (See specific Bases on this Award at http://www.fpnc.org.ar).

As background, it should be noted that the board management is already contemplated as part of the leadership factors in the Mangement **Excellence Model,** used by the **National Quality Award Foundation** to discern the **National Quality Award (PNC, its initials in Spanish).**

Taking into account the need to define the role of the board of directors and to formulate both the requirements raised by the consideration of all relevant stakeholders and good practices on which there is consensus, this Board Management Excellence Model emerges, which purposes are, basically, three:

1. Help implement good board management practices, as governing bodies of organizations, through a set of integrated and results-oriented performance requirements.

[1] Terms highlighted in **bold** are found in the Glossary.

2. Serve as a reference for a self-assessment process that can be used by the boards as an improvement tool.

3. Constitute the parameter for the assessment of boards of organizations that postulate to the **National Quality Award in Board Management (PNCGD - its initials in Spanish) 2018**.

Corporate governance is an increasingly complex and multidimensional activity that requires a comprehensive vision and understanding of the company or organization and its specific activities. Every governing body plays an essential role in generating the necessary confidence to create the appropriate context for the development of these activities.

Undoubtedly, an excellence management by the board adds value to organizations and constitutes the cornerstone on which excellence in operational management pivots.

Carrying out an excellent management is an objective that every government body, both companies and non-profit organizations, should aspire to, because its contribution to its sustainable continuity is key and decisive.

It is important to clarify that the quality of the board's management will be determined by its functioning as a collegial body and by the quality of the links it develops, both with the shareholders and the management team, and with the rest of the stakeholders with whom the organization interacts.

The results of good corporate governance are evident in the sustainability of the organization and in the aspects related to the creation of value for it, which allow demonstrating the effectiveness and efficiency of the board of directors.

Scope

The scope of this Model is broad, being directed to different types of organizations, such as:

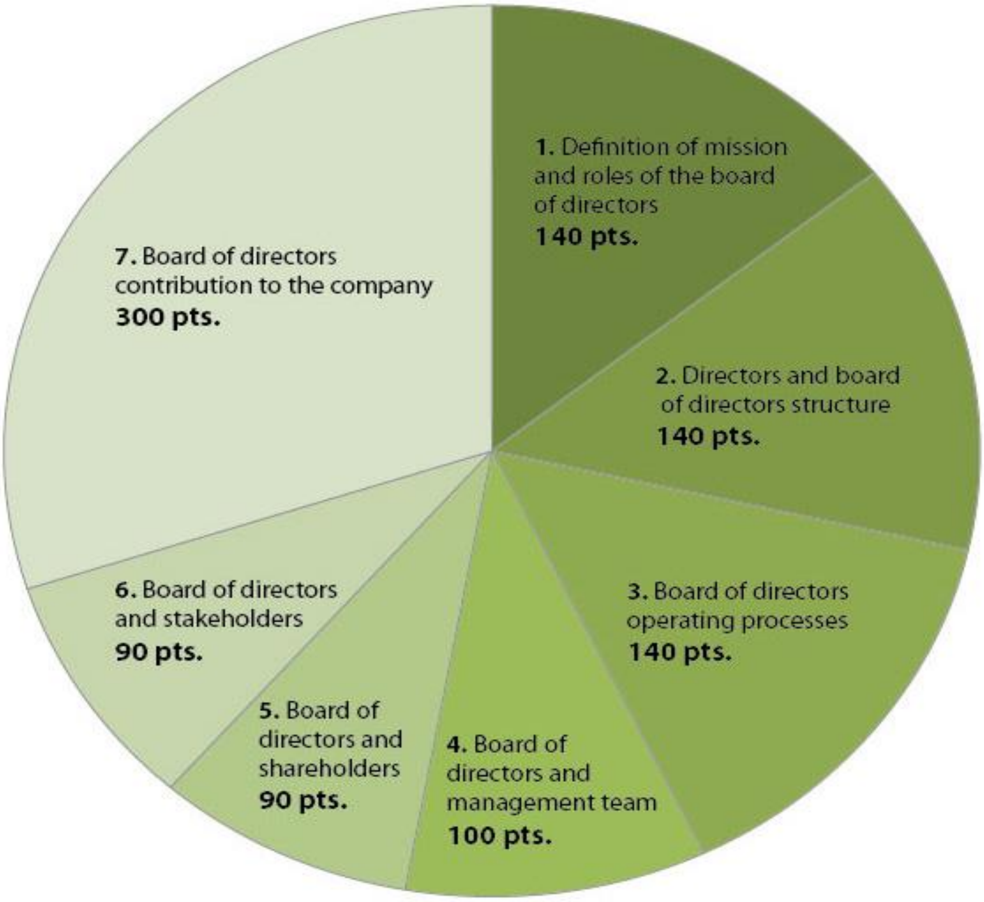
Open-capital companies that offer to the public their shares or negotiable obligations in the capital market.

Closed-end companies, whatever their legal form, that do not offer public securities in the capital market.

Non-profit organizations

Next, the **Board Management Excellence Model** is shared.

General description of the Board Management Excellence Model



Board Management Excellence Model

As can be seen in the graph, the Board Management Excellence Model is composed of seven Criteria:

- **Criterion 1** includes the methods to define the raison d'etre of the board. It means that, in addition to the legal reasons for its existence, this Criterion advances on the purpose of the board -for what it is constituted- and what roles it must play for quality and excellence management.

- **Criterion 2** includes the methods by which candidates are nominated to be elected as directors by the respective Assemblies. *A posteriori*, the board binds them together and is structured to function (architecture, linkage and formal structuring).

- **Criterion 3** refers to the methods by which the board of directors deploys its activities (induction of new members, training, dynamics of meetings, treatment of relevant issues, decision-making, documentation, distribution of reports, self-assessment).

- **Criterion 4** includes the methods by which the board of directors serves the **management team** (accompaniment, contribution of its contacts network, succession, supervision, setting compensation guidelines), beyond its appointing and control functions.

- **Criterion 5** refers to the methods by which the board of directors deals with the interest group of the majority and minority **shareholders** (safekeeping their interests, relevant information, dividends, ordinary and extraordinary assemblies).

- **Criterion 6** includes the methods by which the board ensures that the organization manages the links with its main stakeholders, beyond those already included in Criteria 4 and 5.

- **Criterion 7** deals with the contribution of the board to the company and includes three Sub-criteria:

    - Sub-Criterion 7.1. includes the methods by which the board contributes to sustainability (risk management and prevention assurance and crisis management, the promotion of ethical behavior, and the promotion of innovation, development of leaders and desired culture).

