

Board must embrace long-term value creation

By Ron Soonieus

A major shift in the Dutch corporate governance system is on its way. The term 'long-term value creation' will play a key role. I expect that this still relatively unfamiliar term will be part of corporate governance vocabulary in a few years time.

I am supported in this assumption by the Dutch Corporate Governance Code Monitoring Committee, which ensures a responsible corporate governance. This spring, the committee has proposed to explicitly include the terms long-term value creation and culture in the code.

The committee wants the new code to apply on 1 January next year. This impetus will help to create a broader view of governance. This is a reaction to the Anglo-Saxon inspired focus on shareholder value, which critics say has strongly contributed to short-term thinking and a culture of greed. In that broader view of governance, subjects such as corporate social responsibility and sustainability should not be treated as some sort of hobby, but should form an integral part of business management. Today I still see many businesses focusing on quarterly results as part of their daily routine. In addition they help to improve the world by allowing their sustainability department to study the reduction of CO2 emissions. Those corporate goals will become more and more intertwined with the social goals. The inner world and the outer world will no longer be separated, but will feed each other.

Executive boards and supervisory boards will have to form an opinion about the new code and act accordingly. In this area I identify three distinct categories of directors: the enthusiasts who take it seriously, those who do the minimum required and then return to business as usual, and those who do nothing.

It is, of course, an option to limit yourself to doing the minimum required or even to doing absolutely nothing in the hope of getting away with it. However, I believe that companies who choose to do the latter, will ultimately shoot themselves in the foot. It would be more fruitful to invest and anchor these subjects in a structured way and at the highest level in the organisation. One reason that immediately comes to mind in taking the code seriously is the increasing pressure from private and institutional investors, clients and 'society'. There is increasing concern about the short horizons of companies, about business cultures in which decency and good manners are secondary to making a quick profit, and about paying lip service but not practising corporate social responsibility. Those who take a reactive approach to this in an attempt to prevent activists from disrupting shareholders'

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meetings and clients from expressing their concerns on social media, run the repeated risk of having new activists and clients emerging and launching attacks on new points time and again. This does not offer a structured solution. There is a much more positive reason for taking the code seriously. Those who do not occupy themselves with long-term value creation will harm their own competitive position. One only has to look at the devastating effects that a too strong focus on the short-term results has had on Volkswagen and on companies who appear in the Panama Papers. I am convinced that bearing social importance in mind will also ultimately serve one's self-interest.

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The code does not prescribe the values and standards a board should promote, and rightly so, and gives little substantive direction to the long-term value creation theme. Organisations will have to give their own appropriate interpretation, preferably in the form of an integrated vision. There is no 'one size fits all' solution. It is encouraging that the starting point of the journey to long-term value creation is close by, namely in the form of the executive board and the supervisory board of the company itself. Currently, it is not necessary for them to have the answers to all the questions that arise in this area, or for them to have a crystallised vision: their willingness is sufficient. All 'best practices' in this area were born from the understanding (and the will) at the top that things needed to be done differently. It really does not have to just come from a charismatic leader who makes radical changes.

Understanding can also emerge – and I see this happening more often – gradually and collectively. A precondition, however, is that the topic is discussed in a structured way. An essential aid is to look at it structurally from the outside inwards. Not only will this create sympathy for the surroundings of the organisation, it will also widen the strategic horizon of the board.

Finally, the tone at the top largely determines the culture and the behaviour within the organisation. It is up to the board to bring the themes of the revised corporate governance code to life. They are the ones who determine whether the concept of long-term value creation will thrive or not.

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