Grupo Los Grobo Corporate Governance Case Study

GRUPO LOS GROBO

1. Company and Corporate Governance History

Grupo Los Grobo (GLG) was founded in 1984 as a small family business, primarily focused on agriculture and commodity production. As time went by, business started to expand and 10 years later, the company was confronted with the fact that the it´s growth was now limited by it´s family owners. It was time to hire external professionals, such as agronomical engineers and accountants, which would allow increasing working capacity and incorporate new talent, but with the major decisions still supported by the family owners. A significant figure which reveals GLG´s ability to grow is that it currently employs over 1000 people, throughout Argentina, Brazil and Uruguay.

In the year 1988, huge floods covered lands rendering them unsuitable for traditional agriculture and decreasing cattle production viability. The company saw an opportunity to expand it´s business by renting these lands and applying what is now the new paradigm of agriculture: no-tilling system, the use of new technology and inputs and a profound knowledge-based decision system. Opportunities for leasing land appeared in different towns and cities at significant distances from the central headquarters. In these new areas, different and distinct geographical and agro-ecological characteristics demanded an effort to adapt technology and agronomic practices, but at the same time imprinted a new trait to the company´s strategy through the use of climate risk mitigation by diversification.

Within this new scenario the top management devised ways to develop business clusters, through the creation of networks of clients and suppliers, and through the outsourcing of critical services, such as harvesting, sowing, or spraying. This network structure released the company from the need of investing in costly assets, and paved the way towards vertical integration. New links in the business were incorporated, such as grain transportation, grain storage, futures and hedging, as well as input commercialization. The company had transformed into a “network”.

This growth phase was accompanied by several business good practices, such as process certification with ISO Quality Standards; external financial audits, reporting practices, social responsibility and sustainability became major concerns for the company, and of course growing complexity demanded the incorporation of policies & standards for good practices in corporate governance.

In 2000, founding family members Gustavo, Andrea, Gabriela and Matilde, re-elected themselves as shareholders, as their father Adolfo had created four different companies just in case their sons chose break away and not to work together. But, they wanted a large company, family members decided to merge and become a holding company. Not long ago, these four families were the sole owners of the company. However, during 2008, GLG associated with a Brazilian fund which now owns 22% of the company. This fund was chosen, as top management aimed to expand in Brazil and a company core strategy to do business in other countries, is to do so with local partners: people from those very countries that understand its culture, its habits, its way of doing business and are knowledgeable on the country itself, it´s climate, laws, etc.

The family and business grew, and it was necessary to continue with the improvement of governance mechanisms and with the incorporation of more global standards and frameworks for good practices. One of the first initiatives was to introduce independent Directors to the Board meetings, improving the way in which decisions were made, as well as on communicational aspects, and systematizing and standardizing the information which is to be analyzed within this governance organ. The Executive Board (EB) evolved, with a decision making process underlined by a tension model (figure 1). Within this model, the main function is to try to integrate the decisions and professional values (profitability, efficiency, and transparency), along with family values (belonging, permanence, and personalized).

