



Snapchats for Boards

by TPA Global

Strategy and Corporate Governance for Boards



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1. What is strategy and corporate governance and how does it affect multinational board members?

Corporate governance broadly refers to mechanisms, processes and relations by which corporations are controlled and directed.

Documents released since 1990 that define how companies are controlled and directed: the [Cadbury Report](#) (UK, 1992), the Principles of Corporate Governance (OECD, 1999, 2004 and 2015), the [Sarbanes-Oxley Act](#) of 2002 (SOX) (US, 2002), the UK Corporate Governance Code 2014, the UK stewardship code 2012, the New King Code South Africa 2016 (draft), the Dodd Frank Act USA.

Ad hoc decision making in challenging business environments is a dangerous game if you don't play it by the rules of corporate governance.

Today, Society is defining that boards are explicitly accountable for the behavior of its employees and the enterprise culture. Lead by example includes simple principles as "don't lie, don't steal and don't cheat".

Strong recommendations to boards are to put the long term view on enterprise value creation as priority and adapt the business model accordingly. Such governance rules should allow boards to resist to short term views by a specific group of shareholders;

In practice a board should:

- provide a clear and transparent view on value creation for each of the shareholders involved;
- be able to explain the strategy in a clear and concise manner to stakeholders and provide details on a transition path to a new business model with all risks assessed;
- explain and train line management how corporate governance works in their daily practice, i.e. how to deal with dilemma's in running your business;
- avoid short cuts, i.e. balance between hard controls versus soft controls and "lead by example".

Two fundamentally different concepts of a CEO do illustrate "old school" versus a "corporate governance adapted view":

- The CEO has power because of his position. He is on top of a company, i.e. if he wants to do something he simply lifts his hand from above and it happens;
- The CEO's power comes not from his position but from his understanding of all of the constraints and forces and factors and processes inside of the company. If he truly understands these factors then a CEO can do remarkable things.

Both leadership (soft controls) and integrated reporting (hard controls) contribute to establish a balanced corporate governance approach. Therefore the existing concept of “enterprise value” is more and more replaced by “enterprise and shared value”.

2. What are the practical implications of strategy and corporate governance to your firm?

Why is corporate governance gaining in importance? Is it increased liabilities or the desire for more transparency, or both?

Considering the above, a decent understanding of corporate governance is recommended in order to:

- Service the interest of all stakeholders;
- Put a long terms view and sustainable business model in place;
- Push down the practicalities of such governance to line management;
- And “lead by example”.

The above implies that corporate governance must stay high on all multinationals’ boardrooms priority list.

3. Boardroom agenda on strategy and corporate governance

The list of ten questions provides structure to an engaged dialogue between board members and supervisory board members.

The list of questions on strategy and corporate governance:

1. Does the board understand the economics of the strategy, including the business and economic cycles that drive the cash?
2. How does convergence of new technologies e.g. digitalization, nano tech, biotech, process technology disrupt our business?
3. Is the cash flow forecast in line with the ebit and ebitda that we report?
4. Is the data that we report sensible in the expectations/direction of the future?
5. Does our management talent have 4 to 8 years of successful track records in the same business/function or do we have patterns of 2 years?
6. Do we have internally a replacement available for all key functions in match with an outsider?
7. Is the board involved in setting the decision rules on major investments a priori and are post mortums regularly conducted and reported?
8. Does the audit committee:
 - a. set the risk framework, establish the roles, tasks of the external auditor, internal compliance, risks IAD, controllers structure?

- b. check for remuneration, strategy and risk alignment?
 - c. work with a mentality of reporting is not about the past, but provides guidance for the future?
 - d. have experience in crisis management?
9. Does the strategy and governance committee set the information and retreat agenda in a significant way?
10. Is the vice chair, the independent chair or the TAP effective in balancing the chairman/ CEO-chairman role, by having a strong informal network and managing the yearly evaluation systems?

Author



Fred van Eenennaam
Founding Partner | The Decision Group
Phone: +31 20 4040 111
Email: f.veenennaam@thedecisiongroup.nl

www.thedecisiongroup.nl