Traditional corporate governance dooms your company to failure. V2

What is the purpose of this article?
Help shareholders, investors, founders, the board of directors and C-Suite discuss and improve corporate governance.

What are the critical learnings in this article?
1) You need to have a common understand about the purpose and value of governance.
2) You must focus governance on value creation and the ability to survive crisis.
3) You need talent that is qualified to make decisions which result in value creation and enable surviving a crisis. This talent must be supported by processes and technology.

What are some definitions of corporate governance?
#1 "Corporate governance is the system of rules, practices, and processes by which a firm is directed and controlled. Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, senior management executives, customers, suppliers, financiers, the government, and the community.

Since corporate governance provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure"[1]

#2 The Globe and Mail Board Games survey of corporate governance produces a score of a company's governance based on 38 sets of criteria in 4 areas: [2]
1) Board Composition
2) Shareholding and compensation
3) Shareholder rights
4) Disclosure

#3 OSFI (Office of the Superintendent of Financial Institutions), the Canadian Federal Government Regulator of Financial Institutions, has published its guidelines. There are 4 major areas:[3]
1) The Board of Directors
2) Risk Governance
3) The role of the Audit Committee
4) Risk Appetite Framework

#4 Law firms often discuss corporate governance in terms of government laws, regulations, and court rulings.

What are the fatal flaws with many approaches to corporate governance?
1) The focus is on the processes and the degree to which processes are carried out. The impact on profitability and value creation for members of the company's ecosystem has little or no consideration. Two examples; a) a company could score very highly on the Globe and Mail Board Games, while at the same time losing market share and shrinking profits. b) Facebook has transformed the world and generated enormous profits, while not being a great example of corporate governance.
2) Talent requirements often have little or no consideration in corporate governance. Competitively differentiated talent is the key to the company's value creation for ecosystem members and for the company's very survival. The talent criteria and talent assessment of board directors and the C-Suite often have a limited role in corporate governance.
3) Following all the laws, regulations, and court filings do not result in large numbers of cash paying customers. Many rapidly growing companies are in areas with limited laws etc. Innovation often is far ahead of government regulation.
4) Corporate governance objectives and practices in a public company with no controlling shareholders are very different from those with a controlling shareholder or in private companies, especially those with unanimous shareholder agreements.
5) The traditional concept of a skills matrix for board directors is obsolete. Early-stage companies, Venture Capitalists, and Private Equity seek directors who are able to enable value creation. E.g., I was in a meeting when a director asked if they were going to be nominated for another year. The response was "what value are you going to provide next year?" A value creation matrix (formal or informal) is being used by companies focused on value creation.
6) Leaders get confused about their roles i.e. the degree to which they coach and mentor talent vs make decisions about talent. E.g., some board directors attempt to coach and mentor the CEO. It then become difficult to challenge the CEOs recommendations when the directors were involved in the creation of the recommendations.

7) Corporate governance is often focused only on the board of directors and C-Suite. Corporate governance is much broader than that.
8) The skills and experience necessary to make decisions is unclear. E.g., some governance advisors believe that no skills and experience are required when voting on whether to appoint a CEO or terminate a CEO. The advisors cite the example of U.S. Congress or Canadian Parliament, where no skills or experience are required for any vote by any member. Other advisors use the example of the Supreme Court, where every single justice must have the skill and experience to vote on every decision.
9) The competitive differentiation of the board of directors is often ignored. It is challenging to have a competitively differentiated company without a competitively differentiated board.
10) There is no clearly defined link, and common understanding, of how corporate governance specifically enables your company's long-term value creation and ability to survive crisis.

What are your next steps?
1) Read "Is your company planning to fail?"[4] I observe that most companies are successfully executing their plans to fail.
2) Agree upon the purpose of your company.
3) Agree upon your company's definition of governance and the purpose of governance.
4) Assess your company components (talent, knowledge, processes, technology) relative to your definition of governance and the purpose of governance. This assessment includes the board of directors and C-Suite.
5) Prepare your plan to improve governance.

Footnotes
[1] Investopedia 2022 August 22
https://www.investopedia.com/terms/c/corporategovernance.asp

[2] Globe and Mail Board Games – 2022 August 222
https://www.theglobeandmail.com/business/careers/management/board-games/article-article-canada-corporate-boards-ranked-2021/

[3] Office of the Superintendent of Financial Institutions – Corporate Governance – Sound Business and Financial Practices – September 2018
https://www.osfi-bsif.gc.ca/eng/docs/cg_guideline.pdf

[4] Is your company planning to fail? Koor and Associates
http://koorandassociates.org/avoiding-business-failure/is-your-company-planning-to-fail/

What further reading should you do?
1) What is the purpose of your company?
http://koorandassociates.org/corporate-governance/what-is-the-purpose-of-your-company/
2) What is corporate governance?
http://koorandassociates.org/corporate-governance/what-is-corporate-governance/
3) What is a competitively differentiated board of directors?
http://koorandassociates.org/corporate-governance/what-is-a-competitively-differentiated-board-of-directors/
4) What are the decision-making challenges faced by directors?
http://koorandassociates.org/corporate-governance/what-are-the-decision-making-challenges-faced-by-directors/
5) How can the board of directors create value?
http://koorandassociates.org/corporate-governance/how-can-the-board-of-directors-create-value/
6) What are the core components of talent?
http://koorandassociates.org/creating-business-value/core-components-of-talent/