Network for Innovative Corporate Governance

Board Dynamics

Rethinking Competing Demands

we are curious and
free spirits

NICG 2023/1

NICG - Network for Innovative Corporate Governance

Reflecting. Reorganising. Retackling.

«Find the appropriate balance of competing claims by various groups of stakeholders. All claims deserve consideration […].»

Quote from Warren G. Bennis (†): scholar, author and pioneer in leadership studies.

Balancing – a course of action aimed at maintaining the «right» equilibrium

The market is moving «from a chain of command to a web of connections, from competition to collaboration, from markets to networks, and from shareholders to stakeholders, and from greed to green».[1] Following the successful participation of the market move, the task of the many companies is to redefine direction, setting priority and balance corporate alignment. This all not out of nowhere but based on a sound and sustainable strategy, is hard work and a challenge that particularly the board must overcome.

«Behind good brands lie stakeholder companies».[2] Becoming a good brand requires focus and containment – from services and products, up to corporate level activties. Constantly reflecting on the organisational structure, seeking stakeholder dialog, and not losing sight of «doing the business right» in all that process is a challenge that requires persistent world-class performance – regardless of hierarchy and function. This can only be achieved by rethinking the old, collaboratively tackling the new, and adapting it repeatedly.

The 2023-1 Board Dynamics edition proves the multiple faces corporate governance must reflect, reorganise, and retackle. Our authors of experienced experts and young, talented researchers have again made meaningful contributions to enrich the discussion between practice and academia on a wide range of topics.

We, the Network for Innovative Corporate Governance (NICG), as a curious academic network full of free spirits, are at the pulse of the time. Are you too? Let us tackle new ideas together and drive corporate governance forward.

Kind regards on behalf of the entire NICG-Team

Prof. Dr. oec. Michèle F. Sutter-Rüdisser
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University of St. Gallen

1 Anodea Judith, author, therapist, and public speaker in psychological well-being.
2 Will Hutton, journalist and columnist and chair of the Academy of Social Sciences.

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Mind the Gap: Expectation Discrepancy in Board Work Practices

«Many people believe that corporate boards [...] should be so closely involved in the affairs of the corporation that they can ensure nothing can go wrong.»[1]

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1. Introduction

The collapses in the financial crisis and recent corporate scandals have shown that the working practices and responsibilities of boards have their limits. The cases since the turn of the millennium, e.g. Enron, Swissair, Worldcom, Parmalat, Purdue, Wirecard and Luckin Coffee (and many more), have made this particularly clear. Corporate governance is an all-encompassing and ever-changing area of the organizational life cycle.[2] If lessons are to be learned from these scandals, all governance aspects should be critically reflected and improved. One thereby often speaks of «good practices». Keeping up with such practices is the responsibility of the board of directors. The board as an equal collegiate body, is accountable for making strategic decisions that are value creating and value connecting.[3]

Picking up on the 2023 revised Swiss Code of Best Practice, a guiding principle for «good corporate governance» is that the board should act in the «interest of the shareholders as beneficial owners and/or risk capital providers of the company, but also in the interest of the other stakeholders».[4] Where there the boundaries of board responsibility begin and end, however, remains blurred and is in the current debate often part of a critical viewpoint.

1 Cole, S. (2012). Mind the Expectation Gap. The Role of a Company Director. Australian Institute of Company Directors. Derived from http://www.colecorporate.com.au/uploads/2/2/3/9/22398254/mind_the_expectation_gap_-_white_paper.pdf.

2 Sutter-Rüdisser, M. & Horber, F. (2021). Die Nachhaltigkeit als neues Standbein der Corporate Governance. NICG - Board Dynamics, 2021-1, S. 44-45.

3 Forstmoser, P. (2015). Corporate Social Responsibility, eine (neue) Rechtspflicht für Publikumsgesellschaften? In: Waldburger et al. (Hrsg.), Law & Economics, Festschrift für Peter Nobel zum 70. Geburtstag (S. 157 ff.).

4 economiesuisse (2023). Swiss Code of Best Practice for Corporate Governance. Abgerufen von https://www.economiesuisse.ch/sites/default/files/publications/swisscode_e_web.pdf.

The critical viewpoints are a consequence of the fact that much of board work and board performance is still undefined and «silent» in law and practice (so called black box).[5] In the public dialogue following the corporate scandals, this has led to wrong expectations. One such source of confusion is the difference between duty, responsibility and accountability:[6]

- Duty implies a legal obligation with liability consequences in the event of non-compliance;
- responsibility means that facts must be assumed and taken into account in the performance of duties;
- accountability requires disclosure and acquittal to shareholders and stakeholders for performing its role.

