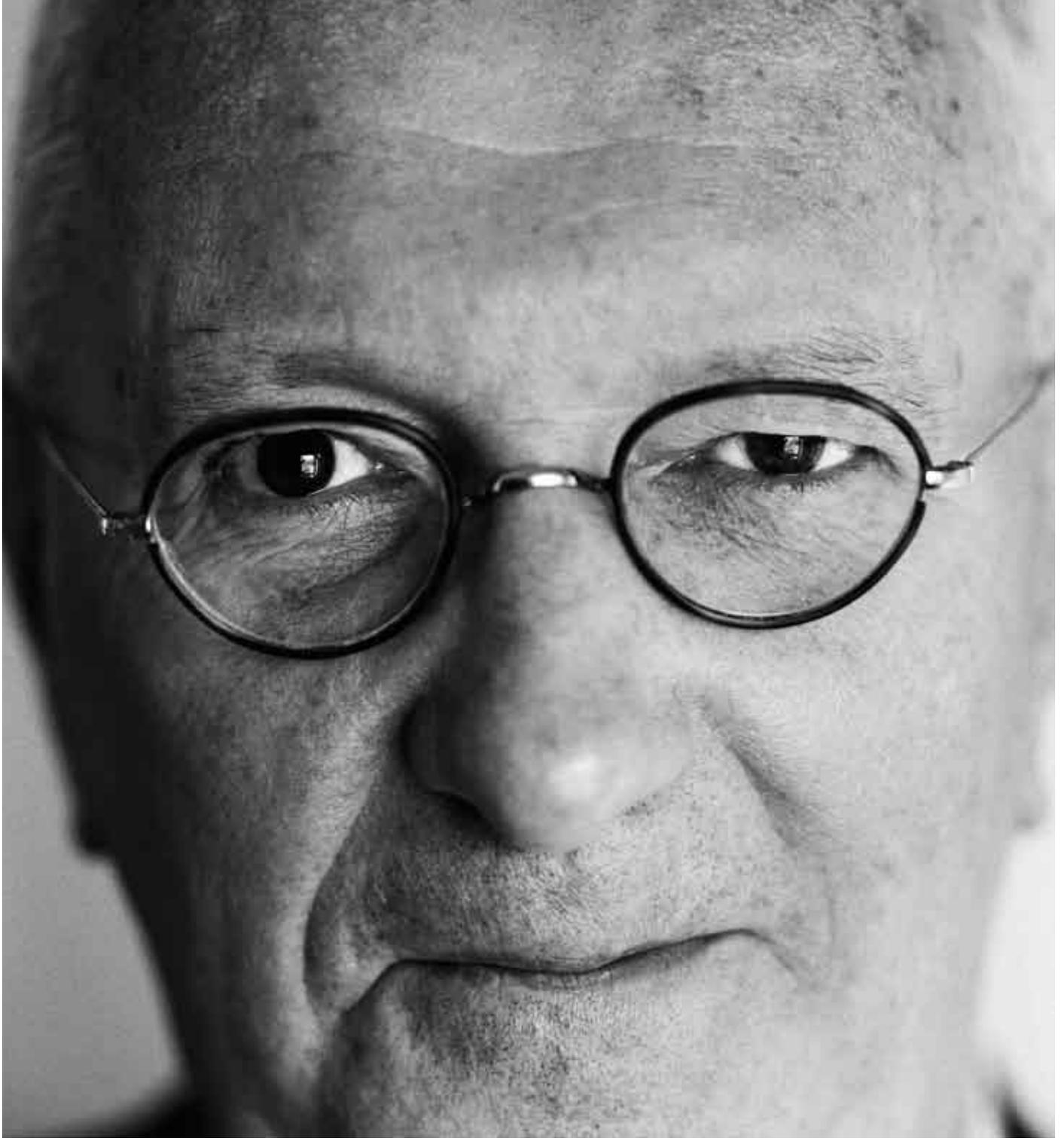


‘Integrity is easy – it adds  
value and it’s sustainable’