- Sub-Criterion 7.2 deals with the methods by which the board contributes to the continuity of the organization by choosing its desired future (understanding of the business / activity, formulation of the strategy, approval of the budget and investment plan).
- Sub-Criterion 7.3 refers to the methods by which the board contributes to the **strategic and management control** (strategy monitoring, execution control, monitoring **ethics activities and regulatory compliance or *compliance***).

Each of the Criteria and Sub-criteria of the Model is broken down into a set of Requirements which detailed description and assigned proportional weight (score) are developed in the following chapter.

Although the Model does not have a prescriptive nature, since there is no universal model for good corporate governance, its value lies in being based on the set of corporate / organizational governance principles that, at international level, are suggested by institutions such as the OECD (Organization for Economic Cooperation and Development) or the IFC (International Financial Corporation). They usually materialize in Good Corporate Governance Codes, which help to formalize the structure of the governing bodies of the organizations, their responsibilities, and their governance processes and practices.

These principles and their corresponding associated practices are not immutable, but they evolve, they are perfected and they are applied according to the type of organization that is going to be governed, and in function of the changes that take place in the socio-political-economic environment in which these organizations develop.

This document is complemented with the following:

• Bases and Conditions **National Quality Award in Board Management (PNCGD, initials in Spanish) 2018.**

• Self-assessment Annex - Registration of Methods and Practices Booklet

Score distribution matrix

To establish the degree to which the board of directors performs its managing role and adds value to the company contributing to its continuity, this Model contemplates a total of 1,000 points, distributed in the different Criteria and Sub-criteria. It should be noted that this score represents an ideal.

The actual performance of a board will be defined by the compliance percentage of each Criterion and the sum over the 1,000 total points.

The score assignment matrix follows:

Criteria and Sub-criteria	Points
1. DEFINITION OF MISSION AND ROLES OF THE BOARD OF DIRECTORS	140
2. DIRECTORS AND BOARD OF DIRECTORS STRUCTURE	140
3. BOARD OF DIRECTORS OPERATING PROCESSES	140
4. BOARD OF DIRECTORS AND MANAGEMENT TEAM	100
5. BOARD OF DIRECTORS AND SHAREHOLDERS	90
6. BOARD OF DIRECTORS AND STAKEHOLDERS	90
7. BOARD OF DIRECTORS CONTRIBUTION TO THE COMPANY	300
7.1. Contribution to Sustainability	100
7.2. Contribution to Strategy	100
7.3. Contribution to Strategic and Management Control	100
TOTAL	**1.000**

Evaluation Methodology

When evaluating the Requirements in each Criterion, the following will be considered:

1. The methodologies or practices used to satisfy them and the degree to which they are systematically reviewed, evaluated and improved.
2. The concrete evidences of existence and application of such methodologies or practices.
3. The considerations that the board makes about the performance under such Requirement.
4. The identification and assessment of the impact of such performance on the company's progress, should there be any.

Observations

1. In order to promote and ensure levels of excellence, the **PNCGD** establishes a minimum of 30% compliance by Criterion or Sub-Criterion.

2. In this Model, the concept of methodology is similar to that of practice.

Comments and Requirements of the Model

The Requirements corresponding to the seven Criteria of the Model are shown below. To facilitate their interpretation, each Criterion, with its Requirements, is preceded by the corresponding description and comments aimed to clarify its understanding.

Criterion 1: Description and comments

Definition of Mission and Roles of the Board of Directors

Criterion 1 includes the methods to define the raison d'etre of the board. It means that, in addition to the legal reasons for its existence, this Criterion advances over the purpose of the board -for which it is constituted- and what roles it must play for quality and excellence management.

The board of directors, executive committee or substitute governance body fulfills a unique function in the governance system of any organization, being it a closed or listed, private, state or mixed; with or non-profit company. It has a formal position in the structure of the whole organization and a mission and roles, some of them are specific and assigned by law, and others are approved by the shareholders in the meetings. These roles, if they are not exercised by this governing body, are generally carried out equally by someone in the organizations in a vicarious way, although it may be the case that they are not exercised in any way. Therefore, it is very important that the board, as a governing body within the structure of the organization, has a real existence, be aware of its raison d'être, assumes its legal responsibility, clearly defines its purpose or mission and speciies the roles that is willing to exercise.

The OECD proposes a definition of corporate governance that allows illustrating and focusing the task of a governing body: "Corporate governance defines the relationship between the executive team, the board of directors, the shareholders and other stakeholders of the company”. Within this system of relations proposed by the OECD, the board occupies a central place, constituting its heart and playing an essential role in generating the necessary confidence to create an adequate context for the development of the company's operations. The board of directors is an institution, and at the same time, a key instrument of corporate governance.

In turn, the task of governing the board has can be defined as: "The work of those who have the responsibility to administer, manage and represent the company, and to protect and contribute to its continuity". The board is expected to protect the legitimate interests of all the groups linked to the organization, in particular the majority and minority shareholders, and focus on working for the sustainability of the organization.

Corporate governance is an increasingly complex and multidimensional activity that requires a comprehensive vision and understanding of the organization / company and its specific activities / businesses. More and more is expected from the governing body, whatever its denomination and it is required even more.

It should be considered that the roles exercised by the board, within the framework of the mission previously specified, can change over time depending on the specific needs of the organization´s governance it leads. It is part of a healthy practice of the board to address the necessary evolution in their roles. The costumes of the governance organs of the organizations are not prêt-à-porter, but made to measure; the differences lie in the definition of roles and responsibilities that they decide to assume. It is good that the board ask themselves from time to time: "What are we really doing here?", "Are we fulfilling our obligations?" What is our role, given the circumstances that the company / organization is going through? "," What are we doing to fulfill or embody that role? "," What are our priorities? "," If we do not do it, who would? "

It is essential that the board of directors in general and its directors in particular, has full knowledge and comply with the legal and regulatory framework in which it operates and regulates its actions. The laws, the particular statute of the organization, the regulation or specific procedures manual with which the governing body is self-defined, and the code of good practices to which it voluntarily adheres, must always be present at the time of operating and taking decisions. The same must be applied in terms of the standard of diligence or loyalty, restrictions on contracts between the director and the organization, and similar ones. On the other hand, the directors have, in these aspects, elements to build or shape their own scope of present and future work.

