

INTERVIEW WITH SANDRA GUERRA



*Sandra Guerra has, since 1995, been one of the architects of modern international corporate governance, having co-founded and led Brazil's pathbreaking Instituto Brasileiro de Governança Corporativa (IBGC). She has served on corporate boards and been a CEO or executive at multinational companies and now leads Better Governance, a consultancy aimed at directors. Her book *The Black Box of Corporate Governance* is forthcoming in English. In October 2017 Sandra joined the board of Vale, one of the largest mining companies in the world, as one of two independent directors. Fifteen months later, on January 25 2019, a tailings dam at the iron ore mine just east of Brumadinho, in the Brazilian state of Minas Gerais, suffered a catastrophic collapse. The resulting mudflow killed some 270 people, most of them Vale employees and family members. The disaster was an existential one for the company, as Vale faced sudden, daunting, regulatory, reputational, financial, and operational consequences. Hawkamah advisory board co-chair Stephen Davis interviewed Sandra about what it has been like to navigate such disruption as an independent director.*

Q: Vale faced an existential crisis in 2019 with the collapse of the Brumadinho dam. Because directors are as human as the rest of us, maybe you can describe what it was like for you as an independent director of Vale to hear the news? What do you remember?

I will never forget. It was a holiday in Sao Paulo, as it was the anniversary of the city, and I was buying tickets to watch a movie with friends when I received a news alert from a radio station on my phone mentioning Vale. When I listened to the message, I said "No, this is not possible". I went to watch the news on TV and even considered

if this could have been some sort of an attack, because otherwise I could not understand how this would have been possible with all the information I had received on the management of the company's dams. I was astonished, overwhelmed.

Back then I was serving on the board's Governance, Compliance, and Risk Committee and we were following up every month on the implementation of a new risk model. As part of that, we were regularly reviewing the top risks facing Vale. Moreover, since I had joined the board in October 2017, I had only observed the

company making progress on its risk model, risk methodology, and risk management—and these were significant improvements, by the way. In my first month on the board I had a meeting accompanied by the other new independent director, Isabella Saboya, with the then three executives responsible for hundreds of structures (dams included) in all operations across the world. And we learned the many improvements made since the previous dam collapse in 2015. So at that moment, for me, this incident did not match with the progress reports I had continually received as a director, especially as there had been many board sessions dedicated to implement risk management improvements and initiatives with no restrictions whatsoever on expenses related to security enhancements – on the contrary, the board would monitor that such expenses were being made according to the plan.

The very same day, some hours later, we were trying to put a board meeting together, but because it was the end of summer holidays, many of the directors were travelling, some in remote places, so it was a bit difficult to find everyone. But we finally managed to hold a meeting in the afternoon. As it happens, the CEO was flying back from Davos—he had been on board the plane when the incident occurred—so we quickly held a second meeting the same day when the CEO arrived.

There are different stages of psychological response to crisis—denial is one of the first stages—and at the very first hours our minds were possibly still in the denial phase. Meetings on digital platforms were not so usual as they are now in the Covid 19 pandemic, so we were having a meeting via conference call. One director was on the road with a very bad signal, another one was near a waterfall in a very remote place, others in similar difficult circumstances. And on top of that, we were all trying to understand what was happening. In the first two days we had several meetings like this one, until we were all finally able to find means to get back to Rio,

where Vale is headquartered.

Once we got there, present as the situation was unfolding, it was very different. We went to the crisis room which had been set up by the management, and later on this very Sunday we took a number of decisions such as suspension of dividend payments, suspension of variable compensation, and creation of (initially) two extraordinary independent committees: Investigation, and Support and Recovery. In an abyssal crisis like this one, eye-to-eye understanding is essential.

But the very presence of the board at that point in time was not only required to take decisions. Support for management was also very important. Commitment to excellence was historically something that was very strong in the company culture, and management was always very proud of Vale. So facing such a situation was more than just dealing with a crisis. Executives were very touched, very shaken, lots of colleagues were dead. The tension and sadness was palpable. It was imperative to maintain calm and help management cope with the immediate effects of the dam collapse and put together an enormous crisis management structure.

Q: So your role at the board at this stage was also to reassure management?

