Admincontrol

The road to more effective corporate governance

Your guide to modern governance challenges and the tools you need to solve them

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Introduction

For any modern board or management, corporate governance is all important. It is the means by which you police the organisation you are responsible for. It gives the outside world the assurance that you are 'doing the right thing'. And it helps you prevent the kind of catastrophic failures that have famously brought major businesses like Carillion, Barings Bank and Enron to the brink of collapse.

But in a tech-dominated business world that's moving so fast, and where rules are seemingly changing constantly, how can you be sure that the way you manage corporate governance is:

- Sufficient?
- Up to speed?
- Able to catch all possible points of failure?

In this quick guide we provide a timely reminder of why corporate governance is increasingly important, summarise latest trends and point to how you can employ modern technology to ensure that your governance processes are robust.

A reminder: what is Corporate Governance

The clearest and most useful definition of corporate governance is provided by The Chartered Governance Institute (ICSA). This defines it as "the system of rules, practices and processes by which a company is directed and controlled."

ICSA also states that corporate governance "is the model that ensures you have all the appropriate decision-making processes and controls in place to guarantee that the interests of all stakeholders are balanced."

In addition, they say that "governance at a corporate level includes the processes through which a company's objectives are set and pursued in the context of the social, regulatory and market environment."

In other words, corporate governance today is the means by which your company should be run to:

- Ensure that it achieves its objectives
- Maintain trust with all relevant stakeholders
- Be aware of complex and social changes

The Chartered Governance Institute is the qualifying and membership body for governance professionals with 34,000 members worldwide.

Corporate governance standards around the world – do they differ?

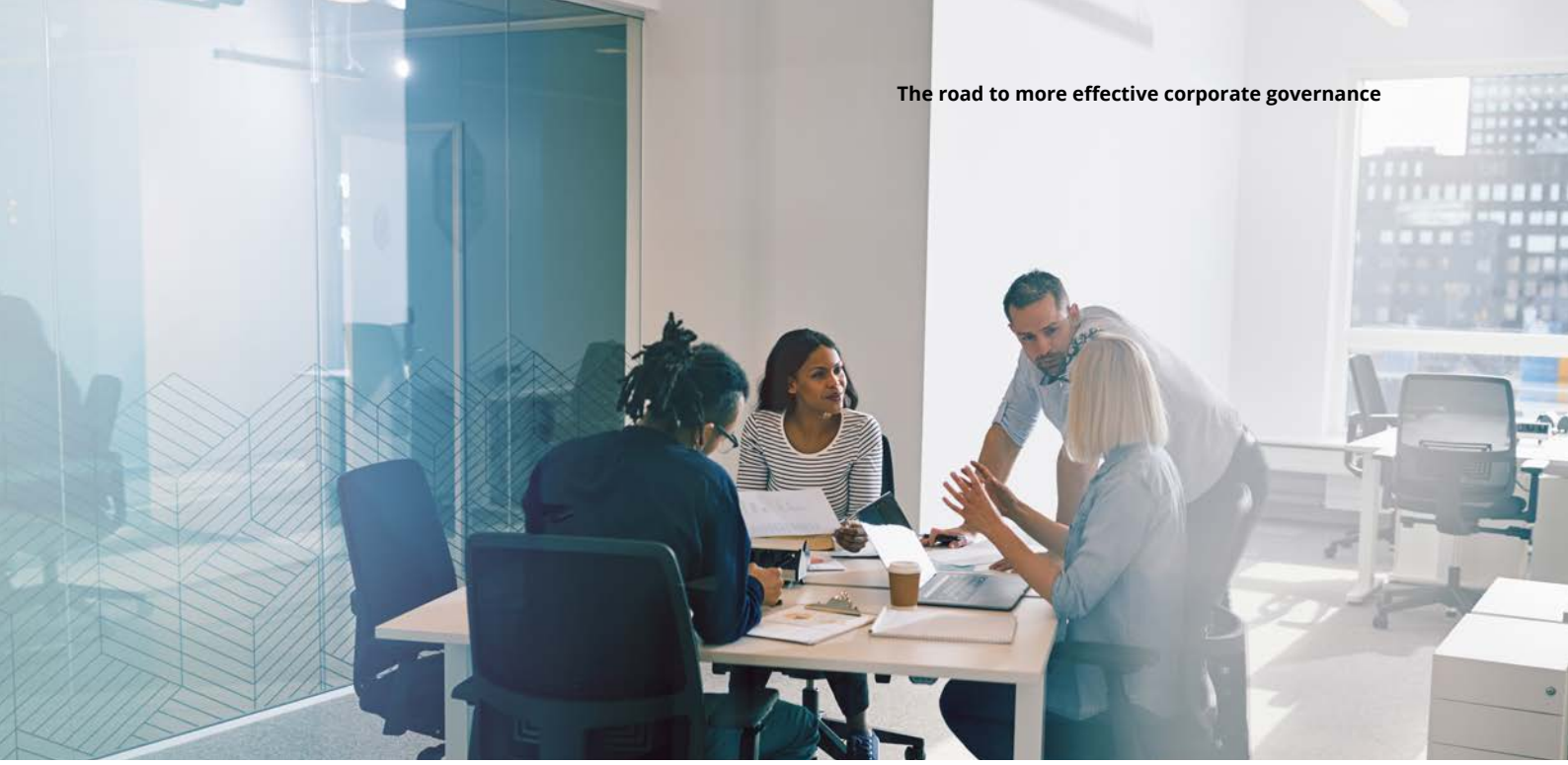
Due to variations in national laws, there are subtle differences in corporate governance around the world. In the Nordic region, for example, governance differs in some respects from the Anglo-Saxon and European Continental models, particularly with regard to strong minority protection and transparency for shareholders.