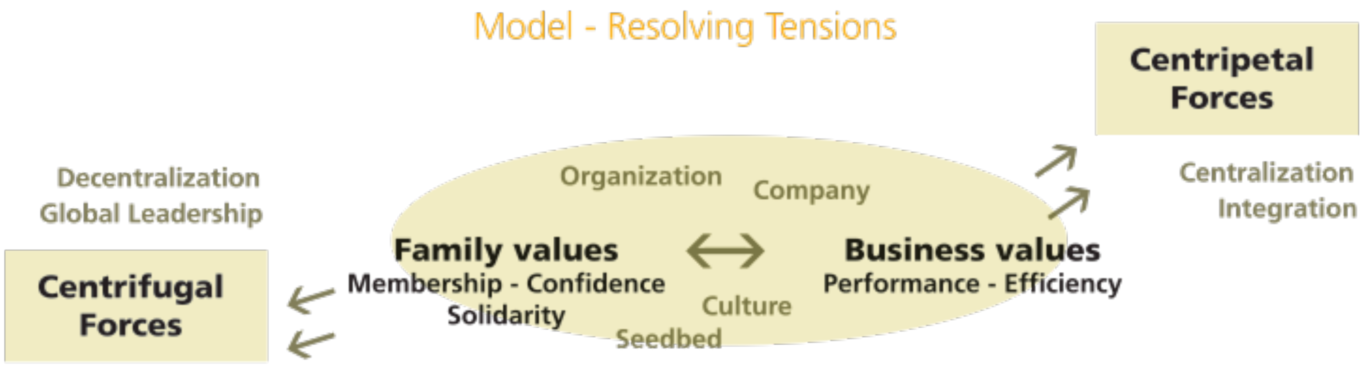

Figure 1

A brief example to picture a conflictive decision was the desire of founding family members to stay in the town where they were born, brought up, and where the administrative headquarters was established, and, on the other hand, pursuing the dream of becoming a world leading company in agribusiness. So, centripetal and centrifugal forces are constantly in tension amongst board members, and have been able to develop tools to think globally and act locally. Thanks to the efforts brought in to build a highly professional Board, has helped in developing this tension model.

As can be seen, the growth of the business internationally, horizontally and through integration and diversification, along with a growing shareholder portfolio with different backgrounds, expertise and cultures, intensified the need to set clear rules at the governing level. Therefore, it is interesting to understand specific motivations behind the adoption of CG good practices.

One of the core motivations for improving Corporate Governance (CG) within GLG was to be able to take professional decisions based on technical, objective and unbiased arguments, and to create transparent rules amongst the members who administer and govern the EB. Also, because the strategy for growth in other countries involves working with partners with different management profiles and cultures, thus requiring a solid governing framework facilitating all the activities carried out within the EB. Lastly, improving access to finance, both in local and international capital markets, demands for transparent and clear rules that can additionally be audited. All these issues have been crucial to the adoption of good practices in CG.

As can be seen in the next scheme (figure 2), the ownership structure is very diverse, following the values and strategy of GLG:

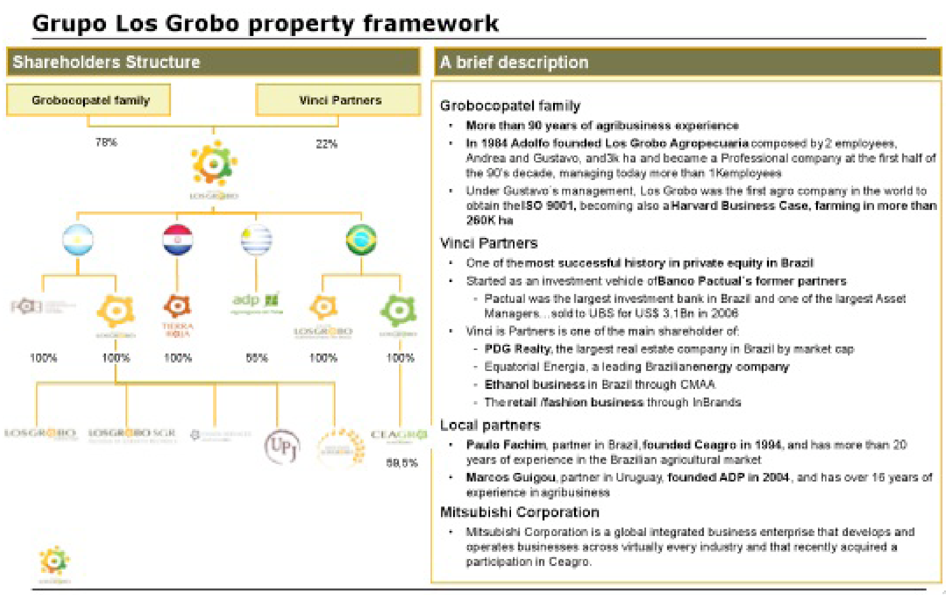

Figure 2

One of the most significant recent developments was an IPO performed in 2011 in

Brazil. This IPO demanded many changes in the company in addition to dealing with an external factor: the Market. The IPO required an extensive schedule of events (meetings, conference calls to investors, financial results) and complete transparency regarding company economic and financial figures. One of the outcomes of this process, was a reconfiguration in global and local decision-making: Local Boards would have more powers and autonomy, whilst the LLC Board would be responsible for macro and strategy decisions. The IPO finally did not result in public offer on account of market context which was not favorable, but nevertheless was very important to accelerate changes that were necessary to advance global practices and implementing.