*Gilles Izeboud*

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In 2003, Gilles Izeboud was the only accountant to be invited to join the Dutch Corporate Governance Committee (also known as the Tabaksblat Committee). As such, in that role, he was responsible for the accountancy profession's contribution to restore the reliability of the financial markets, which had been cast into doubt following a succession of corporate scandals. This included giving guidance to supervisory boards on how to establish proper checks and balances vis-à-vis boards of management. As Izeboud puts it, 'It gave me a wonderful opportunity to vent my frustration about the poor behaviour I'd seen too many times from supervisory board members at listed companies I'd worked with. After that experience, I had no intention of joining a supervisory board myself. But after publication of the Tabaksblat Code, I was intrigued to see what effect the Code would have in practice. Since then I've accepted membership of various supervisory boards.'



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## ‘By having regular contact with people at levels below the top, you can pick up a lot of useful information and more awareness of the “softer” side of what’s going on – it’s not difficult’

### **More authority to the supervisory board**

Given his background as a member of the Tabaksblat Committee, it is not surprising that Izeboud places great store by checks and balances. The Corporate Governance Code, which the Tabaksblat Committee published in 2004 as a guideline for listed companies and their shareholders, was, says Izeboud, ‘all about strengthening the structure of checks and balances’. Supervisory board members, regulators and auditors, he says, all have to be able to carry out those checks effectively. ‘I’m afraid this wasn’t true of many supervisory board members in the past: they tended to automatically give their board of management the benefit of any doubt. Regulators, too, are failing to do their job properly if they’re too hesitant about intervening. No, the supervisory board needs to give unmistakable signals to the board of management when it sees things going wrong.’

### **Four qualities**

What are the qualities that this new-style supervisory board member needs? How can we recognise such relentlessly vigilant characters when we see them? Izeboud identifies four key qualities that enable the modern supervisory board member to add significant

value to the company: independence, engagement, availability and a deep understanding of the ‘rules of the game’. ‘To me, independence (if I may formulate it in terms of its opposite) is not wanting to be a member of the “club” so much that you’re forever trying to please those in power. In fact, I actually think it’s a good thing when people don’t feel they have to be nice to each other in a company. There should be scope to “tell it like you see it”. Bad news should travel fast. Independence is simply being able to say, “I’m not going to go along with this. It’s not good, and I don’t want any part of it.” As long as you don’t make it personal, then that should be acceptable.’

### **Taking it seriously**

Izeboud does not accept the idea that, as a member of the supervisory board you cannot say very much because you have no power, and ‘After all, I’m only here five or six times a year’. He very clearly sees it as a job that needs to be taken seriously, right from the outset. ‘When you receive an invitation to join a supervisory board, the first thing you need to do is find out whether it’s a serious matter or whether you’re just expected to be a rubber stamp. When I accept appointments, I always try to make my position clear in advance, saying, for example, that if certain matters relating to shareholders turn out to be different to what I’d been told, I wouldn’t hesitate to resign.’ Treating the job seriously also means being fully engaged with the company, says Izeboud. ‘This means, for example, talking to people throughout the company. It also means making sure you get an extensive introduction to the company when you start, including spending several days looking around, daring to ask pointed questions – and supposedly “silly” ones.’ By having regular contact with people at levels below

the top, says Izeboud, you can pick up a lot of useful information and more awareness of the “softer” side of what’s going on – it’s not difficult.’

### Availability

Being fully engaged with the company takes time, of course. And that is closely linked to another of Izeboud’s four key qualities: availability. ‘You shouldn’t take on too many supervisory board memberships. If you don’t fill up all your time, you’re able to jump in at short notice and devote more time to your duties when things get stressful (and what company doesn’t experience stressful moments from time to time?). This also creates a greater degree of involvement. Supervisory board members also need to have an intimate understanding of the “game” and its rules (in terms of both sector and accounting practices) so that they can counter management’s arguments where appropriate, and can carry out the checks and balances required.’