To reduce these irritations, it is therefore important to improve the understanding of the role of boards, which is largely related to priority task-setting (board standpoint) and perception (stakeholder standpoint).[7]

According to the arguments presented, we note that there is a gap in understanding,

- why there is no consensus on what boards really do (keyword «black box»); and
- why it is crucial to understand and communicate roles in depth (keyword «value creating and value connecting»).

This article is therefore an attempt to follow up on Stiles and Taylor's study of the actual roles and responsibility of boards.[8]

By describing the underlying tensions arising from responsibility and role expectations, this article aims thus to present the cause of such a «reality-problematic» and to derive recommended practices for board members on how to overcome the resulting multidimensional challenges.

2. The Gap: Expecting the Unexpected

Following the traditional view of the board, three role dimensions are primarily addressed: control and monitoring role (supervisionXxx, review, protect), strategy role (guide, support, challenge), and service role (representation, coaching, affirmation).[9] Board work in practice, however, is more complex. Today, the board performs tasks that go beyond the legal requirements of corporate law – tasks that result from regulatory requirements, tasks that result from stakeholder demand, and tasks that the board imposes on itself. For grasping such multi-faceted nature of board work, it is insufficient to cluster them solely into three categories. Following Biddle and Thomas, theory and role explanations must thus go beyond a traditional viewpoint and should explore why individuals adopt and perform a set of roles in a system and how they justify their actions to various stakeholders.[10] Role categorization should therefore assume that actions are the result of role expectations (demands on conduct of role behavior) and role characteristics (demands on personality and appearance). Something that thus «redefines the role of the individual in the system».[11]

5 Brennan, N. (2006). Boards of Directors and Firm Performance:is there an expectation gap? Corporate Governance, 14(6), pp. 577-593.

6 Cole, S. (2012). Mind the Expectation Gap. The Role of a Company Director. Australian Institute of Company Directors. Abgerufen von http://www.colecorporate.com.au/uploads/2/2/3/9/22398254/mind_the_expectation_gap_-_ white_paper.pdf.

7 Gehrig, B. (2019, 17. Januar). Die fünf Prioritäten für Verwaltungsräte. Neue Zürcher Zeitung. Abgerufen von https://www.nzz.ch/wirtschaft/die-fuenf-prioritaeten-fuer-verwaltungsraete-ld.1348257.

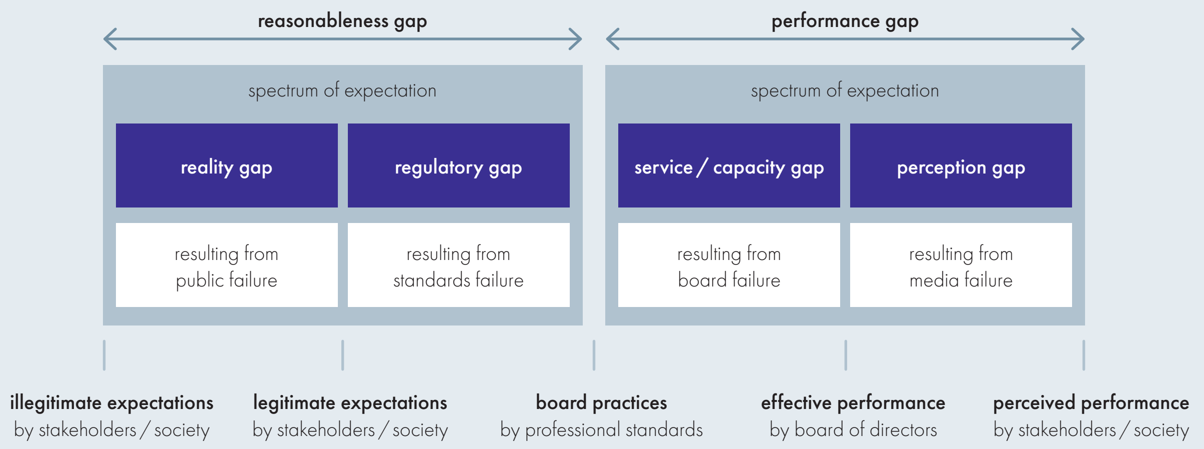
8 Stiles, P. & Taylor, B. (2001) Boards at Work. How Directors View their Roles and Responsibilities. Oxford University Press.

9 Zahra, S. A., & Pearce, J. A. (1989). Boards of Directors and Corporate Financial Performance: A Review and Integrative Model. Journal of Management, 15(2), 291– 334.

10 Biddle, B. J., & Thomas, E. J. (1966). Role Theory, Concepts and Research. Wiley.

11 Borwick, I. (2006). Organizational Role Analysis: managing strategic change in business settings. In J. Newton, S. Long, & B. Sievers (Eds.), Coaching in Depth:The Organizational Role Analysis (pp. 3–28). Taylor & Francis.