In current situation, founding family members are no longer part of the management or take part in executive roles. Nevertheless they are part of the Board as independent members because they have adequate skills, experience and are knowledgeable about company history, making them professionals that add value to company strategy and direction. Throughout GLG´s evolution, family founding members have learnt that in order for managers to feel commitment to the company's performance, it is inspiring to have family members on the Board, especially when they have the skills and competencies required for being Directors.

Of course, the global financial crisis of 2008 has affected company growth, as it was coupled to a tough climatic context (periods with intense droughts and below freezing point temperatures) that was very adverse to crop productivity, one of the company´s main activities. In spite of slowing down the high growth rates GLG had been experiencing, it also became an opportunity for internal reorganization. The main aspects were to set EB members with a clearly defined focus, and on a local level, specific company Boards were strengthened so as to have a closer connection to management activities and decisions. During this phase, the Executive Board also found an opportunity to redefine GLG´s growth plan.

2. Current Company Governance Practices

2.1. Board Composition

The amount of the Board of Directors had been 12 until 2011. Family members Adolfo Grobocopatel, Gustavo Grobocopatel, Andrea Grobocopatel, Gabriela Grobocopatel, Paula Marra, Juan Carlos Goyeneche were it´s founding Directors, together with Carlos Etcheverrigaray. Since 2003 Marcos Guigou, and Jorge Forteza, and as from 2008 Carlos Martins, Gilberto Sayao, and Alessandro Horta. Within this configuration we can see an active participation of women (3) and the incorporation of 3 Independent Directors. The characteristics that have been identified as important to include new EB members is that they have different professional backgrounds and visions, so as to create new arguments-tensions but always using constructive dialogue. In 2012, it was decided to reduce to four the number of board members so they can move more flexibly and decide with more agility. In the next scheme (figure 3), a description can be seen that explains corporate governance on a global and local level:

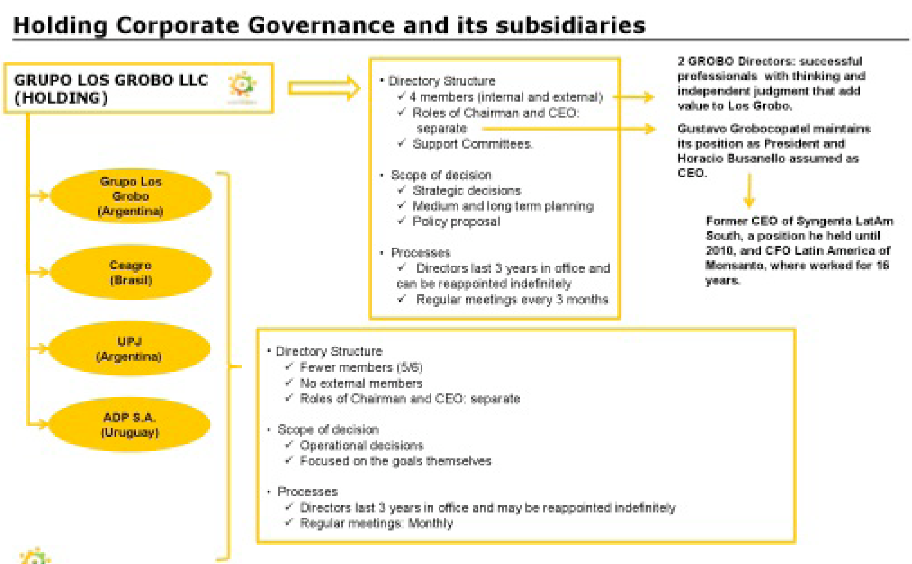

Figure 3

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It must be mentioned also that a major development in 2011 was the incorporation of a new CEO, replacing the dual function that the Board Chairman had also as CEO. Other significant innovations within the Board, was the creation of Board Committees to discuss and manage specific subjects and company issues. The following scheme, clearly depicts the structure and interrelation of these committees with the board (figure 4 & figure 5):