Criterion 1: Requirements

Definition of Mission and Roles of the Board of Directors (140 points)

The aspects to be considered should describe the methodologies or practices used whereby the board:

1.1. Defines and understand its mission, keeps it updated and communicated to the corresponding interested parties.	40
1.2. Defines the roles it performs, updates, documents and communicates them.	40
1.3. Knows and keeps updated the Social Statute of the company or organization, as well as the Board Regulations or Procedures Manual	30
1.4. Keeps its knowledge updated regarding the laws and regulations that regulates its actions and that of the company and organization.	30

Note: it is important to indicate how the board evaluates its performance in each Requirement and its impact on the progress of the company or organization.

Criterion 2: Description and comments

Directors and Board of Directors Structure

Criterion 2 includes the methods by which candidates are nominated to be elected directors by the respective Assemblies. A *posteriori*, the board binds them together and is structured to function (architecture, linkage and formal structuring).

The high impact of the board of directors´actions, on the results of the company, warrants the specification of the methods, by which such collegiate body determines both its constitution and conduct and expected performance on the part of the directors.

The company / organization must define a desirable profile for its directory (2.1.) according to what it needs, depending on the stage of development it is in, and also make sure that members are selected within a framework of diversity based on their experience, knowledge, skills and attitudes appropriate to their role.

The *experience* of the group of directors covers beyond a deep experience of the sector and / or of a specific functional area. In the constitution of the board of directors, the diversity and the wide range of situations to which the group of directors can draw must be prioritized in order to elaborate a weighted judgement on each decision analyzed and discussed as a governance body.

Knowledge constitutes a "notion, science, wisdom" in objective, practical and political aspects, giving each director a base of support for its performance as such, and the possibility of complementing the knowledge of the other directors.

Competencies are understood as "expertise, aptitude, suitability to do something or to intervene in a determined matter", and can be of personal order (for the governance of the conduct of each director), for the establishment of constructive interpersonal relations with their colleagues and team work as a collegiate body.

Attitudes are a "mood expressed in some way" that strongly influence, both the personal contribution of each director, and the proactivity and orientation to the results of the board as a whole.

A good directory is made up of members who know the performance that is expected of themselves and the whole (2.2.). In addition to the specific experience of the members on its role as director, it is important that each of them in particular, and the board as a whole, are clearly aware of the responsibilities that come with their position and the reasons for their appointment.

The exercise of the position of director involves a series of personal risks (2.3.) generated by the responsibilities assigned to it by the General Corporations´ Law , the new Civil and Commercial Code, the respective Social Bylaws and the Internal Regulations of the board of directors (if any) . To mitigate and / or eliminate these risks, the governing body sets action guidelines and control mechanisms to ensure that the rest of the organization functions properly and reports its actions and behaviors transparently. In addition, the board should define its own internal mechanisms to ensure that its work as a collegiate body and that of its individual director's take into account the responsibilities and risks already discussed. Also, in general, companies or organizations may have specific insurance for their directors (D & O) and / or indemnity letters.

It is common for directors to receive a specific compensation for the exercise of their function (2.4.), both those who have operational responsibilities in the organization and those who do not. Such compensation is the product of a specific compensation policy that must be approved by the shareholders' meeting - in the L.C. - or another equivalent instance - in other types of organizations. On the other hand, such compensation policy may consider different situations among directors, such as between independent and non-independent directors, or between employees (who belong to the payroll of the company or have a working relationship with it) and the external. The level of compensation should be sufficient to guarantee the independence of decision on the part of the directors and should be in accordance with the conditions set by the market.

The board specifically defines and ensures the coverage of the formal positions that exist within it and of the management in general. In particular, it clearly and concretely establishes the differences between the roles of chairman of the board of directors and general manager (2.5.). The chairman of the board should have the primary function of leading the directors in their responsibilities as a collegiate body in fulfilling their specific roles. The general manager, as head of the executive team, is responsible for compliance with the policies approved by the board of directors and for conducting the organization's usual operation. This naturally leads to the chairman of the board not interfering in the day-to-day operations of the company (2.6.). In the event that the same person exercises both roles, it will be important that they fulfill said functions in a differentiated manner.

A good board is structured internally to address the various issues that concern it (2.7.). In this way, it is good practice to define a structure of specific committees for issues required by legislation and the operational needs of the organization. It can also be useful to identify directors with specific competencies who can contribute knowledge and experience to the board of directors, to whom priority areas of interest and experience and expertise are assigned, thereby improving the value contribution of the board members.

Criterion 2: Requirements

Directors and Board of Directors Structure (140 points)

The aspects to be considered should describe the methodologies or practices used whereby the board of directors:

2.1. Suggests the desirable profile of director and ensures that its members are selected based on their knowledge, experience, skills and attitudes appropriate to their role, ensuring that the board is made up of the members that the company needs at each stage of its development .	20
2.2. It is made up of directors who know the expected performance of each of them and the responsibilities that come with their position.	20
2.3. Analyzes the inherent risk to the responsibilities of its members and establishes guidelines to mitigate and / or eliminate them.	20
2.4. Analyzes the directors´ compensation.	20
2.5. Differenciates in practice the roles of chairman of the board and general manager	20
2.6. It prevents the chairman of the board from interfering in the daily operations of the company when they are exercised by different people.	20
2.7 It is internally structured to address the various issues that are under its responsibility.	20

Criterion 3: Description and comments

Board of Directors Operating Processes

Criterion 3 refers to the methods by which the board of directors deploys its activities (induction of new members, training, meeting dynamics, treatment of relevant issues, decision-making, documentation, distribution of reports, self-assessment).

This Criterion includes the specific processes by which the board translates the agreed general principles to guide its actions in the operation of its work, in each meeting and outside of it, both in the preparation and in the documentation of the meetings. In particular, it focuses on the processes related to:

- The hiring and training of new directors.
- The functioning of the board as collegial body.

The *induction of new directors* (3.1.) is a necessary process, since the appointment of new members implies an alteration of the operating environment of the board of directors and constitutes a new situation for the director who joins. The preparation must include *strictly objective information* about the organization, as well as *formal information* about the company. It is also positive that the new director forms his own vision about the *political context* of the organization and the board of directors.

Regarding the *continuous training* of the directors (3.2.), the organization should facilitate the updating and deepening of their knowledge in the domain of new topics or changes in critical aspects on issues such as: governance, accounting information standards, general legislation and tax, regulatory compliance, risk management, financial and capital markets, evolution and business dynamics, impact of new technologies, among others.

Likewise, it will also seek to promote the development of the specific competencies to the proper exercise of the position.

The *dynamics* and *documentation of meetings* (3.3.) involves taking care of five aspects in the *preparation* that facilitate their proper functioning:

- Meeting call with sufficient time and according to an annual program.
- Preparation and communication of the agenda well in advance of the meeting.
- *Preparation of the meeting by the chairman* regarding the allocation of time and prioritization of the topics, including those proposed by the directors.