### Enjoying your work

In exercising these key qualities, supervisory board members add value to a company. But Izeboud makes a distinction between adding value as such and making sure that people within the company also feel that you are adding value. ‘In my experience, I’ve found that employees generally rather like it when someone comes and asks them questions about their work, and listens to what they have to say. I’ve always tried to keep up the contacts I’ve made within the company, either informally or through formal meetings.’ You should enjoy being involved in this way, he says. ‘If you don’t like being a supervisory board member, you won’t be able to do the job properly.’

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### Balancing act

Izeboud dislikes what he calls ‘middle-of-the-road’ types, people who seem to be driven purely by business ambition, but, when it comes down to it, are not any good at anything. ‘Since a certain dynamic is essential in any business organisation, you need to keep searching for the balance between stable, consistent, systematic operations on the one hand, and exciting, innovative and serendipitous inspiration on the other. Thinking and operating “outside the box” don’t go well together with totally politically correct automatons.’

### Avoiding trouble

So what is integrity, in the end, all about? The dictionary defines it as ‘resolve’ and ‘incorruptibility’. ‘That’s what you need to aim for if you’re looking for integrity,’ says Izeboud. ‘That’s the dividing line between what’s acceptable and what’s not. And it’s best to keep well on the right side of that line – which doesn’t mean just minimal compliance with laws and regulations as advised by aggressive lawyers and tax advisers. Playing that game is both time-consuming and costly, and it doesn’t provide the right tone at the top.’ Izeboud’s point of view is simple and pragmatic: to choose the path of integrity is to choose the easy path, the path of common sense. ‘It keeps you out of trouble,’ he says. He tells the story of a real-estate broker he knew well. ‘I asked him why

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## ‘Integrity is simply easier – and it sells well, especially in this line of business, where we’re virtually the only ones to behave like this’

he was a man of integrity, while almost everyone else in that business appeared to be serving their own personal interests. “Gilles,” he said, “it’s because it’s easier – and it sells well, especially in this line of business. We’re virtually the only firm to behave like this: it’s our trademark!”

The fact that ethics and integrity have recently taken on a quasi-mystical or religious aura is something Izeboud finds distasteful. ‘I believe ethics and integrity have, on the contrary, everything to do with common sense. That doesn’t always mean that you do things right, but rather that you have certain principles and don’t, for instance, swindle people you respect.’

### Règlement des comptes

Before returning to the Netherlands in 1986, Izeboud had worked as an accountant for many years in the USA and Belgium. During those years, did he notice any cultural differences in how people view integrity? He certainly did. ‘In Belgium, for instance, many matters were “arranged” informally, behind closed doors as a *quid pro quo* between individuals,’ he says. ‘I really hated that. I soon reached the conclusion that life is much simpler and more stable without those informal, secretive goings-on. Integrity is more about being honest with yourself than about pleasing your boss. It’s simply more convenient and practical to behave like that. You don’t have to keep

track of your “private accounts”, and you don’t have to worry about answering any awkward questions about what you’ve been up to behind the scenes.’

### Doing things well

In America, Izeboud found auditing to be a well-organised profession, particularly in the area of documenting one’s audit work and findings. This was in stark contrast to the situation in the Netherlands at that time, he says. ‘In the Netherlands, audit partners didn’t review the files; they only talked to the board. They indulged in relentless conceptual thinking, and felt superior, imagining that they belonged to the best and longest tradition in the accounting business: in short, a bunch of know-alls. I personally think that you need both brains and hands, a proper balance between thinking and doing. You certainly need to use your brains, but don’t get bogged down in philosophising and conceptual thinking. Whatever you do, do it well. The Americans taught me the value of effective and efficient action, complementing the Europeans’ excessive concern with the conceptual aspects of life. It was a good twenty years before the Dutch audit profession cottoned on to the value of that.’ In fact, he says, it is only with the advent recently of closer regulation by the AFM (Autoriteit Financiële Markten, the Dutch financial services regulator) and new legislation regulating the accountancy profession that auditing has become a more serious profession in the Netherlands. ‘With its emphasis on proper execution, this new approach owes a lot to the Americans.’





