

Liberal Essays

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I had dinner the other day with an old friend who climbed to the top of Citigroup and now enjoys a sweet retirement in Santa Monica, California. He is happy to live near his grandsons while he is finishing a PhD thesis about Francisco de los Cobos, the powerful adviser of Charles I of Spain and V of Germany. The beautiful city of Úbeda, where De los Cobos was born and died, owes to him the astonishing image of a city which seems to have been moved from the Tuscany of the Renaissance. Although with great difficulty, the Emperor owed to his Secretary of State counting up with a state enough to start military campaigns against Turkishs, Protestants and even the Pope himself. My friend, who has a deep knowledge of the financial engineering, told me that De los Cobos knew of swaps and other gadgets more than current Wall Street sharks. He was one of the most prosperous men of the XVI Century.

Today, I am thinking of them because the Prince of Asturias will hand the Jaime Fernández de Araoz Award this evening in Madrid. This award was established to the memory of a finance expert who died in dramatic circumstances when he was very young and a cornerstone in Citigroup, my friend's beloved institution. The award centers around Corporate Finance, an issue mastered by the greedy De los Cobos, and Good Governance, an issue he did not care. Jaime Fernández de Araoz did care about both of them. His generation started up in the financial sector when regulators, erudite managers and academics already talked about good behaviour codes, independent directors, boards size and its compensation and related issues that everybody knows and very few care about.

In Spain, where family companies and control shields are very cherished, a good corporate governance is particularly welcome. In this point, and before talking about the awarded research paper, which in my opinion is controversial, provocative and interesting, I would like to disclose my special interest in this award since Jaime Fernández de Araoz was a son of a dear cousin of mine. We must know that it is essential to understand and study good transparency practices that must inform on Corporate Finance.

The research paper, *The Internal Governance of Firms*, suggests that top managers decisions could and should be questioned by their subordinates when they think they are short-sighted and do not invest in the long term future of companies. The paper sets up a "very interesting research line", said Rafael Repullo, Cunef general manager and member of the award jury during the introduction of the winner. The paper, according to a wise commentator who attended the act, poses "a white collar self-management".

According to the authors –Viral Acharya, Stewart Myers and Raghuram Rajan, Professors of Finance at Stern School of Business, New York University, MIT Sloan School of Management and Chicago Booth School of Business, respectively-, their internal control model creates value in firms. Their proposal is that junior managers – well positioned for firms development- could spare efforts if they are not taken into account. This has much to do with transparency, internal communication, team work and talent management and I think it could make sense in big Anglo-Saxon companies with diversified shareholders and a tight control on top managers obsessed with their bonus and their millionaire pension plans.

What would have happened if Charles I of Spain and V of Germany, who only thought about his next battle, and Francisco de los Cobos, who always was keeping an eye on the next Tiziano's he wanted to purchase, would have had internal controls? My expert friend in his sweet retirement would say Fúcares, the sharks of that age, would have gained less and that Spain's GDP in the XVI Century would have been, at least, sustainable.