- *Compilation and distribution of information* in time and form for the preparation by the directors.
- *Personal preparation of all directors*.

During the meeting, the Board Regulation is applied (if any), the *quorum* is verified, *compliance with the agenda* is sought and the *appropriate registration* of motions, votes, objections, arguments and decisions is made.

After the meeting, a formal report and / or a more extensive and informative minutes will be prepared within a reasonable period of time. The text of the minutes is circulated, approved, transcribed in the relevant book or register and signed by the directors present. In the event that a director does not agree with any of the points contained in the minutes, it is important to formally clarify it in the same text.

The use of *key reports* (3.4.) keeps the board informed about the evolution of the business and the situation of the organization. Thus, the board of directors may request the preparation and presentation of reports on the execution of the annual budget; and according to the size of the company, reports on the cash situation and the projection of cash flows; analysis of both the results and the sales projection; report on operations / production to understand the projection of production and product technology; in addition to a systems plan and the monitoring of its implementation. Of course, it will also analyze and approve the financial statements with the periodicity required by law and the operating conditions of the company (quarterly, annually).

For good *decision-making* (3.5.), the board of directors as a whole and the directors individually must act independently of criteria regarding their own interests and those of other interest groups. The directors also act with a critical and constructive spirit regarding any analysis and proposal presented in the board meetings. If a consensus cannot be developed among the directors for their decisions on certain issues within a reasonable time, the Social Bylaws and the Regulations of the Board of Directors apply. It is also important to clearly define the scope of the *responsibilities* assigned to the board of directors and the management team.

The board of directors makes sure to deal objectively with sensitive issues in their meetings (3.6.) that affect the progress of the organization, even those that concern interest groups that could influence their members. It also deals with issues regarding compliance of the due diligence of the good businessman by the directors and any situation with potential conflicts of interest. Likewise, it takes the precautions in its work so that the topics that are included in its agenda are the most relevant for the feasibility, development and sustainability of the organization **at all times**[2]

[2] It is understood by **all times** to meet the viability criteria proper of the short term and continuity of the medium and long term sustainability of the operation of the organization.

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Given its role as a mechanism for interacting with the outside world, the board must continually and systematically incorporate *external views* to the organization (3.7.). The external groups of interest include external audit, regulating bodies of the sector, National State, Social Security, provincial and municipal organisms, communities directly affected by the activities of the organization, unions, press, social networks, consumer entities and other non-governmental organizations.

The **self-assessment** of the board of directors (3.8.) as a collegial body should be a common practice. It is expected that there is a formal methodology to carry it out that evaluates the effectiveness of roles' compliance that the governance body is playing, the quality of its usual practices and its operation.

In turn, the *self-assessment of directors* is a first step in diagnosing the situation of the board, as it allows each member to identify areas of personal improvement in terms of discipline, commitment and participation to enhance their contribution to the group.

Criterion 3: Requirements

Board of Directors Operating Processes (140 puntos)

The aspects to be considered should describe the methodologies or practices used whereby the board:

3.1. Organizes the induction of its new members to the business of the company and the organization.	15
3.2. Ensures the continuous training of its members.	15
3.3. Organizes the dynamics of its activities and documents them.	15
3.4. Defines the key reports and establishes and ensures the respective frequency of issuing and integrity level.	20
3.5. Manages its decision-making progress ensuring independence of criteria and criticial spirit.	20
3.6. Ensures the treatment of sensitive and relevant issues (conflict of interest, due diligence, etc.)	20
3.7. Incorporates external visions complementary to its own in its decision-making process.	15
3.8. Performs a periodic performance self-assessment of its members and as well as an organ.	20

Criterion 4: Description and comments

Board of Directors and Management Team

Criterion 4 includes the methods by which the board of directors serves the management team (accompaniment, succession, supervision, setting compensation guidelines), beyond its appointment and control functions.

This Criterion allows understanding and evaluating the quality of the services that the board of directors provides to the management team.

In its role of supervising and complementing the management of the management team, a board is required that not only controls and challenges it, but also accompanies and advises it to define and build agreements both on the agenda to be developed and on the expectations of both parties.

The position of general manager is solitary. Within the entire organization it is the only one that does not have peers and all the lines of responsibility, supervision and report converge to it, from above or from below. Therefore, the participation of the board in the construction of a work agenda with the general manager should not necessarily be done from a supervisory role; it can also be done from the position of mentor or facilitator. The above shall take into account the cases in which the general manager integrates the board or is not a member thereof.

The methods to accompany and advise the management team (4.1.) can include both systematic meetings with the chief executive officer of the organization and its management team, as well as the analysis of management information and results, and internal coordination for the treatment of specific themes, among others.

Accompaniment can also be exercised from the role of mentor to the general manager. This relationship requires the director / mentor a good dose of empathy to understand the general manager's vision, his particular interests and, especially, his leadership skills: skills or gaps in the management of inter and intrapersonal relationships.

Due to the very nature of leadership, the repertoire of tools of a general manager is not limited to his intuition in business, his analytical capacity and his presence of mind to make decisions in complex, ambiguous and with little information situations. Most of the time, the most valuable skill of a general manager is the ability to bring together and converge the different interest groups that make up the organization that he leads. Due to the subjective nature of these requirements and the difficulty of identifying and measuring their results and impact on the organization, the help of a third party is valuable. The natural position to fulfill this role is that of the chairman or some other member of the board; not only because of its legal mandate and hierarchical authority, but also because of the senior profile and the moral authority that is generally attributed to a director.

Another possibility to consider is that this role be exercised, not by a particular director, but by the board of directors as a collegial body.

The social capital of the board of directors (4.2.), understood as the contact networks of its members in the different areas, which use can have a productive impact on the performance of the organization, constitutes an important resource of support for the management team.

It is of priority importance to have a selection and succession process of the general manager position (4.3.). It may consist of, among other feasible methods, the definition of the profile, the definition of systematic practices to facilitate the hunting of possible candidates, the evaluation of the final candidates and the establishment of emergency succession plan of the general manager position. This last alternative avoids that an unexpected exit of the general manager complicates the operation or destroys value in the organization.

The supervision and evaluation of the work of the general manager and his management team (4.4.) includes both periodic systematic review of plans, and the method by which the performance of senior executives is evaluated and documented.

A defined and formalized system of performance evaluation has several advantages. First, it clearly articulates the performance expectations of those who will be evaluated. Second, it allows the identification of performance gaps to be addressed through professional development programs. And, finally, it contributes to the achievement of a consistent performance of the organization.