Figure 1: The Expectation Gap



Applying this quote to the reflections we make in composing the board of directors, it becomes clear why actions expected of the same person in two different organizations may be inconsistent.[12]

This phenomenon is known as the expectation gap. In principle, the expectation gap is a term originating from the diffuse expectation of the auditor and its audit procedures.[13] Adapted to the board domain, the expectation gap is defined as the sum of situations when stakeholder's understanding of the expected versus effective quality of board scope and purpose (reasonableness gap) and board performance (performance gap) diverge. The expectation gap here spans a spectrum of expectations and a spectrum of (perceived) perceptions. It subdivides into four dimensions (from left to right; see figure 1):[14]

- The reality gap is the consequence of illegitimate expectations on the part of stakeholders and the public and is increasingly due to insufficient public knowledge of board work. It is therefore fair to say that this is a result of public failure (as they do not fully understand the role of the boards);
- the regulatory gap is a discrepancy between legitimate stakeholder expectations and current best practices (legal framework and/or professional standards). It can also be referred to as a norm gap stemming from standards failure between «legal duties» (written) and «business duties» (unwritten);
- the service/capacity gap refers to the effective performance of the board compared to the applicable legal and professional expected performance from norms and standards and is a consequence of the (low) board engagement and effectiveness/efficiency. It is thus a consequence of board failure (underperformance);
- the perception gap indicates the deviation of the effective performance (board perspective) from the perceived performance (stakeholder perspective). It addresses the performance bias resulting from media failure (wrong communications).

12 Cornforth, C. (2012). Nonprofit governance research: Limitations of the focus on boards and suggestions for new directions. Nonprofit and Voluntary Sector Quarterly, 41(6), pp. 1116-1135.

13 Among other points, the public often assumes that an audit report without objections also means that there is no immediate danger of bankruptcy for the company.

14 Figure 1 follows the «audit expectation gap»; see: Bleiker, U. & Kleibold, T. (2017). Die Erwartungslücke in der eingeschränkten Revision. ExpertFocus, 6-7, S. 391-397.

Areas with respect to board work where expectation gap thematic typically arises are, among others: the role and responsibility of board members in corporate bankruptcy or fraud cases, the level of engagement (full- vs. part-time), the time and efforts spent (pre-/post-board-meeting-preparation), the idea that each board member should be individually competent in all fields of business, the level of strict separation of supervising (control) and coaching/sparring (strategy), the extent of assurance in overseeing and monitoring activities, and, last but not least, that certain industries misinterpret and misapply the existing statutory framework.

In general, it is difficult to determine the origin of the expectation gap because it cannot be attributed to a single event. Rather, it is the sum of numerous individual factors that have contributed to its creation. The most prominent factors include globalization and technological revolution (higher complexity, lower tangibility), market opening and democratization (new wave of shareholders), media coverage on corporate scandals (pressure on management/board) and the volume of investments that directly/indirectly affected public life (focus on expectation/satisfaction).[15] The genesis of the expectation gap is thus the stronger exposure for stakeholders to corporate activity that has resulted from higher education, growing affluence, increased social influence and court disputes to corporate-level power asymmetry.[16] This is certainly also a consequence of the expectations placed on the senior leadership team of companies to deal more closely with sociopolitical concerns (i.e. responsible business initiative, say-on-pay initiative).

15 Saulgrain, J. (1997). Minimizing the Expectation Gap Through an Independent Board of Directors. Thesis, McGill University (Canada).

16 Green, W., & Li, Q. (2011). Evidence of an expectation gap for greenhouse gas emissions assurance. Accounting, Auditing & Accountability Journal, 25(1), pp. 146-173; Litjens, R., van Buuren, J., & Vergoossen, R. (2015). Addressing Information Needs to Reduce the Audit Expectation Gap: Evidence from Dutch Bankers, Audited Companies and Auditors, International Journal of Auditing, 19(3), pp. 267-281.

3. Minimizing/Bridging the Gap

«Boards face a tension concerning how much attention they should pay to these contrasting roles and how to balance the different demands on them».[17]

With this quote in mind, what do stakeholders expect from board members? This is a key question to which board members must find an answer – both for themselves and for the public. However, finding an appropriate response to this specific question is not an easy task. Initially, it was believed that reforming corporate governance and corporate organizational structuring would be sufficient to close this gap.[18] However, there was little effort to influence the destiny of these corporations. This is because the answer involves an inherent complexity based on a) the evolution of corporate dynamics, b) the sheer complexity of listed corporations, c) the majority of passive (non-active) shareholder groups with purely financial interests and d) the engagement with the multi-stakeholder community. The latter is a modern concept of corporate governance that goes beyond Alfred Rappaport's traditional approach to maximizing shareholder value.[19]

In mitigating the expectation gap by explaining board activities, there are two main strategies: the defensive and the constructive approach.[20] On the one hand, the defensive approach focuses on «public relations work» by educating and reassuring what the board recognizes as duty, responsibility and accountability.

