

Governance dualities

Good governance decisions can be found in the space between competing ideas and extremes, says INSEAD Chaired Professor of Corporate Governance, Ludo Van der Heyden.

AUTHOR
AARON WATSON

Dualities – profit vs growth, short term vs long term, headquarters vs subsidiaries – are the fundamentals of board work, says INSEAD Chaired Professor of Corporate Governance Ludo Van der Heyden.



“If things are clear – you have to choose black or white – then it’s typically not governance,” he says.

“Most governance issues are in the middle. They are grey, and you have to choose your shade of grey.”

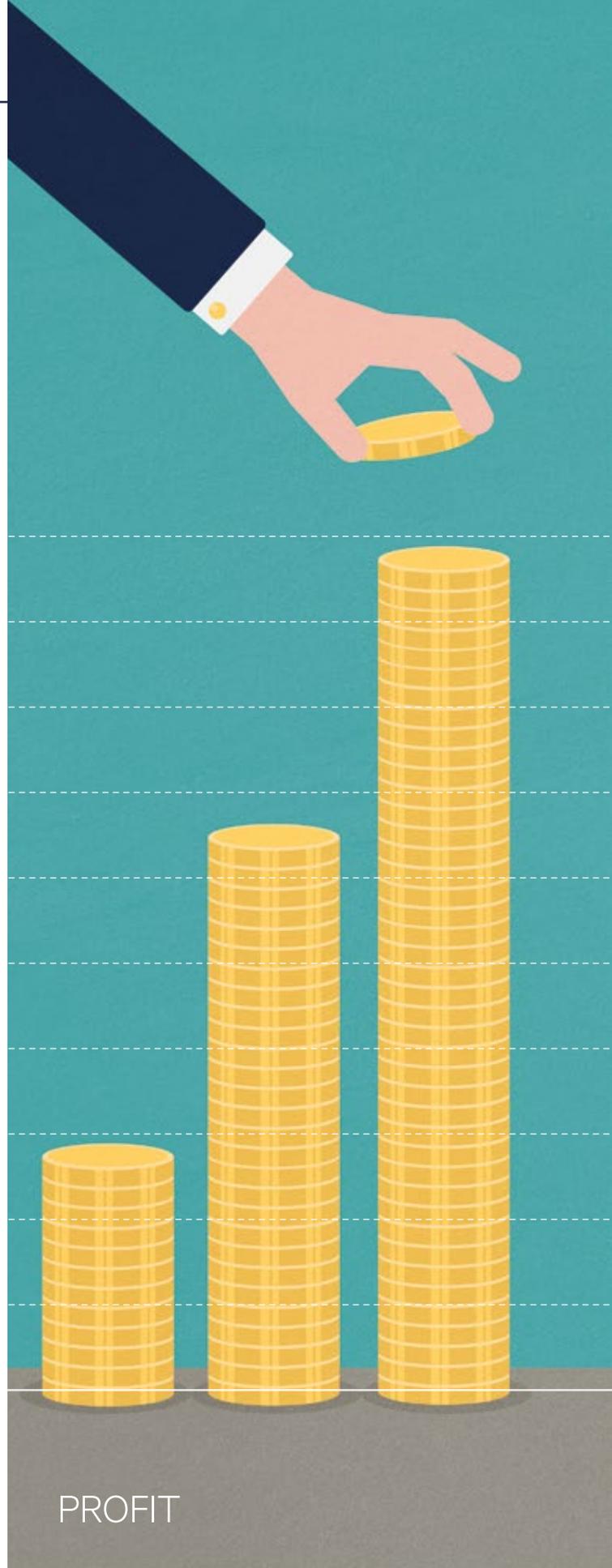
Making good decisions requires a board to reconcile conflicting opinions and find the grey area in which a board can come together.

“Good board work is about finding a middle solution where several people around the boardroom make comments and in the end it is OUR solution,” he says.

THE MIDDLE IS NOT 50/50

When managing dualities, it can be tempting to settle at a spot half-way between. But this is usually a mistake, Van der Heyden says.

He offers the male vs female duality and gender equality in the boardroom as an example of a situation in which the middle ground is not necessarily in the middle.





“Most people these days agree gender diversity is a good thing, so wrong is either all male or all female. You want to be some distance from the extreme.”

Similarly the balance between profit and growth is seldom going to be found by giving equal weight to both.