Point 4.5 requires a procedure to set the compensation of the general manager and senior executives. Among the possible criteria to consider, is to associate the levels of compensation to the results of the performance evaluation and other performance measures of the organization.

If the directors exercise executive functions as managers, they must be able to differentiate both roles in such a way that the responsibilities inherent to the governance of the organization can be distinguished from those that are deployed in executive activities. This separation of roles will allow board members with executive functions to observe the opportunities and difficulties of management with a broader view, to interact with non-managerial managers.

Criterion 4: Requirements

Board of Directors and Mangement Team (100 points)

The aspects to be considered should describe the methodologies or practices used whereby the board:

4.1. Accompanies and advises the management team in its managing function.	15
4.2. Facilitates access to necessary resources for the company, based on its social capital.	15
4.3. Provides and applies a selection and succession process of the general manager.	25
4.4. Supervises and evaluates the work of the general manager and his management team.	25
4.5. Provides and applies a procedure to set the compensation of the general manager and senior executives.	20

Criterion 5: Description and comments

Board of Directors and Shareholders

Criterion 5 refers to the methods by which the board of directors deals with the interest group of majority and minority shareholders (protection of their interests, relevant information, dividends, ordinary and extraordinary meetings).

The board of directors is, in practice, responsible for the administration of the company / organization. This mandate is received from the shareholders / partners, who choose their members and can remove them. It is through loyalty and good management of the company that directors protect the interests of shareholders / partners, (5.1.) including minority shareholders; without prejudice to satisfy also the legitimate requirements of other interest groups. For this, the board is expected to act in accordance with the current legal framework and with due diligence and safeguard the interests of their constituents.

From the practical and operational point of view when there are multiple shareholders, a good practice is to have an office to attend to them.

Among the tasks of the board of directors, the provision in time and form to the shareholders / partners of all the relevant information referring to their interests is included, taking care to manage it appropriately (5.2.). Good management of the company will also imply an adequate handling of any conflicts of interest.

It is also the responsibility of the board to manage a dividend policy consistent with the wealth created by the company, in accordance with the guidelines provided by the shareholders and the growth and development requirements of the organization itself (5.3.). ***This requirement is not applicable to NPOs.***

The shareholders '/ partners' meeting is the meeting place between the shareholders / partners themselves, and between them and their directors. Therefore, it must be carried out in the *best way*, taking into account the importance of the issues addressed there and the decisions made on that occasion (5.4.). Best way refers both to compliance with the formal and legal aspects, as well as the relevance of the topics addressed and the quality of their presentation and debate.

Criterion 5: Requirements

Board of Directors and Shareholders (90 points)

The aspects to be considered should describe the methodologies or practices used, whereby the board:

5.1. Understands, considers and safeguards the interests of shareholders, including minority interests.	25
5.2. Systematically provides shareholders with information relevant to their interests regarding the activity of the company	25
5.3. Defines and keeps updated a dividend policy, obtains its approval and applies it.	25
5.4. Convenes, prepares and participates in the ordinary and extraordinary shareholders´meeting.	15

Criterion 6: Description and comments

Board of Directors and Stakeholders

This Criterion includes the methods by which the board ensures that the organization manages the links with its main stakeholders, beyond those already included in Criteria 4 and 5.

Given the potential impact that different interest groups may have on the sustainability of the organization, the board must identify them, validate them and seek to obtain their commitment.

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More than taking care of the image of the organization, what is valued today is the good corporate reputation. That is, not only the perception that things are being done well, but a company history that shows a genuine concern for the impact that their activity causes in the environment. Currently, it is the **interest groups or *stakeholders*** that give legitimacy and responsible image to a company or organization. Even if they believe they are acting responsibly, they will have little credibility and may suffer reputational damage if their interest groups do not perceive it. Therefore, collaborators and employees should be valued and involved in the cooperation of growth of suppliers, listening to customers and being close to them, working with values and transparency, caring for the environment and contributing to the context and society. In short, they should be commited to the common good.

The board is the appropriate environment to harmonize the interests of these groups, promoting the generation of long-term value and, consequently, the sustainability of the company.

This Criterion lists six specific interest groups. It should be clarified that the marketing network may not be applicable to some organizations in particular. In that case, it is considered that the Criterion is satisfied with the fulfillment of the rest of the requirements. It could also occur that the board identifies additional interest groups. In that case, they will be included in requirement 6.2 for its consideration.

Requirement 6.1 sees how the board ensures that the organization deepens its knowledge of the market in which it operates and focuses its efforts on the needs and expectations of its customers. Achieving and maintaining their loyalty, together with the fulfillment of promises about products and services, are fundamental conditions for organizational success. It is also important that the board knows and validates the positioning of the organization in relation to its products and services and against its competitors, both current and potential.

Requirement 6.2 refers to marketing networks, which may include distributors, wholesalers, retailers, concessionaires, franchisees and any other marketing agent through which the organization can reach different segments of end customers. It is essential that the board ensures the sustainability of these networks, while at the same time not neglecting the quality of products and services throughout the commercial chain.

The suppliers of the organization are the subject of Requirement 6.3. It is the function of the board to ensure that strategic planning includes the Supplier Management Model to improve and guarantee the quality of the materials, components and services provided by them. This model must ensure the sustainability of suppliers, especially in times of crisis.

Requirement 6.4 refers to the collaborators of the organization. The board must ensure that personnel policies are implemented that not only promote the maximum development and use of their abilities, but also generate a model of relationships tending to the motivation, commitment, satisfaction and well-being of their employees. The good board develops a complete vision of the human capital of the organization and the evolution of the managerial talent group.

The performance of the board in Requirement 6.5 seeks to satisfy the current demand for sustainable management that deals with both economic results and environmental impact. The governing body must ensure that the company / organization manage the preservation of the environment. Also, that environmental education is provided to its personnel, its customers, its suppliers and the community in general, in relation to its products, services and processes.

Today competitiveness is not only about reducing costs and increasing sales, but also includes aspects related to brand relevance, social impact, cultural management, traceability and reputation, among others. For this, Requirement 6.6 seeks that the board ensures that the relationship with society is managed to promote the culture of excellence, ethical behavior, compliance with social responsibility and the establishment of institutional relations with authorities and community leaders.