17 Cornforth, C. (2003). Summary and conclusions: Contextualising and managing the paradoxes of governance. In C. Cornforth (Ed.), The governance of public and nonprofit organizations: What do boards do? Routledge.

18 Turnbull, S. (2008). The science of governance: A blind spot of risk managers and corporate governance reform?, Journal of Risk Management in Financial Institutions, 1(4), pp. 360-369.

19 Rappaport, A. (1999). Creating Shareholder Value: The New Standard for Business Performance. Free Press.

20 Humphrey C., Moizer, P. & Turley S. (1992). The Audit Expectations Gap – Plus ca Change, Plus C'est la Meme Chose. Critical Perspectives on Accounting, 3(2), pp. 137–161.

In this approach, the media is a key protagonist. It can create a public corporate judgement, to the advantage or disadvantage of the company and its top (non-) executives. «[...] A media bias can shape public opinion that corporations are evil [...] (and thus) have an opportunity to exploit this ignorance by sensationalizing the coverage» of board activities.[21]

The association of the «greedy banker» is one such example. Board activities by the media should thus be managed in simple (not complex), comprehensive (not limited), and contextual (not situational/subjective) terms for non-professionals. In doing so, to overcome black-box matters, the newspaper articles should there intend to reflect realities and include insider knowledge.

On the other hand, the constructive approach advocates changes in board activities to meet shareholder and stakeholder demands, i.e. strategies to enhance board engagement. To meet these challenges, board members should be well-apprised to understand them in depth and in short- and long-term. This requires (pro)active communication with the primary stakeholder(s).[22] In that sense, board engagement activity should go beyond pure influencing strategies. Such a public management standpoint is outward-oriented and, in the essence, a strategic micro-perspective of governance by defining the primary stakeholders and the extent of interaction.[23]

However, the strategy through that adapted is a consequence of the design of the internal role definition and the lived corporate system. This may change within organizations, as explained above.
After knowing the two approaches, in dealing with stakeholder priority «[...] boards face a tension concerning how much attention they should pay to these contrasting roles and how to balance the different demands on them».[24]

To bridge that tension-gap, we believe the constructive approach to be the more adequate method for the simple reason that active prioritization versus indirect influencing creates more value and connects more parties in the long-term. In terms of responsibility, level of commitment and opinion formation, we have created a «Board Activity Compass» framework consisting of the scope of task/engagement and internal/external perspective (see figure 2). Thereby, we identified the four subdimensions of (a) board connection, (b) strategy formation, (c) field commitment and (d) management cultivation that we believe are important in setting board priority from a company perspective:

- Board connection relates to internal board tasks and involves internal governance guidelines. The board as «body of equals» must succeed in generating a stable structure, self-organization and composition. To be challenged and monitored internally and to act as a representative externally, the body must be self-contained and have predefined key cross points and responsibilities (and emergency plans in extreme/ crisis situations). If this is to be achieved, formalities (committees), processes (succession, assessment) and culture (dynamics) must be professionalized and constantly adjusted to best practices – and also lived accordingly in dealing with each other.

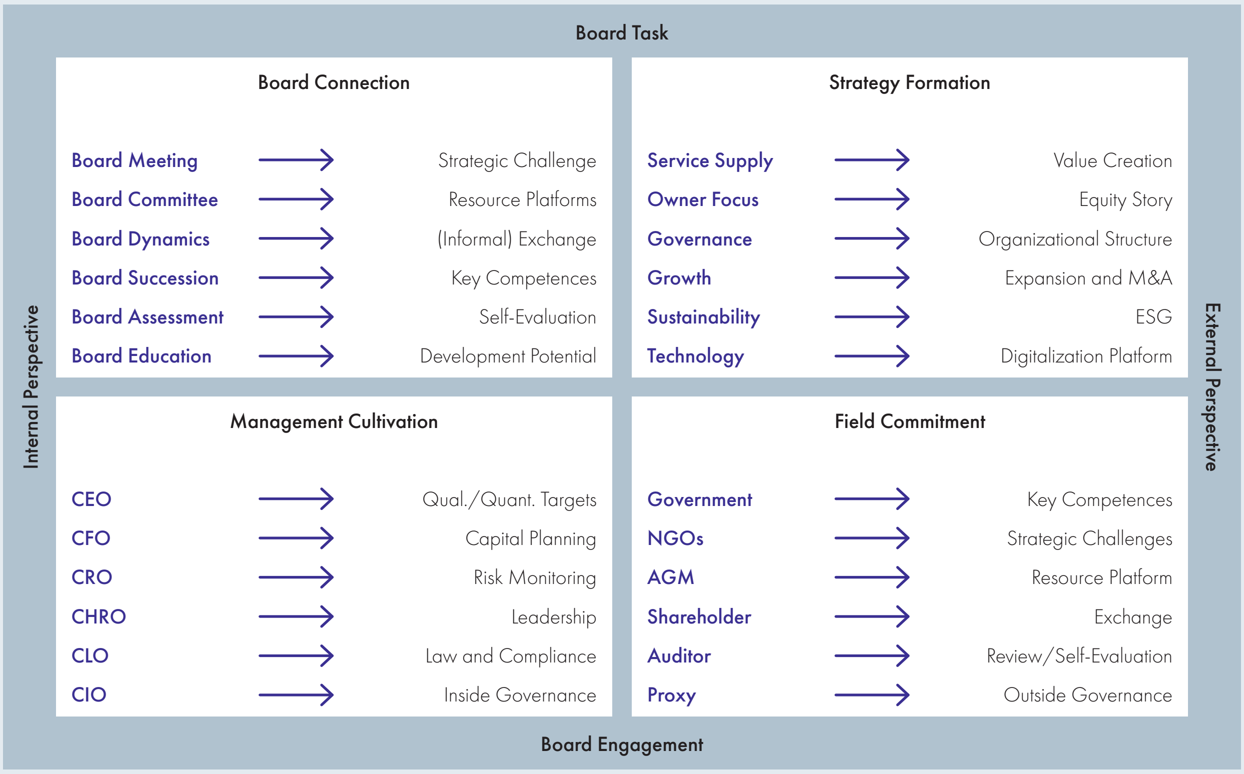
21 Cohen, J., Ding, Y., Lesage, C. & Stolowy, H. (2017). Media Bias and the Persistence of the Expectation Gap: An Analysis of Press Articles on Corporate Fraud. Journal of Business Ethics, 14(3), pp. 637-659.