In Europe, it is common to operate a two-tier board structure, with a management board responsible for the day-to-day running of the business, plus a supervisory corporate board responsible for the strategic oversight of the organisation, usually led by the chairman.

In the US, boards operate according to the unitary system, where there is a single board of directors, comprised of executive and non-executive directors.

Yet generally, despite these structural differences, the basic and fundamental principles of corporate governance are consistent across the industrialised world.

The codes used by the OECD, EU and World Bank are all very similar, and are designed to prevent businesses failing and causing widespread social and economic harm.



Why corporate governance is so important: the key threats that good governance prevents

So, what *exactly* are the main points of failure that good corporate governance is supposed to address? In general, there are five key threats to consider:

1. **Conflicts of interest** that happen when a controlling member of a corporation has other interests that directly conflicts with the objectives / ethics of the corporation
2. Illegal or irregular practices that are not detected because of a **lack of oversight** from boards of directors
3. Executives, employees, or departments **who fail to be accountable** to each other and ignore internal checks and balances
4. **False or manipulated financial statements** that overinflate profits or underestimate losses
5. **Violations of ethics** from decision makers who fail to protect the best interests of stockholders or protect the welfare of the greater community in which the business operates

5 key threats to consider:

- Conflicts of interest
- Lack of oversight
- Lack of accountability
- Manipulated finances
- Violation of ethics

Case study:

Volkswagen and the emissions scandal

One of the most infamous instances of governance failure in recent years occurred at Volkswagen (VW) in 2015. The car manufacturer was found to have systematically falsified emissions tests in the US and Europe by using 'cheat devices' in its electronic engine controls.

> *VW has subsequently had to pay over £20bn in global fines*

Accused of violation of ethics, lack of oversight and poor internal accountability, VW has subsequently had to pay over £20bn in global fines. Its former CEO has been indicted with charges of fraud in the US and Germany. The problem also continues, and VW is bracing itself for yet more financial impact – including the potential fallout from a major class action in the UK from lawyers representing over 90,000 motorists.

The VW story provides a stark warning to businesses and their leaders around the world. Fail to exercise corporate governance correctly and you not only risk serious damage to share price and profit, you also risk personal prosecution and reputational damage.

The upside: good governance is also good for business

While corporate governance is often discussed in terms of preventing these harmful ways of doing business, it is also important to stress that practising good governance can have a highly positive influence on business.