Criterion 6: Requirements

Board of Directors and Stakeholders (90 points)

The aspects to be considered should describe the methodologies or practices used whereby the board ensures that the company manages:

6.1. The relationships with their clients to seek their satisfaction and loyalty and to fulfill the explicit promises about their products and services.	15
6.2. The relationship with its commercialization network to guarantee the quality of the services provided to the clients served by it.	15
6.3. The relationships with its suppliers to improve and guarantee the quality of the materials, components and services provided by them	15
6.4. The relationships with its personnel to promote the maximum development and use of its skills and capacities.	15
6.5. The preservation of the environment.	15
6.6. The relationship with society to promote a culture of excellence, an ethical conduct and the fulfillment of its social responsibility.	15

Criterion 7: Description and comments

Board of Directors Contribution to the Company (300 points)

Criterion 7 deals with the board´s contribution to the company and covers three sub-criteria.

Criterion 7 refers to the contribution that the board makes both to the systemic functioning of the organization and to its generation of value, in both cases with an all term-vision. For this, the Criterion analyzes the specific contribution of the board to the sustainability of the organization, the definition of its strategy and the fulfillment of the strategic control and management function, tasks that are non-delegable and essential to its purpose within itself.

Sub-criterion 7.1: Description and comments

Contribution to Sustainability (100 points)

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Sub-Criterion 7.1 includes the methods or practices through which the board contributes to the sustainability of the organization.

The sustainability of the company is linked to issues related to the character and identity of the organization itself, with the way in which it wants to carry out its operations and with the management of essential processes, such as innovation, risk management, crisis management and the development of leaders; all this in a framework of shared values that must be defined and of the desired behaviors that it will seek to promote.

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Among the tasks of the board of directors, in order to contribute to the sustainability of the company, it is necessary to ensure adequate risk management (7.1.1.) that includes adequate prevention, monitoring and correction measures to maintain a previously defined risk profile.

It is also the responsibility of the board to promote the renewal and dynamics of change in the organization. For this, it is not only necessary to formulate an appropriate strategic plan, but also to take care of the learning capacity of the members of the organization and to encourage and promote innovation as a way to anticipate changes and improve the competitiveness of the company / organization (7.1.2.).

Likewise, the board of directors must exercise the leadership of the organization through its conducts and decisions. Beyond this, it must also be concerned with promoting the development of both its current and future leaders (7.1.3.). It is desirable that the board has methods to identify those employees who can lead the different levels of responsibility and design programs to promote their development. It can probably maintain some contact with these people to reinforce the importance of the existence of a leadership for the sustainability of the company / organization.

The promotion of ethical conduct and the supervision of compliance with the various rules and regulations that make up its framework of action are non-delegable tasks of critical importance for the continuity of the company or organization (7.1.4.). In order to fulfill these responsibilities, the board of directors must take all the precautions it considers pertinent, both in relation to the processes to be managed and the structures to be developed. Many companies establish codes of conduct or ethics, appoint a responsible to defend the rights of the organization and its members (ombudsman), promote values to be lived in it and / or have areas or administrations responsible for compliance with the different regulations.

The existence of a manager or position to verify compliance with applicable laws and regulations pursues the purpose of ensuring the analysis and the requirements of its ***enforcement***, as well as mechanisms for voluntary contribution of information about the organization by its members. In this way, the respect instilled by the objective norm reinforces the ethical behaviors cited in the previous section.

Having a reasonable compliance model demonstrates the sensitivity of the organization and its management team with responsible management. It may even happen that the approval of a certain model of compliance by the highest corporate management body is a legal requirement.

In crises, the board must exceed its supervisory role, to constitute an anchor of poise and calm, given its responsibility with the continuity of the company / organization. The greater distance of the board from the operation should allow it to examine the reactions of the management and its action plans in a context of sustainability and not just survival. In short, the board of directors must sustain and ensure the long-term direction that ensures the sustainability of the company, by preventing and tackling crises (7.1.5.).

Organizational culture, defined as those conducts encouraged and promoted as desirable by the organization, associated with a set of shared and current values in it, forms the appropriate and necessary framework to facilitate the actions of the people that part of it (7.1.6.). The conducts of the directors, are, with no doubt, an example that the organization will take into account and will set the **tone** of it.

Sub-criterion 7.1: Requirements

Contribution to Sustaintability (100 points)

The aspects to be considered should describe the methodologies or practices used whereby the board:

7.1.1. Ensures that the company has an adequate risk management.	20
7.1.2. Promotes innovation, learning and change in the organization.	15
7.1.3. Promotes the development of leaders in the organization.	15
7.1.4. Promotes and evaluates the ethical conduct, integrity and regulatory compliance in the organization.	20
7.1.5. Ensures that the company has a methodology for prevention and crisis management.	15
7.1.6. Defines, boosts and promotes the desired culture and shared values in the organization.	15

Subcriterion 7.2: Description and comments

Contribution to Strategy (100 points)

Sub-Criterion 7.2 deals with the means through which the board participates in the *formulation of the strategy* and contributes to the planning of its *implementation*.

It is up to the board to take a first step in the strategic formulation of the company, linked to the setting of its goals. Together with the management team, it must also agree and define the mission of the company, propose the values it intends to be embodied by its members, draw up a vision and outline the strategic objectives (7.2.1.). All this constitutes a guiding framework necessary for organizational action.

The understanding of the business, the sector in which the company participates and the general context in which it operates (7.2.2.), is an essential knowledge and skill that characterizes a board of directors. This understanding facilitates both the approval of the strategy proposed by the executive team, and its challenge by the board as a concrete way to add value.

It is the responsibility of the board to ensure that the company has a current and updated strategic formulation (7.2.3.), since not only is it required to approve it but also to be involved in the elaboration process in several instances. The board of directors must issue general guidelines, such as the reinvestment and dividend policy, the borrowing policy, the acceptable risk profile for the company's business, among other policies.

The approval of the operating and investment budget (7.2.4.) translates the approved strategy into the short-term economic-financial projections. Consequently, the budget will impact not only in the projection of income, operating expenses and investments of the company, but will determine the financial needs for the budgeted operation, with the consequent decisions on the structure of capital and financial indebtedness through different debt instruments.

Sub-criterion 7.2: Requirements

Contribution to the Strategy (100 points)

The aspects to be considered should describe the methodologies or practices used whereby the board:

7.2.1. Establishes the aims of the organization, and in turn, proposes and agress the mission, vision and strategic objectives with the management team.	25
7.2.2. Keeps updated its understanding of the business/activity, the areas in which it participates and the general context in which the company / NPO operates.	25
7.2.3. Ensures that the company has a current and updated strategic formulation.	25
7.2.4. Approves the annual operations and investment budget.	25

Sub-criterion 7.3: Description and comments

Contribution to Strategic and Management Control (100 points)

Sub-Criterion 7.3 refers to the way in which the board exercises *strategic and management control* over the organization.