### Thinking carefully

Europe's contribution to the profession, says Izeboud, has been the inclination to prize individual thought. 'Perhaps we do this too much in Europe. But in America, which has a strong "follow your leader" culture, individual thought is less highly valued. They tend to follow a figurehead or the flag. The office of the president or commander is more important than the individual who fills it.' Japanese and Chinese cultures similarly value strict obedience to authority, he says. In this light, Europe's highly varied cultural and linguistic inheritance has helped to inhibit the success of any single leader. Just as in biology, diversity in culture is a source of wealth. For anyone who's been brought up in that environment, working in a company in which you have a chance to affect what happens is very important.'

### Toolkit

Is the current economic crisis giving rise to a moment of reflection? 'I certainly hope it will encourage some people to change their behaviour,' Izeboud says. He recalls an occasion when, as a member of the supervisory board, he discovered that period-end figures were being deliberately influenced by the CFO by omitting or adding certain items before month-end. 'When I expressed my shock at this practice, one of my fellow supervisory board members, who'd been CFO

of a large company, said "You're not a good CFO if you don't have such skills in your toolkit." I find that sort of thing totally unacceptable.' Another example Izeboud cites is 'playing' with the Statement of Unadjusted Errors and Uncertainties, which sets an upper limit to the net monetary effect of errors that auditors will not require to be adjusted. 'But even then there are CFOs, particularly those who come from accountancy, who are inclined to push things as far as they can, and say, if you point out an error, "Stop being fussy: we're within the limits." To my mind, such practices should be abandoned – along with the CFOs who want to continue such games. If such practices are not thrown out, then the ultimate consequence is that you yourself resign from the supervisory board. If you follow my simple list of criteria, then that's the only possible consequence.'

### The role of the CFO

In the old days, Dutch multinationals only had a small head office, and a relatively large number of businesses abroad. If anything went wrong there, head office did not conduct any big investigation, but the head of the regional office in question was simply held responsible. 'In my experience,' says Izeboud, 'when organising management of a large internationally operating company you need to manage two matters

centrally: accounting and IT. The CFO needs to determine what goes in the accounts, so that the figures can't be influenced by local management. That's standard practice in most American corporations, but is very rarely found in Dutch companies. The CFO must prevent any juggling with figures by local or intermediate levels of management. If judgements and estimates have to be made, they should be made at the top – nowhere else. It's an important part of the CFO's job to make sure this is organised properly and kept under control.' Similarly, says Izeboud, CFOs, in their direct communications with the CEO and the Audit Committee, should fully report on all items subject to judgement and all estimates. In that way, they prevent any uncontrolled manipulation of the numbers. In addition, he says, the CFO should also not allow himself to be too dependent on or influenced by material incentives: any modifications he makes to the figures should not affect his personal benefits. However, providing incentives to financial people for reaching cash-flow targets may be an exception to this rule, he says, because such numbers are less easy to manipulate.

### Overambitious CEOs

Izeboud is not too worried by the apparent fear of shareholder activism in the Netherlands. Shareholders, says Izeboud, have only come into the picture in any significant way when a company has been performing badly and this poor performance has depressed the share price. 'So boards need to make sure they do their job well, and, if the company is not doing too well, that they involve the shareholders – it's their company, after all. The main problem lies with overambitious CEOs, who feel they need to commit to unrealistic forecasts (a bit higher every time), which they can only realise by "managing" the accounts. That's not something you can keep up forever. In the long term, it's unwise, it's uncomfortable, it lacks integrity and is unsustainable.

*Gilles Izeboud is a member of the supervisory board of Robeco. He was a member of the Corporate Governance Committee that produced the Dutch Corporate Governance Code (also known as 'the Tabaksblad Code'). He was formerly a partner at PricewaterhouseCoopers, and worked for many years in the USA and Belgium.*