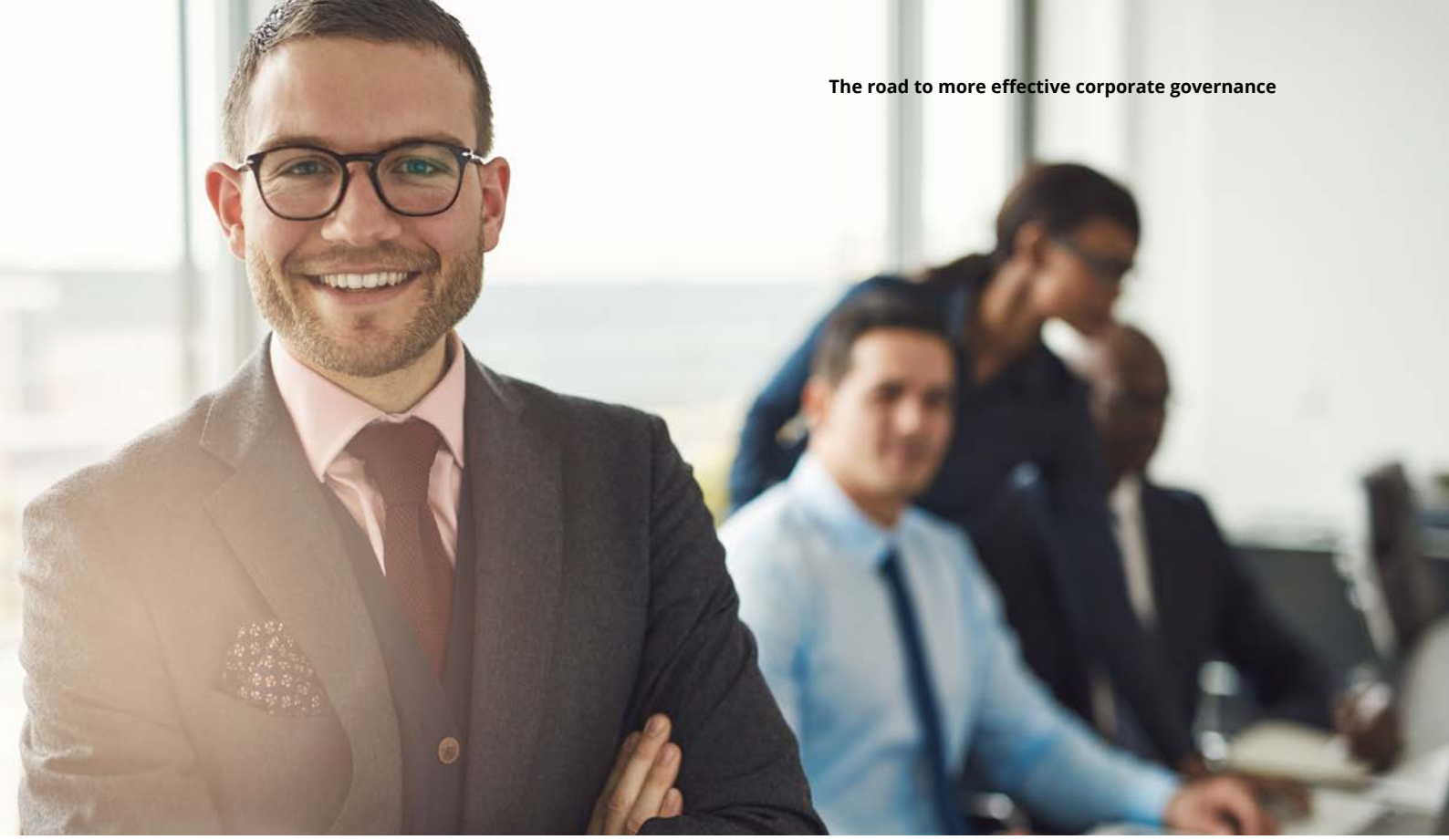
In the words of ICSA:

"Good governance is important as it provides the infrastructure to improve the quality of the decisions made by those who manage businesses. Good quality, ethical decision-making builds sustainable businesses and enables them to create long-term value more effectively."

Essentially, this is because good governance will help you:

- ✓ Increase trust
  By enabling you to develop stronger longstanding relationships with stakeholders
- ✓ Encourage positive behaviours
  By mandating you to provide clearly delineated policies that set the tone for the organisation
- ✓ Enhance sustainability
  By setting the business on an ethical trajectory that is compliant and fully in tune with the times and the society in which it operates

However, while there is a growing consensus that there is great potential for good governance to be translated into profitable and sustainable business, there are also several new challenges that boards need to address to ensure that effective compliance remains achievable.



The new imperative: the new trends making good governance even more important.

TREND ONE:
The need to manage technological innovation

Over the next decade, technologies like AI (Artificial Intelligence) and machine learning will continue to transform the way businesses operate.

The potential impact could be massive. Yet there are still many potential pitfalls around the use of AI if it is left poorly governed. In one recent example, Amazon found that an AI-based recruiting tool that it had developed had learned to favour men for technical roles[1].

For many organisations, the use of machine learning and how it interacts with and collects data is a potential governance pitfall that is waiting to happen.

Moving forward this means that, as a board member with a duty to maintain full oversight over operations, you must also consider whether you:

- ✓ **Understand the risks** around new forms of technology
- ✓ **Understand how data** on people is being collected and how that impacts their privacy rights
- ✓ **Have the necessary oversight** to ensure that machines do not control key or subjective decision-making without human support

TREND TWO:

The need to manage environmental issues and the ESG agenda

In 2019 the world witnessed the largest mass climate protests in history, with many more planned for the coming years.

There are also many social movements which, as a board member, you need to bear in mind. One such social movement is the growing demand for gender equality, not least in the composition of boards themselves.