The board must continuously monitor the strategic deployment of the company / organization (7.3.1.), In order to systematically evaluate the validity of the strategy and be able to anticipate the need to modify it due to changes in the context or in basic assumptions from which it was formulated.

On the other hand, beyond the evaluation of strategic deployment, the board must control the implementation of the strategy in order to evaluate that it is complete and duly executed in a timely manner (7.3.2.).

It is common practice for the board to monitor the fulfillment of the economic and investment budgets, in order to verify compliance with the amounts established for operating income and expenses, and planned investments in them. If there are deviations, it will evaluate the possible corrective actions with the management team (7.3.3.).

The monitoring of ethics and regulatory compliance activities is the responsibility of the board of directors, as well as the adequate preparation of the financial statements -with their necessary audit- and compliance with fiscal and social security regulations (7.3.4.), at the same time it must carry out an adequate follow-up of deviations and breaches. The board must be certain that the company as a whole, and the individuals that compose it, have complied with all the requirements imposed by the legislation and general and / or private regulations that apply to the sector and the company. Likewise, it must take care that its decisions are not affected by any type of conflict of interest in the head of any of its members or of another interest group.

Sub-criterion 7.3: Requirements

Contribution to Strategic and Management Control (100 points)

The aspects to consider should describe the methodologies or practices used whereby the board:

7.3.1. Tracks the strategic deployment of the company / NPO	25
7.3.2. Controls the execution of the strategy by the management team.	25
7.3.3. Supervises the management control of the operations of the company / NPO.	25
7.3.4. Monitors the adequate preparation of the financial statements -with the necessary audit-, compliance with the regulatory framework and legal regulations, compliance with tax and social security obligations, and monitors deviations and non-compliances.	25

Evaluation Table

The Evaluation and Compliance Percentages Assignment Table has the purpose of enabling the evaluation of the board, at a given time, through the assignment of a score. The comparison of the scores obtained in different periods facilitates, in turn, the appreciation of the progress made over time.

For the above purposes, initially each Criterion / Sub-Criterion must be submitted to an analysis that allows the determination of a percentage of compliance (on a scale of 0 to 100%), in relation to the requirements of the Model.

The compliance percentages of each Criterion / Sub-Criterion should then be weighted by the coefficients assigned by the Model to each of them, in order to calculate the resulting scores for the different Criteria and Sub-Criteria, as well as for the board as a whole.

Evaluation and Percentages Assignment Table

The Evaluation and Percentages Assignment Table, which attributes are the following, is shown in the next page:

- Methodology
- Impact on the performance of the board
- Impact on the performance of the organization

Instructions for use

- Consider the level of maturity of the methodology. According to the description of the table, choose the level that best describes the practices of the Criterion or Sub-criterion that is being evaluated.

- Use the attributes *Impact on the performance of the board and Impact on the performance of the organization* to adjust the percentage within the chosen level.

Evaluation and Percentages Assignment Table

Level / Attribute	0	10	20	30	40	50	60	70	80	90	100
Methodology	Absence of practices		Unsystematic and insufficiently formalized initial or reactive practices		Systematic and formalized practices with significant improvement opportunities. The steps of the practice are consistently applied, recorded and begin to be evaluated and improved.		Good systematic, formalized and preventive practices with minor improvement opportunities The steps of the practice are consistently applied, recorded, and evaluated and improved periodically.			Best practices that could be considered as reference by other organizations in the world. The steps of the practice are consistently applied, recorded, and evaluated and improved periodically. Improvements of the last cycles are described.	
Impact on the performance of the board	No impact		It is presumed that there is an impact, but it is not identified		Impact identified.		Impact identified and measured.			Impact identified, measured and monitored.	
Impact on the performance of the organization	No impact		It is presumed that there is an impact, but it is not identified		Impact identified.		Impact identified and measured.			Impact identified, measured and monitored.	

For the evaluation of **Criteria 1 to 7,** the following should be taken into account:

- How the methodology is applied to satisfy the different Model Requirements. A methodology of excellence must:
    - Be well defined (see terminology on the next age)
    - Be relevant
    - Be systematic
    - Contain preventive elements

- How the deployment of each methodology is considered, that is, if they have been implemented and are carried out continuously, with the expected characteristics.
- How the integration of the applied methodologies is, i.e., to what extent they are aligned with the other requirements of the Criterion and with the requirements of other Criteria with which they could be correlated.
- How each applied methodology is evaluated and improved, its deployment and its integration over time. It includes the existence of periodic review and improvement cycles.

Terminology of the Evaluation and Percentages Assignment Table

Practice or Methodology:

- **Well-defined**: clearly explains how it addresses each Model Requirement

- **Relevant**: it focuses on relevant aspects, takes into account the needs of the different stakeholders involved, and has an adequate design for these purposes.

- **Systematic**: it is applied in a repetitive manner as it has been designed, generating data and information that allow its control, learning and improvement.

- **Preventive**: contains mechanisms that help to early detect and correct errors that may occur in its application, and / or mitigate its consequences

- **Evaluation and improvement:** the application of the steps of the practice is periodically reviewed, evaluated and improved accordingly.

Closing

A model is a paradigm of the exemplary, that which represents a feasible vision and that, as such, can be used as a reference. The models of excellence, besides being a stimulus to the organizations, are the best incentive for the quality improvement. Due to their level of demand, they generate a reference that leads institutions to be world class.

The companies / organizations participating in the **National Quality Award in Board Management** (PNCGD, it initials in Spanish) achieve additional benefits apart from obtaining it, which include:

- A guide for reflection and debate to evaluate the quality of the board´s mangement.
- A detailed feedback report.
- Public recognition of organizations with high levels of excellence in board management and dissemination of their practices, which will serve as a reference model for other organizations.
- Projection towards obtaining international recognition that adds value to its internationalization processes.

Receiving the **National Quality Award in Board Management** (PNCGD) is an honor and a commitment for the winning organizations, which should serve as an example to other organizations in the country, therefore it is expected that their behavior will continue to be consistent with such distinction.

• Winners can use the image of the **PNCGD** in their advertising campaigns, which gives them the benefit of promoting themselves as an organization of excellence in the management of their board. This publicity must be institutional and will mention the year in which they were winners and the category in which the recognition was granted.

• Winning organizations become promoters of excellence in the management of boards, which is why they are committed to producing a document where they can share their experience in the application of the Award Management Model.

Glossary

Agenda or meeting agenda: list of topics to be discussed at a board meeting. Directors have the right to know in advance the matters that will be dealt with.

Agency theory: theoretical framework used in the countries of Anglo-Saxon law to describe the relationship of power and rights between a person (the represented), who hires another (the representative or agent) to act on their behalf.