Reassure, comfort, and offer support and advice: that was what the entire board was focusing on. Be there for the managers. The situation was unimaginable. There are no words that could describe the drama and gravity that management was facing. We went to the crisis room to support each of the executives and employees, and we told them that we would be working with them for any need the company might have. And this was what happened for many days. The board was there, almost full time, responding to several requests and deciding about different circumstances arising from the situation. The board had daily, full-day meetings, going home or to the hotel for the many that did not live in

Rio, and then coming back the following day.

In 2019, we had 46 board meetings. Most of these took place between 25th of January, the day of the incident, and the end of April. After that we started to have a more regular board schedule, but still having extra meetings to cope with all the decisions and activities necessary.

A couple of weeks after that first weekend, we appointed a third independent special board committee, Dam Safety, comprised of three independent dam experts. With that, the structure to enable the board to respond appropriately as events unfolded was fully in place. In a matter of less than 20 days we created three committees and hired nine independent committee members—three for each committee. Even before the launch of all three committees, on Sunday February 3, two members of the Support and Reparation Committee flew to Brumadinho to monitor actions and directly assess the situation for the board. The international search firm hired to support the selection of the committee members said to us that the job done in this time frame represented a record in the history of their company.

And we had to act fast as the board had to deal with numerous difficult situations. From approving actions to facing decisions of Brazilian courts to freeze significant company's assets, to monitoring the preliminary agreements, not mentioning the approve of special funds for emergency initiatives and donations. And these are only few examples.

One of the most critical moments was when the board of directors received a recommendation signed by federal and state authorities to dismiss Vale's CEO, Executive Director of Ferrous and Coal, and two other executives. The board accepted their offered resignations on that very same day. So now the board had to replace the CEO and the director of the main business unit of the company and make other changes to form a new management team.

The interim CEO was later confirmed in the position. At the end of the process, in the same year, the management team ended up composed of five new executives (new in the company or in new positions) out of a team of 11. It was a totally renewed C-suite. Besides reacting to the circumstances, the new team led changes in company culture and created a pivotal moment in safety management.

Q: I'm wondering about the risk plans the board had designed before the crisis. Did they prove to be helpful or did you have to go beyond them?

Beyond. We had policies on crisis management but this was no regular crisis. This was an unprecedented situation with no comparable case in mining history, at least considering the human implications. Management hired a high-level international consultancy right after the dam collapse to ensure better crisis management practices, and the consultants were there working with management full time.

Vale then created a separate organizational structure to deal with the crisis, with a single top executive leading other executives assigned to each area of crisis management. Altogether we had 400 people involved in the new crisis management structure. Later in the year the crisis structure was converted into a permanent special directorship for recovery and development reporting to the CEO and acting on all response fronts.

Q: It sounds as if the crisis prompted some permanent changes in governance at Vale.

Yes. Following the rupture of the dam in Brumadinho, the board decided to intensify the risk agenda further and optimize the structure linked to the board. As a result, the board is currently comprised of more members with mining or industry-related experience, expertise in sustainability, and background in governance, plus a third independent director.



Two of the three extraordinary independent consulting committees established – one for support and reparation and the other for investigation - concluded their work and were discontinued this year. The third one, Dam Safety, will be maintained until 2021.

The board also created an audit committee, which already had been planned prior to Brumadinho, but not implemented because of US SEC regulations which require all audit committee members to be independent board members. We had then had only two independent members, which would not have been sufficient. We engaged with the SEC on this and finally received a waiver in December 2018. But because of the Brumadinho crisis we postponed implementation to March 2020 to focus on responses to the dam collapse. The new audit committee assists the board in supervising internal audit activities, among other duties.

Around the same time, we also created a chief compliance officer role, who reports directly to the board, continually interacting with the audit committee, with a degree of autonomy and independence from the other management executive structures of the company. The CCO oversees the whistleblower channel, and the internal audit and integrity department. Prior to Brumadinho, we had had the ‘anti-money laundering and corruption’ unit reporting to the legal function while the whistleblowing channel and internal audit reported to the board. Now we have built this one function to oversee all three elements reporting directly to the board.

Another thing that changed was that the board started to engage directly with investors on ESG topics. As an independent director I was involved in many of such engagement opportunities starting in the October following the crisis, when I participated in a meeting with around 12 global ESG investor representatives in London, where we had the opportunity of covering board initiatives

related to Brumadinho reparation, the culture transformation project, and risk management improvements. Following this initiative, I started to have one-on-one meetings with investors, supported by Vale's investor relations function. After each such conversation I reported back to the board, which directors found very useful.