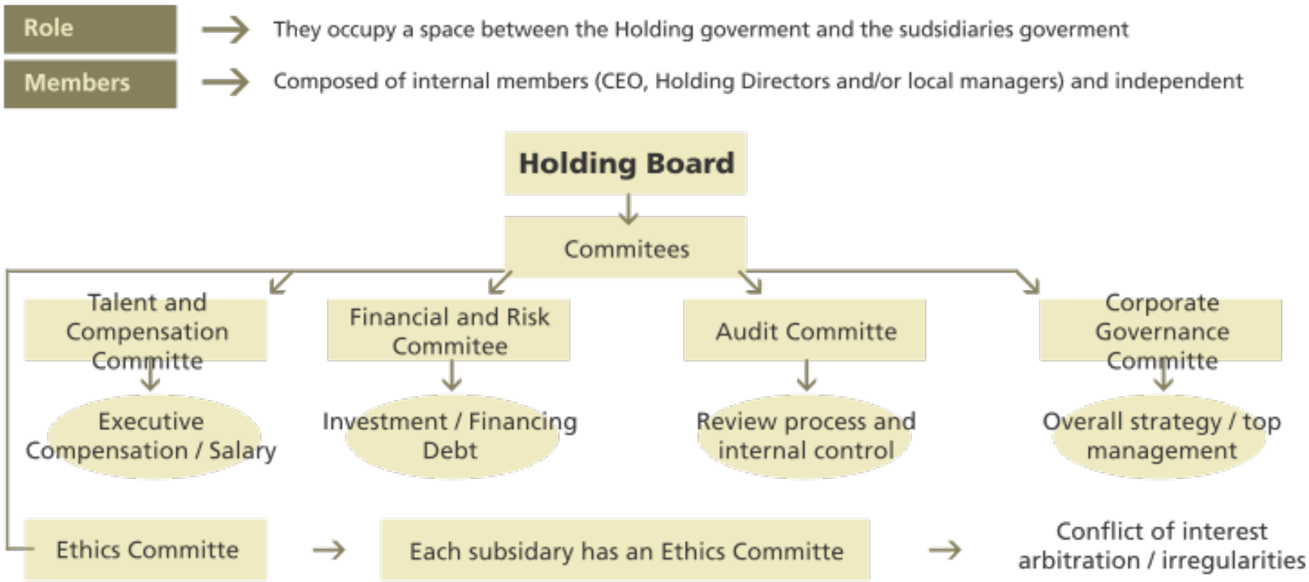

Figure 4

Talent and Remuneration Committe	Executive compensation, salaries, bonuses, succession planning, decision-making scheme
Risk and Financial Committe	Investment, financing, debt capital structure, dividend capacity, risk management (credit, legal, insurance, etc)
Audit Comittee	Review financial statements, review of processes and improvement plans, analysis of external audit
Corporate Governance Committe	Overall strategy, performance of senior management, senior management succession, appropiate governance structure, robust control, sufficient levels of disclosure, shareholder protection, availability of financial resources, systems of internal controlo and risk management
Ethic Committe	Arbitration with possible conflicts of interest, irregularities affecting Companies

Figure 5

2.2. Other Executive Board Practices:

Board Evaluation: Among the common Board practices, a yearly evaluation is carried out on it´s performance. This evaluation however does not include Committee evaluation, evaluation of Individual Directors or an internal evaluation through an external facilitator.

Board Remuneration Policies: In regards to policies dealing on remuneration, the Directors that are also shareholders do not receive a salary, but independent directors do. In management, compensation is composed of a fixed value and a variable salary (paid annually) that depends on the manager's ability to achieve yearly set goals and specific company performance indicators. This compensation may include purchase options related to the value of the shares of the Company.