22 öglund, L., Mårtensson, M. & Safari, A. (2018). Expectations and the performance of governance functions between a board, management and other stakeholders: the case of Robotdalen. Journal of Management and Governance, 22(4). pp. 805-827.

23 Cepiku, D. (2013). Unraveling the concept of public governance: A literature review of different traditions. In L. Gnan, A. Hinna & F. Monteduro (Eds.), Conceptualizing and researching governance in public and non-profit organizations. Studies in public and non-profit governance. Emerald Books.

24 Cornforth, C. (2003). Summary and conclusions: Contextualising and managing the paradoxes of governance. In C. Cornforth (Ed.), The governance of public and nonprofit organizations: What do boards do? Routledge.

Figure 2: Board Activity Compass



- Strategy formation embraces the board's external organization-related stewardship role. Having an integrated corporate strategy in place is crucial. The overall strategy should be well-founded and adapted according to the company's context and the economic situation. If it can be simultaneously addressed at the corporate (governance, owner) and business level (value creation, growth, sustainability), processes can be tackled multidimensional and opportunities addressed successfully.

- Field commitment is an externally driven engagement strategy to create success. It involves the entire board to prioritize the most important stakeholders (by law and by business opportunities), defines responsibilities (who addresses which stakeholder) and predicts the respective consequences that come along with the decision taken (what is the outcome). In this way, discrepancies in the external communication of opinion formation can be avoided and consistency promoted. In doing so, the key is to balance interests and proactively address concerns, after analyzing all pros and cons, without losing focus to make decisions in the best interest of the company.

- Management cultivation follows the intent expressed by Michael Dell when he said that success is not defined «by looking at the competitors but at how [...] engaged are our internal stakeholders»[25]. Therefore, in order to maintain a strong internal stakeholder engagement and relationship with respect to the group executive committee, it is important to determine the way and means of sparring and the thematic priorities bilaterally.

- The intensity of providing leadership and steering thereby depends on the person to whom the responsibilities are assigned (at board and group executive committee level), but activities should be institutionalized and also include informal/private information related exchanges.

25 Michael Dell (2016), founder, CEO and managing partner of Dell Technologies.

4. Concluding Remarks

The expectation gap would narrow if the frameworks were applied appropriately and stakeholder awareness was raised. «Reality has changed. So must the expectations that society and the law have of directors» says David Gonski, former Chair of the Australia and New Zealand Banking Group, persuasively.[26] Other practitioners argue that expectations need to be fundamentally adjusted before entrenched structures are changed.[27]

It is important to close the gap that results from a misunderstanding of the responsibilities and roles of boards of directors compared to internal and external stakeholders. However, it will probably never be possible to close the expectation gap completely, as the different expectations of stakeholders will never match those of the organization in question. In addition, certain issues are subject to increased stress. Ultimately, then, the board must be proactive if a solution is to be found at the corporate level. The same compulsion to find a solution applies to legislators, leading ultimately to reforms in corporate law.

One example is the Swiss company law reform of January 2023, which takes into account new competence dimensions that go beyond traditional perspectives (e.g. gender quota, non-financial reporting). In this sense, considerations that in turn impact the expectation gap.