“The middle is not 50/50. KPIs establish where the goal lies between these dualities.”

BOARD WORK IS NOT NATURAL

The strategy vs operations duality is an area that exposes the fundamentally artificial nature of good governance, he says.

“Board work is not necessarily natural. This is why training programmes are important. Governance education is about keeping the conversation on the key topics and not going into operational detail. Programmes allow you to understand that your role as a director is different [to that of an executive], to help you reflect on the transition. Partly because so many board members are former executives, there is a tendency to drift into operational concerns.

“There is a story about the board of a retailer that goes into a shop and immediately starts making comments on the shelf space – what’s on the shelf and how the shelf should be managed. That is purely an operational issue.”

In a sense, good governance is against human nature, he admits. So it is perhaps no surprise that many people struggle to transition into governance roles.

“I know of students who come to our programmes and say, ‘I really like the action, I like the CEO role, I don’t really like board work’.

“The first question to ask yourself is ‘do you really want to be a board member? Are you happy doing it?’”

Even those who are suited to it may still have to upskill in order to be effective.

“We don’t teach talent. Talent is innate. You need governance competence, which you can learn, because you need to conquer your natural tendencies and insight, which come from talent.”

BOARDS, OWNERS AND SHAREHOLDERS

There’s another duality, Van der Heyden says, between the board and shareholders. While the board has a fiduciary duty to the company, shareholders may simply be looking for returns – which can mean some shareholders are not right for a particular firm.

“People no longer speak about the [investment] market. They talk about the type of shareholders they want and that is very much related to the risk appetite of the shareholders.”



For boards, navigating this duality means understanding what type of shareholders are appropriate to the organisational strategy, he says.

“Shareholder segmentation is very much part of modern governance. The first question is ‘what do the shareholders want?’ Boards need to frame the strategy that is good for the organisation and then find the segment of shareholders who understand. This duality of fiduciary duty that is held by the directors versus shareholder supremacy ... in my programmes when you explain this in simple terms, many people say, ‘I have never thought of that!’”

“If you have new owners you may need to have a different board. But the board is there for the organisation – it is very important to have sufficient independence of the board – so you may have the wrong owners. Many owner-led firms do not want to have the independent power of the board.

“The world is changing very fast. Ownership is changing. Chinese ownership is very present in Europe and also in New Zealand. When you change owners you typically have pressures on governance.”

GLOBAL OUTLOOK

The US–China trade war is the sign of a truly global world, Van der Heyden says.

“The global world has arrived and China has emerged. There is no longer one player who dominates with relative benevolence, which used to be the US. But one of the problems is that China has become too big and they are very self-centred – so there is a ‘China first’ vs ‘America first’ dynamic.

“China has attracted the world’s investment for a long time and it is the West that has created China. The Trump statement that China is having its cake and eating it too is false. Most of the exports out of China are by subsidiaries, Chinese subsidiaries, of Western companies, many of whom are from America.

“China matters now for the world. Will they take responsibility for the world? That I think is an open question.”

“The global world has arrived and China has emerged.”

BREXIT – A FAILURE OF GOVERNANCE

In the UK, Brexit is unfolding as a textbook failure of governance, says Van der Heyden.

From a corporate governance perspective, the UK government has abrogated its responsibilities, he says. He describes the approach of the Conservative government as “unbelievable” and the opposite of how a board of directors should act.

“I always thought of Britain as being a unique democratic parliamentary system – so you bring issues before Parliament,” Van der Heyden says. “You would expect a Prime Minister to say, ‘look, this was a consultative vote, we are obviously very divided. We [Parliament] need to discuss this and present a clear picture to the people’.

“Instead, she says, ‘the people have voted’.”

That’s analogous to a board of directors handing its duties over to the shareholders, he says.

“If you are a student of governance the whole thing is just unbelievable.”

On the other side of the English Channel, the EU’s failure to deliver a clear value proposition is analogous to a head office losing touch with its branches, he says.

“It’s a little bit like the corporate headquarters not paying attention to the subsidiary countries. Countries don’t see enough value in the EU and that is not the fault of the countries alone, it is the fault of the corporate headquarters.

“The EU was hopeless. They also made a big governance failure – they basically said, ‘let the shareholders decide, or let the stakeholders decide’.

“The guilt is shared.” **🗨️**