Corporate Governance institutional membership: The Shareholders directors participate in various Corporate Governance associations such as Company Circle, IAGO, FUNDECE and LIDE.

Governance Program: the Board Committee with the assistance of the Chairman and Vice-Chairman is in charge of overseeing the governance program.

Governance Specialist: the company has appointed a Director to handle all CG issues his duties are: 1. Overseeing the entire current corporate governance system applied by GLG; 2. Reporting to the Board corporate governance issues and developments; 3. Follow the evolution of and recommend the best international practices in corporate governance.

Family Governance Policies: Shareholder Agreements remain valid, and meetings of family members, establishing that no family member can occupy a position simply by being a family member; family members may work within the Company only if they are qualified for the job; family members must apply for a job opportunity in the same way as any non-family member applicant.

3. Grupo Los Grobo Stock Market and Operation Performance Indicators

Financial reporting standards used by the company: GLG currently uses the International Financial Reporting Standards (IFRS).

Financial Results for the 2011 – 2012 period:
1. Net Income = USD´000 (1.570)
2. Net Operating Revenues = USD´000 (868.759)
3. Net Cost and Expenses = USD´000 (763.940)
4. Net Cash = USD´000 (32.284)
5. Projected Cash for 2012 = USD´000 (50.000)

Other non-financial results = USD´000 (4.093)

4. Impacts of Corporate Governance

GLG has identified major impacts corporate governance practices have generated. The most relevant that are worth mentioning are:
• Reduction of the cost of capital and chances of getting external partners.
• Improved company environment and management control.
• Strengthening sustainable development practices.
• improved transparency and organizational efficiency, which in consequence has geared reputation and facilitated access to financing.

Other beneficial impacts of including Corporate Governance will be approached and integrated with the next item "5. Next Steps in Corporate Governance".

5. Next Steps in Corporate Governance

The company's next major step in terms of improving corporate governance practice is to execute changes in the structure of government and develop a policy of risk management to strengthen internal process monitoring and control.

Adopting corporate governance during the company´s evolution has brought on key learning's, which have certainly shaped the future direction of GLG. For instance, as entrepreneurs and particularly in the early stages of the Company´s development, founding family members postponed significant issues related to legal and internal responsibilities bound to ownership. At that time, focus was centered on managerial tasks, solving day-to-day business decisions and problems, and trying to find ways to sustain company growth, in spite of difficulties appearing along the road. There was also a fundamental aspect which family owners had neglected during this process: their responsibility to develop explicit rules regarding decisions related to capital management.

In a second phase, the continued growth of the Company demanded taking steps towards delegating management and executive tasks, as by definition family founding members would have to increasingly participate in the firm´s governance. This is particularly important when considering a family business, since the decisions they make will certainly affect both the company´s present and future. This shift from executive tasks to governance functions, enabled family founding members to focus more on the economic outlook, and enabled them to consider the incorporation of good practices in corporate governance as they perceived this would add value to the Company. This decision involved assuming voluntary commitments, resulted in embedding practices of auto-regulation within the Board, and gave Board members access to participate both in Institutions of Corporate Good Governance as well as strengthening relationship with state organisms.

Since its inception in 1984, the company has undertaken a gradual and progressive institutional redesign to become at present a holding company. The objective behind this change was (and still is) to achieve greater flexibility, persistence and professionalism within the organization, where these core values are sought after in every day performance. The decoupling of a corporate governance structure both on a global and local level, reaped several added benefits. It allowed more flexibility and freedom to founding family members in regards to their obligations with the company. It generated confidence in the market, allowing for the incorporation of new professionals and new shareholders. It also gave a greater degree of flexibility and ease in company management and took off strain on ownership structure as it helped design a simpler format of ownership and control.

In terms of impact on business operations, this new governance structure facilitated foreign investment, allowing GLG to evolve from a family business to a professional and government decision-making mechanisms that structure themselves, and overall quality.

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