26 Quote in: Cole, S. (2012). Mind the Expectation Gap. The Role of a Company Director. Australian Institute of Company Directors. Derived from http://www.colecorporate.com.au/uploads/2/2/3/9/22398254/mind_the_expectation_gap_-_white_paper.pdf.

27 Betschart, A. (2023, 10. Februar). Wenn Verwaltungsräte ihre Funktion nicht richtig wahrnehmen. Neue Zürcher Zeitung. Abgerufen von https://www.nzz.ch/meinung/wenn-verwaltungsraete-ihre-funktion-nicht-richtig-wahrnehmen-ld.1723667.

Simple Radical Innovations for Boards of Directors Eager to Solve Grand Challenges

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1. Introduction

Corporations' contribution in solving grand challenges is quintessential. This study recognizes the fundamental role that boards of directors have in setting firms' strategic direction. It focuses on three current divergences between the characteristics of grand challenges and most boards. While the innovations required to resolve such mismatches seem simple, the actual implementation is realistic only for board of directors eager to solve grand challenges.

The late professor Hans Rosling pointed out that, despite our impressions, people nowadays enjoy higher quality of life than ever before.[1] When we look at metrics such as healthy life expectancy, mortality rate under the age of five, access to education and many others, it is evident that nowadays people – especially in developed countries – enjoy a standard of living that was unconceivable until few decades ago.[2] Such sustained progress and prosperity have been achieved predominantly thanks to the efficiency and scale of corporations, that in the past century gained a prevalent role within the society.[3]

At the same time, our species and planet's health are threatened by a series of grand challenges –specific critical barriers that, if removed, would help solve an important societal problem with a high likelihood of global impact through widespread implementation.[4] In most instances throughout the paper, I will refer to climate change as a grand challenge, among others we find eradicating poverty, improving access to health services and education, wealth and income inequality.

1 Hans Rosling, Anna Rosling Rönnlund, and Ola Rosling, Factfulness: Ten reasons we're wrong about the world - and why things are better than you think (London: Sceptre, 2018).
2 Global development data can be retrieved on World Bank Open Data.
3 Charles Perrow, «A Society of Organizations» Theory and society 20, no. 6 (1991).
4 The definition of grand challenges is from Grand Challenges Canada, a Canadian non-profit organization.

Indeed, only with corporations' full and authentic contribution we can hope to solve grand challenges. Thus, the focus on boards of directors – the ultimate corporate constituency responsible for business activities.

In fact, despite some differences in corporate law between countries, most of them agree on the centrality of the board for a firm. For instance, according to the US State of Delaware, «the right to manage the business and affairs of the corporation is vested in a board of directors elected by the shareholders»[5]. The Swiss Code of Obligations takes a very similar stance too.[6] Nevertheless, despite the relevance that the board of directors has for corporate law on both sides of the Atlantic, a vast number of commentators concluded that over the past decades boards of directors essentially abdicated their power.[7]

Below, a reflection on three disparities between current board of directors' features and the nature of grand challenges is presented. Unfortunately, there is not much we can change about the latter which are described as complex, uncertain, and evaluative.[8] Innovation at board level could result in a renewed centrality of board of directors within firms and a higher likelihood of businesses being active players in solving grand challenges.

2. Three discrepancies between boardroom and grand challenges introduction

2.1. Flattening the age distribution curve

In his seminal work on sustainable development[9], Professor Jeffry Sachs ranks climate change as the most significant threat to the health of both humans and planet Earth. He elaborates on its global scale and the slow-moving nature. Additionally, the author stresses that climate change crosses generations as well countries.

This intergenerational factor is particularly astounding when we appreciate that – unless we achieve fast climate change mitigation – the heaviest impacts from climate change are going to affect the lives of very young people and especially those that have not yet been born. Like for the natural environment, future generations have no voice of their own and cannot defend themselves.[10] Thus, it is the responsibility of current decision-makers to embrace the needs of future generations in their assessments.