A further change was not directly linked to Brumadinho, but I would say that the new context facilitated it: in July this year the board created a nomination committee—independent from the board itself—with a majority of independent members and reputable names and backgrounds. Two seasoned board chairs from prominent companies were selected and, alongside the Vale board chair, now form the nomination committee. They are working to propose improvements related to the structure, size, and skills of the board, as these are essential to define nominees to the 2021 annual meeting of shareholders. The independent members of the nomination committee talked to all the board directors, received external board evaluation reports, and they have commissioned outside consultants to map competencies against needs related to strategic goals. They also engaged with investors to seek their views on what they would like to see on the board. At the end of this process, the nomination committee will propose a new board composition, then enroll a headhunter to search for candidates who will be submitted to the approval of the board and later nominated for shareholder election at the AGM in April 2021.

The board also approved changes in the management team, with the creation of another position in the C-suite, which was an executive officer for safety and operational excellence. A very seasoned professional was hired with his remuneration entirely linked to safety and operational excellence factors, not to company financial or operational results.

Q: That's a lot of change for the company. Do you think Vale found it especially important to have independent directors in the boardroom when addressing the crisis?

Yes, and I can tell you that the value that independence played was shown and had a particular role in the process of making a start at regaining stakeholder confidence. For example, before issuing its new rating, a credit rating agency asked to talk to the board's then two independent directors (currently there are three). The common decision between board and management was that both of us independents should have the meeting without management representatives, so the agency would be sure to hear candidly the vision of the independents in the board. The agency decided to maintain the credit rating. I'm far from saying that this meeting was the reason for it. But I believe that this frank conversation with independents provided the credit agency a better understanding of the work of the board and how directors were overseeing management initiatives. This possibly increased the agency's confidence that Vale was taking the right steps and that the financial situation that was being shown publicly was solid and accurate.

Q: Did minority shareholders play a role in the wake of the crisis? Were they in touch with the company? Did you as an independent director have to field inquiries or how did that work?

Yes, I was the independent director who met with the shareholders. I had meetings with all shareholders who asked for one, always organized by the investor relations function. These meetings included large and influential stakeholders focused on ESG and most of them were signatories of the PRI. These meetings have been very useful and the ESG fund representatives were very constructive. The conversations were very amicable. I reported on all investor engagements to the full board. Dialogues provided insight and an external

perspective of committed owners, which is very valid as an input for the board.

The minority shareholders that have a focused ESG agenda and have significant stakes in Vale, who have known the company for many years, were very active and very supportive—since the beginning of the crisis, including when the company had to replace 11 executives and when there were all sorts of rumors—including of possible arrests. We received letters from investors supporting Vale, acknowledging the problem occurred but expressing their view that the company was taking the correct actions and that they had confidence in Vale’s management. That was very, very meaningful at that very difficult moment. And let me add a human touch to that. One letter from an investor was signed by a fund executive who had relatives among the victims of the dam collapse. Even with this personal involvement, the executive still wrote the letter supporting Vale.

Q: That’s very powerful.

Indeed, very powerful. Even under this dramatic personal situation, he was able to maintain objectivity and express confidence in the company’s actions at that moment. That was very meaningful to all at Vale.

Q: Having that vote of confidence from investors came at a very critical moment to the company.

Absolutely, because at that point in time there was no voice supporting Vale, or at least giving it the benefit of the doubt.

Q: What was it then that brought this investor to defy this trend and send a letter of support?

Because they knew the company for many years, they saw what was actually being done.

Q: It sounds like they were also supportive because there had been an effort on the part of the board to maintain a close relationship with this investor.

Prior to Brumadinho, the company always interacted with this investor. I also had many conversations with it before. That investor was close to the company and knew it very well.

Q: In effect, you were banking goodwill, investing time and effort on the part of the board to maintain good relationships with minority shareholders, and in the wake of this crisis that effort really paid off.

Absolutely.

Q: Perhaps this is one of the lessons of navigating a crisis: that you need to identify key stakeholders—before anything happens—and make sure that there is goodwill, because you may have to draw on it in the event of a crisis.

Yes. And engagements were not only with shareholders. The board also started to interact with other stakeholders and to gather information on how stakeholders saw the company. For example, the board sustainability committee, after the most critical time had passed, went to visit communities located near the company railways. Talks were informal, free-flowing conversations with these communities. They talked, committee members just listened and brought back to the board a new perspective and the vision of the important communities around our operations. Nothing surpasses a direct contact like that.