"Global sustainable investment has already exceeded $30 trillion globally[2]."

Inevitably, pressure from the investment community is going to grow. Global sustainable investment has already exceeded $30 trillion globally[2].

Meanwhile The Institutional Shareholder Services (ISS) – one of the world's leading provider of corporate governance and responsible investment (RI) solutions – have started voting 'no' on the re-election of Nominating and Governance chairmen if a company does not have at least one woman on their board.

Put all these factors together and there can be no doubt: the environmental, social and governance (ESG) practices that you will need to carry out as a board will be under more scrutiny than ever.

In response, as a board responsible for good corporate governance, you must ensure that you:

- ✓ **Have full oversight** of all environmental, sustainability and diversity measures
- ✓ **Have fully evaluated** all environmental risks within your ESG strategy
- ✓ **Are fully cognisant** of all current and potential new compliance requirements as laws and regulations change

Concluding thoughts: the drive for better governance, and how you must use technology to adapt

Whether you are a board director or work with the board, corporate governance is clearly hugely important. But what's also evident is that the way governance needs to be managed is changing, especially as new technologies and issues emerge that are bringing the need for more information to be assimilated and more risk to be assessed.

So, the big question is – what is the best way for you to adapt and ensure that you can collaborate and share information effectively?

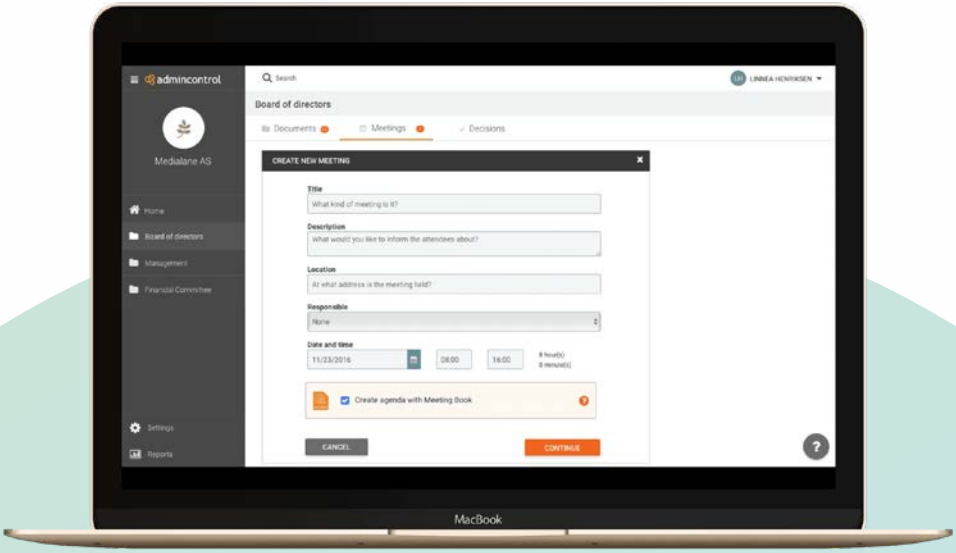
As a first step, we recommend you carry out your own transformation in the way you work.

In practice this will mean moving on from traditional paper-based ways of working and replacing this with digital systems, such as a board portal, that will help you to manage the governance task more efficiently and effectively.

The key benefits of a board portal are:

- ✓ Easier collaboration between board members on key governance issues
- ✓ Better communication between the board, C-Level, secretaries and chairs
- ✓ Secure communications to encourage full transparency and accountability between board meetings
- ✓ Enhanced security to ensure that no sensitive governance issues or challenges are leaked
- ✓ Faster recall of information and the ability to carry out quick analysis to speed up decision making on key governance issues

By adopting these benefits, you can ensure that you are in the best possible position to implement corporate governance that is more transparent, accountable, and efficient. It will also ensure you are truly ready for a new age of technology-driven business.



Further reading

For more on the future of boards and the challenges they face we recommend:

→ The boardroom in 2021: what boards need to know and how they need to adapt.

DOWNLOAD

To learn more on board challenges and how to address them we recommend:

→ The digital habits of highly effective boards: A guide for 2021 and beyond.

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Admincontrol's mission is to provide the ultimate solution for decision-makers. The company offers a smart and secure collaboration platform for boards, management and other stakeholders, where they can access, share, discuss and process information efficiently. Admincontrol has over 80,000 active users worldwide.

The company is growing rapidly and is headquartered in Norway with local offices in the UK, Denmark, Sweden, Finland and the Netherlands. Admincontrol is part of the successful Visma Group, a leading European software company.

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Sources:

1 Reported by Reuters, October 2018

2 Global Sustainable Investment Alliance, April 2019