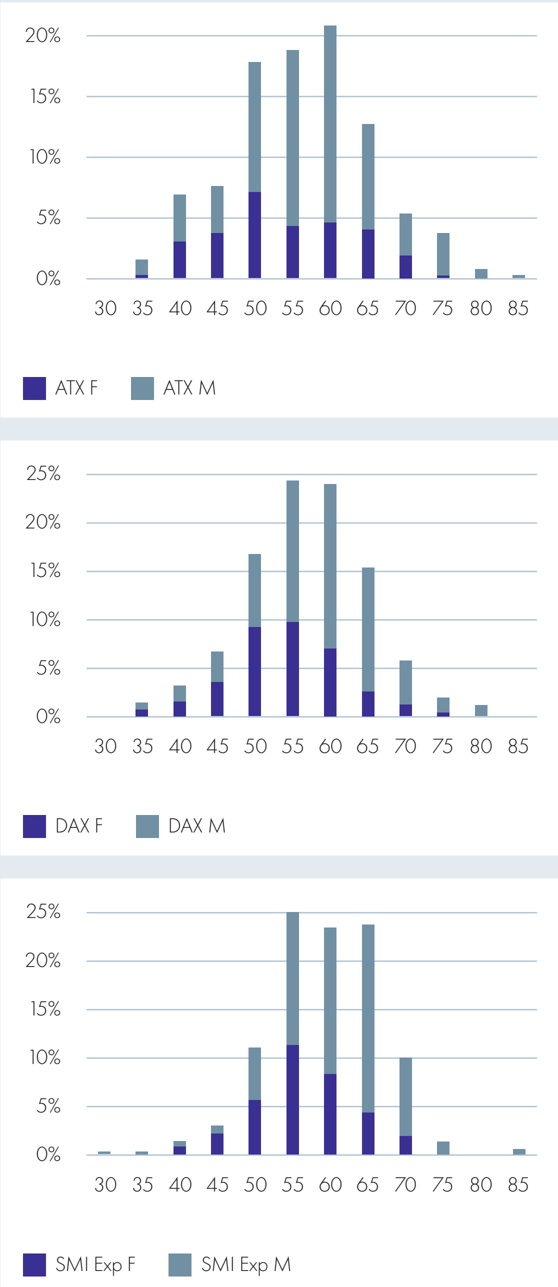
Being aware of grand challenges' intergenerational dimension I have analysed age diversity within board of directors. By performing a quantitative analysis of listed corporations' board of directors[11] constituting the major stock indexes in the DACH region[12], I could confirm the collective understanding that board of directors are characterized by a limited age diversity. The below paragraphs summarize three key trends around age diversity and its impacts on intergenerational equity.

First, average board size (i.e. the number of directors per board) increased significantly in the past 20 years while the average age range (i.e. difference between the age of the oldest director and the age of the youngest director) and the average age of the youngest director remained stable.

5 Delaware code § 141(a).
6 Swiss Code of Obligations, art. 716.
7 Melvin Aron Eisenberg, The structure of the corporation: a legal analysis, 3rd print. ed. (Boston, Mass: Little, Brown, 1976); Joseph L. Bower and Lynn S. Paine, «The Error at the Heart of Corporate Leadership» Harvard business review (2017).
8 Fabrizio Ferraro, Dror Etzion, and Joel Gehman, «Tackling Grand Challenges Pragmatically: Robust Action Revisited», Organization studies 36, no. 3 (2015).
9 Jeffrey D. Sachs, The age of sustainable development (New York: Columbia University Press, 2015).
10 Dror Etzion, «Research on Organizations and the Natural Environment, 1992-Present: A Review», Journal of Management 33, no. 4 (2007).
11 For companies adopting a two-tier board system the supervisory board was analysed.
12 As of April 28, 2023, data was retrieved for the listed firms constituting the major stock indexes in Austria, Germany, and Switzerland using BoardEx, Bloomberg and Refinitiv. The Austrian Traded Index Prime (ATX) includes the largest 40 Austrian stocks, the Deutscher Aktienindex (DAX) represents Germany with 40 stocks, the Swiss Market Index Expanded (SMI Exp) tracks the 50 largest listed companies in Switzerland.

Second, the improvement in gender diversity is contributing towards lowering directors' average age across most DACH companies. In fact, since on average female directors are younger than male colleagues, insisting on increasing gender diversity towards a convergence to gender parity is in turn benefitting age diversity (e.g. reducing average directors' age).

Figure 1: Directors' age distribution in 2023 for the constituents of ATX, DAX, and SMI Expanded (F = Female, M = Male)



Third, board of directors are electing very few candidates representing younger generations. As the histograms of Figure 1 show, across the three indexes of companies analyzed, there are no directors under-30s, only 0.13% of all directors are under-40 and as few as 13.1% are under-50. Thus, it is worth pondering on the idea that corporations are currently attempting to solve sustainability challenges without involving future generations in boardrooms' discussion and strategic decision making.

An irrational – and not suggested – interpretation from the above analysis is «let's replace elderly directors with younger ones». In my personal view, this would be extremely not inclusive, counterproductive, and would lead to increasing intergenerational attrition. To be more precise, increasing age diversity at board level would require flattening the age distribution curve. Having a more dispersed representation from different age groups within board of directors would improve intergenerational dialogue – and ideally fairness – in board's strategic discussions and decisions.

2.2. Fusing expertise from different sciences

Another key characteristic of grand challenges is indeed the complexity. For instance, climate change is intrinsically a natural science problem: most anthropogenic activities result in a release of greenhouse gas (GHG) emissions which imply global warming. Given the scale of homo sapiens endeavours, the accumulation of GHG emissions in the atmosphere is resulting in the climate change planetary boundary being close to the tipping point for safe operating space for humanity.[13] Nevertheless, this phenomenon has a cascade of implications of different nature: from mass human migration to biodiversity loss, from ocean acidification to mental health.