And for me personally, after the incident, I participated in conversations with victims’ families. Although a very difficult experience, it was very important for me as a director to have a real touch with this contact. I will never forget a father, who had lost a daughter whose body has still not been found. For ten minutes, he just kept holding my hand, crying and talking. There are

no presentation slides which can give you this perception, and with this perception, an even stronger sense of the responsibility I have as a board director.

Q: So Vale ramped up stakeholder engagement after the crisis?

Vale was very unequivocal about its commitment towards the integral reparation of Brumadinho and the construction of a safety-oriented culture. The company is improving a lot its active listening competence. Emphatic listening. A culture transformation project was undertaken in the middle of last year to understand the existing culture, to set new standards, and generate adherence. This is a very robust project, involving everyone in the company. The board has participated in several meetings and workshops and has been constantly assessing progress through direct interaction and reviewing cultural indicators. Elements such as better listening, working together, sharing problems, being

proactive in highlighting points of concern with openness, are among the ones being developed. Part of what the project aims to achieve is to make the company better able to listen, and to enable different teams to do things together, as opposed to individually or in isolated silos. The idea is to create a culture of working together, not to be concerned or ashamed to share problems. For that purpose, the company has created mechanisms for employees to share problems candidly in order to solve them.

Q: Do you think that changes the board put into place in the wake of the crisis have helped to restore confidence in Vale from the stakeholder point of view and the investor point of view?

Regaining confidence is a long process. In terms of shareholders, we are making good progress. Investors acknowledge the improvements that the company is undertaking. In terms of society as whole, we are just starting. There is a long



way to go, but people in Vale are determined to pursue the objective of transforming the company into the safest mining company in the world and to making the necessary changes. The statement repeated many times by Vale's CEO—"We will never forget Brumadinho"—expresses genuinely what is in the heart of Vale's management and board.

Q: Having experienced what you have, what would you recommend to another company for ways to anticipate or prepare for a crisis?

Having a crisis management policy and plan, which you review regularly, helps, because then you have the methodology, the people in place, and know who will do what.

But it depends on the crisis, and in a crisis this big and this profound, this will not be enough. So I think the board has to exercise in depth their dual role of monitoring and advising management in a very proactive and present manner. In the monitoring role, it's having a chronic unease – exercising perpetual skepticism, assuming that the worst may happen and that things may not be working. The board's attitude should be one of facing the immediate problems raised by the crisis situation and at the same time reviewing and searching for processes and initiatives for improvement over the long run. In the advice role, the board should be as committed and close to management as possible without interfering with management responsibilities. Even the most experienced and seasoned executives would not be totally prepared to face the immediate impact of a crisis such as Brumadinho. More distant from the heat of the operations, the board can ensure a detached view and give support and advice to executives, even by challenging some of their proposed actions, but doing this with generosity and an emphatic manner.

The great challenge is that the whole scene of a crisis is contaminated with tension and uncertainty. So hiring external advisors – including ones focused on culture and behavior

- could help in the more dramatic moments. This is because of the important emotional element that is not often acknowledged in the business environment. Crisis situations like this lead to executives getting ill. The concerns, the responsibilities, the daily battle to overcome surmounting problems, working for long hours without break or rest. And also, all this taking place in an environment of external distrust, rumors, and misinformation. Every single day there is a feeling of having swords over heads. So being on the board during a crisis is not only about monitoring, but about support. I used to say during the crisis that our decisions always seemed to be about the lesser of evils – always very difficult choices with uncertain outcomes having to be taken under extreme time pressure. It is a unique experience in life, one that changes you forever.

Q: It sounds to me as if you are a different board director today than you were before the crisis.

It is a life changing situation and maybe I'm another person, not just a different director, because the experience was really profound. I don't see people remaining the same after something like this unless they are in denial.

Q: It seems that you have come away from the crisis with the lesson, first, that directors need to be alert to skeptics and open to criticism of the company. Secondly, that a board needs to build goodwill among key stakeholders, including investors. And thirdly, that directors must remember the people who are affected by the company and who are relying on you as an independent director to be their eyes, ears, and their voice in the boardroom.

Absolutely. And I would say that a crisis like this helps independent directors to propose discussions in the boardroom which might have been much more difficult to bring to the table beforehand.