

What is the corporate governance ecosystem? V2

What is the purpose of this article?

The purpose of this article is to enable a discussion and action planning among owners/shareholders, boards of directors, CEOs, C-Suite, and advisory boards regarding the company's governance ecosystem

This article does not provide tax, legal or financial advice. You must do your own research and fact-based analysis using current and relevant information.

What are the critical learnings in this article?

- 1) The corporate governance ecosystem is the same as your company's ecosystem.
- 2) Your company's ecosystem can enable your company's success or destroy your company.
- 3) Like natural ecosystems, the firms involved in business ecosystems compete for survival with adaption and often extinction.

What is corporate governance?

"Corporate governance involves a set of relationships between a company's management, board, shareholders and other ecosystem members. Corporate governance also provides the structure and systems through which the company is directed and its objectives are set, and the means of attaining those objectives and monitoring performance are determined".¹

What is the corporate governance ecosystem?

The corporate governance ecosystem is the same as your company's ecosystem

What is your company's ecosystem?²

A corporation's ecosystem is the network of people and organizations, (including the board, management, shareholders, employees, regulators, suppliers, partners, competitors, the media, rating agencies, communities, NGOs (Non-Governmental Organizations), other third parties, organizations that create and commercialize new technology and society) directly and indirectly involved in the operation of the business through both competition and cooperation.

The idea is that each entity in the ecosystem will affect and is affected by the others, creating a constantly evolving set and nature of relationships in which each entity must be flexible and adaptable in order to survive, as in a biological ecosystem.

The actions and behaviours of the ecosystem vary, depending upon what attribute of the corporation is considered. For example, the ecosystem has different behaviours when regarding the second-to-second corporate delivery of products or services versus when the corporation is dealing the event of personal information of hundreds of millions of users being hacked.

Like natural ecosystems, the firms involved in business ecosystems compete for survival with adaptation and often extinction.

In today's rapidly changing business world, a company creates its own ecosystem or comes up with a way to join an existing ecosystem by providing an advantage that is currently lacking in that ecosystem.

Why do you need to understand your company's corporate governance ecosystem?

- 1) Your company's ecosystem can enable your company's success or destroy your company.
- 2) You cannot manage what you don't understand.
- 3) McKinsey has written "...each company must earn the 'social license' to be in business..."³
- 4) Understanding of the governance ecosystem can be a competitive advantage, or disadvantage. A global McKinsey survey showed that less than 20% of executives had frequent success in influencing government policy and the outcome of regulatory decisions.⁴
- 5) Influencing your ecosystem starts with listening to the ecosystem members. Then you begin a variety of communications approaches with key members of your ecosystem.
- 6) Governance requires management of the conflicts of interest among your company's ecosystem members.⁵
- 7) Your company's scenario planning must include scenarios regarding what your future ecosystem will look like, who the key members will be, and how ecosystem members might interact with each other and your company

What are your next steps?

Define the words/concepts you're using, in a glossary. I've seen major confusion when the same words mean different things to different people.

Questions for your board and CEO/management to consider. Ask the following questions and document the agreed upon answers, as well as points of disagreement. Remember, the Supreme Court does not always have a unanimous point of view.

- 1) Who are the key members of the governance ecosystem? Which members assess the performance of the company? Which members believe they should have some sort of involvement in the objective settings and planning to meet the objectives?
- 2) Who is managing the relationship with each key ecosystem member? Board? CEO, C-Suite? Employees? Contractors? What is the nature of the relationship? (observing, communicating, meetings, working together or working against)
- 3) Which members, if any, have you decided not to have relationships with?
- 4) What is your process for setting objectives for the board and management? How do the relationships impact setting the company's objectives? What are the various interests of the ecosystem members? How does the board and management deal with the many conflicts of interests and expectations?
- 5) What is your process for determining how the board and management meet their objectives?
- 6) How do you assess the performance of the board and management, in creating long term value and in meeting their respective objectives?
- 7) How are the members of the ecosystem involved in the setting of objectives, plan preparation, and performance assessment?
- 8) How do you communicate the objectives, plans, and performance to the members of the ecosystem?
- 9) What are the different perspectives among ecosystem members as to how to monitor and assess the company's performance? How is the board's, and CEO's performance measured by different components of the ecosystem?
- 10) Based on the answers to the above questions, what is the action plan, if any, for the board and for management?

Footnotes

¹ Based on "G20/OECD Principles of Corporate Governance", 2023 Page 6. I changed "stakeholders" to "other ecosystem members", https://www.oecd.org/en/publications/2023/09/g20-oecd-principles-of-corporate-governance-2023_60836fcb.html

² Adapted from Investopedia 2023

³ Jim Brennan, Greg Kelly, and Anne Martinez "Tough choices for consumer goods companies" McKinsey Dec 2013, <https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/tough-choices-for-consumer-goods-companies>

⁴ John Browne and Robin Nuttall, "Beyond corporate social responsibility: Integrated external management", McKinsey Quarterly, March 2013, <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/beyond-corporate-social-responsibility-integrated-external-engagement>

⁵ Professor Didier Cossin and Abraham Hongze Lu, "The four tiers of conflict of interest", IMD, Global Board Center, <https://www.imd.org/research-knowledge/articles/the-four-tiers-of-conflict-of-interest-faced-by-board-directors/>

What further reading should you do?

What is corporate governance?

<http://koorandassociates.org/corporate-governance/what-is-corporate-governance/>

Your company will fail.

<http://koorandassociates.org/avoiding-business-failure/your-company-will-fail-v1/>

What does society think of institutions and corporations "56% companies that only think of themselves will fail", "60% CEOs are driven more by greed than by a desire to make a positive difference in the world", 2018 Edelman Trust Barometer Global Report, <https://cms.edelman.com/sites/default/files/2018-01/2018%20Edelman%20Trust%20Barometer%20Global%20Report.pdf>

Jeffrey Sonnenfeld, Melanie Kusin, and Elise Walton "What CEOs really think of their boards", *Harvard Business Review* 2013 April, <https://hbr.org/2013/04/what-ceos-really-think-of-their-boards>

Professor Didier Cossin and Estrelle Metayer "Does your board really add value to strategy?", IMD Global Board Center, <https://www.imd.org/research-knowledge/articles/board-strategy/>