All term: refers to meet the criteria of viability of the short term, and continuity of the medium and long term sustainability of the action of the organization

Annual Report: annual publication of the companies addressed to their shareholders. This document contains information on financial results and the general performance of the company during the previous year, as well as comments on future prospects.

Audit Committee: committee composed of directors (mostly independent), responsible for supervising the exposure and disclosure of financial and other information to stakeholders. Usually, this committee is in charge of the election of the external auditors of the company, which must be approved by the board of directors.

Board Committees: committees composed of board members created to assist in the analysis of specific matters, outside the ordinary meetings held by the board of directors.

Board of Directors: also understood as **the Management Board or the Steering Committee**. Set of individuals chosen by the shareholders / partners of a company / organization for its governance.

Board Regulation: a document that details the functions, responsibilities and activities of the board of directors and its committees.

Board self-assessment: methodology through which the board evaluates its own management and that of its members.

Chairman of the board of directors: director of the highest ranking within the board of directors and legal representative of the company, which he compels for all the acts he carries out and which are not notoriously alien to the corporate purpose.

Code of conduct / ethics: code developed and approved by organizations to define the course of action to follow in specific or potentially sensitive situations.

Compliance: see **Ethics and regulatory compliance.**

Conflict of interest: occurs when a person or group does not have an independent position on the matter and can influence or make decisions motivated by interests that could differ from those of the company or organization.

Constitutive act: formal document submitted to the corresponding government agency of the location where the company / organization will be registered. The minutes reflect the decision of the constituents to establish the corporate purpose, the legal capacity, the internal rules and the legal faculties of which the organization will be invested, by transcribing those principles in its Social Bylaws.

Control block: group that combines the actions of the company that represent the majority of those that confer the right to vote.

Director: member of the board

Disclosure: public dissemination of information about the economic and financial situation of a company. An adequate disclosure of as much information as possible is one of the principles of Argentine corporate law or corporate governance of the OECD.

Dividend: shareholder remuneration. It corresponds in part or in all to the annual after-tax benefits of free availability. It is proposed by the board of directors and approved by the shareholders' meeting.

EBITDA: a parameter that indicates the performance margin of a company's operations before interest, amortization, depreciation and taxes.

Enforcement: enforce, respect and fulfil regulations. It refers to the act of execution, the guarantee of compliance or obedience to the rules.

Equity or equal treatment of shareholders: respect for the rights of all shareholders. This is one of the cardinal principles of Argentine corporate law and corporate governance of the OECD.

Ethics and regulatory compliance, regulatory compliance or legal compliance: observation and adherence to rules and regulations. In general, compliance means adjusting to a specification or policy (internal or external), norm or law that has been clearly defined.

Executive Officer (CEO): general manager. The highest authority in the company that responds to the board of directors. Responsible executive.

External audit: evaluation and verification of the accounting and financial records of the company and other supporting documents, carried out by independent external professionals.

Extraordinary Meeting: all matters that are not within the competence of the ordinary meeting, the modification of the Social Bylaws and topics such as: increase, reduction and reimbursement of capital, merger, transformation and dissolution of the company, bond issue, correspond to the extraordinary meeting among others.

General Corporation Law: regulates the aspects that affect the proper functioning of corporations.

Governance: see **Government.**

Government: According to the OECD, corporate governance is the system by which companies in the public and private sectors are directed and controlled. The structure of good corporate governance specifies the distribution of rights and responsibilities among the various actors of the company, such as, for example, the board of directors, chairman and directors, shareholders and other third party contributors of resources.

Independent director: person whose only link with the company is his position as director.

Interest group, stakeholder or incumbent: Person or organization that has a legitimate interest in a project or company / organization. In a broader sense, it refers to suppliers, creditors, customers, employees and the local community - all parties affected by the company's activities.

Internal audit: assessment of compliance with standards and the strength of the record of the operations of the company carried out by its own employees. Those who perform this function are called internal auditors.

Investor Relations Department: corporate communication department of the company. This division specializes in the dissemination and management of information in communications between the company and the investor community, both for listed and closed companies.

Majority shareholder: shareholder who owns a sufficient portion of the voting capital of a company - in general, ≥30% - as to control the composition of the board of directors.

Management Board: see Board of Directors

Management control: set of procedures that guide the control of the result and the choice of the behavior of those who must make decisions, so that they act as efficiently as possible in order to achieve the objectives of the organization based on the available resources.

Management team: team responsible for the management of the company / organization and its results. It is constituted by the general manager and the people who report directly to him.

Minority shareholder: shareholder with a minority interest (generally <5%).

Minutes: document that reports and describes extensively and adequately what happened in a meeting.

Minutes of the meeting of the board of directors: formal document perfected by the signature of those attending the meeting, which includes all the topics discussed and the agreements reached.

National Securities Commission: an autarchic entity with jurisdiction throughout the Argentine Republic which objective is to authorize the public offering of securities, ensuring the transparency of the markets and the correct formation of prices in them, as well as the protection of investors.

OECD: Organization for Economic Cooperation and Development.

Ordinary meeting: meeting held, generally, at the end of each fiscal year, in which the shareholders consider the financial statements, discuss the use of the profits (if any) and the prospects for the future. In addition, during the assembly, directors are elected and issues that have been included in the agenda are addressed. The importance of the ordinary meeting is given by the fact that it is the only meeting that can be validly held whatever the number of shareholders present.

Risk management: process to analyze the company's exposure to risks and determine the best approach to face and mitigate them properly.

Shareholder: holder of shares.

Shareholders agreement: written document that regulates the relationship of the shareholders among themselves regarding the form of control and administration of the company.

Shareholder rights: political and economic rights arising from the ownership of shares.

Shareholder structure: the distribution of the shares of the company among the shareholders.

Stakeholder: see **Interest Group.**

Steering Committee: see Board of Directors

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Strategic control: involves adapting the control system to the requirements of strategic management. Strategic control focuses on two points: whether the strategy is being implemented as planned and whether the results produced by the strategy are as expected.

Sustainability: the situation that defines the company that gathers and generates the conditions of continuity.

Tone from / at the top: see Tone.

Tone (tone from / at the top, tone of the leadership): cultural and values imprint of the organization, driven by the board, which describes the general ethical climate of the organization.

Transparency: the principle of corporate governance of the General Corporation Law, the Capital Markets Law and the OECD, which consists of publishing and disclosing pertinent information of the company / organization that makes a public offering of its securities.

Voting rights: right to vote in shareholders' meetings on the topics included in the agenda.

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