Thus, to understand – and solve – complex grand challenges a broad and deep set of expertise is needed. This implies that board of directors, as well at other levels of organizations, would need to gather a diverse set of competences: from physics to chemistry and from medicine to Earth sciences, all in addition to social sciences.

13 Johan Rockström et al., «Planetary Boundaries: Exploring the Safe Operating Space for Humanity», Ecology and Society 14, no. 2 (2009).

Over the past decades, driven by widespread application of the shareholder value maximization theory, most listed companies' board of directors accumulated vast knowledge around managerial topics at the expenses of other sciences. A study on US companies found that directors' capabilities are narrowly centered around management, financial and accounting.[14] The quantitative analysis mentioned above investigates directors' education and confirms the same concentration around social sciences for directors in the DACH region.

The discordant difference between the huge complexity of grand challenges and the common incomplete expertise of boards is evident. Logic would imply that expanding the range of current boards of directors' skills and expertise would improve sensemaking and ability to cope with sustainability challenges.

2.3. Exploring alternatives to strategic decision-making models

Tackling climate change, reducing income and wealth inequalities, and improving access to health services are some of the grand challenges our society is attempting to solve. All of these grand challenges share common traits and are intertwined.[15]

For instance, greenhouse gas emissions and pollution are indeed linked to wealth inequalities. Evidence shows that the richer one is, the higher her environment footprint.[16] This is also reinforced by the ability of wealthy individuals to protect themselves from environmental risks better than poor people.

Companies that want to be part of the solution appreciate the complexity of grand challenges and are interested in maintaining their legitimacy to operate.[17] On this regard, board of directors might struggle to reconcile such goals with the most common decision-making framework used within the boardroom: shareholder value maximization theory. Since the Supreme Court of Michigan's 1919 «Dodge v. Ford Motor Co»-decision, boards of directors on both sides of the Atlantic relied on this view of the firm to take business decisions. Despite an ongoing public and academic debate, the simplicity of the maximization function and the vast economics and management literature that supports it, maximizing shareholder wealth is still today the North Star for most boards.

The need to provide board of directors with an alternative to the shareholder primacy approach has been discussed at length among academics. For years it seemed clear that models developing from the stakeholder theory might take this role. However, this stream of literature has not proven yet to be significantly influencing most boards' decisions.[18]

As simple as it sounds, one alternative to consider is a framework where the value of our planet Earth is maximized.

In substance, we take the maximization function of the shareholder value maximization theory, and we replace the argument substituting shareholder value with planet value. This would require stopping to assess our society as a sum of different stakeholders but as a single unique and complex element: planet Earth. In a way, maximizing the wellbeing of our planet home would in turn benefit all species on Earth – Homo Sapiens too. As a result, companies' activities and directors' leadership would be driven by a sense of purpose to maximize Earth value.

14 Renée B. Adams, Ali C. Akyol, and Patrick Verwijmeren, «Director skill sets», Journal of financial economics 130, no. 3 (2018).

15 The following article lists three analytic facets of grand challenges: complexity, uncertainty, evaluative. Ferraro, Etzion, and Gehman, «Tackling Grand Challenges Pragmatically: Robust Action Revisited».

16 Lucas Chancel and M. B. DeBevoise, Unsustainable inequalities: social justice and the environment, Social justice and the environment (Cambridge, Massachusetts: The Belknap Press of Harvard University Press, 2020).

17 Craig Deegan, «The legitimising effect of social and environmental disclosures – a theoretical foundation», Accounting, Auditing & Accountability Journal 15, no. 3 (2002).

18 R. Edward Freeman, Strategic management: a stakeholder approach, Pitman series in business and public policy (Boston: Pitman, 1984).

The simple elements of this embryonic theory – that could be labelled as earth value maximization theory – would carry at least two major implications. On the one hand, it would reinforce the need for a different set of skills represented at board of directions (as mentioned in section 2.2). In fact, on the side of management and finance experts there would need to be a representation of natural scientists, biologists, physicist, and/or health specialists based on the industry. On the other hand, having directors' adopting these lenses would result in a renewed centrality of boards of directors in the corporate setting. Boards would be seen as the superior body – where different sciences are fused – responsible for setting the strategic direction of companies while considering how firm's products, services, and supply chains impact the value of our planet.

3. The courage to innovate

The innovations described in the prior section might seem simple to external observers but are in fact radical. Looking at composition of board of directors and their historical developments one can understand that most changes in boards' composition happen very slow. Depending on the bylaws and corporate governance statutes, directors are elected annually or every number of years. Nevertheless, evidence shows that most directors have pluriannual tenure.

The urgency of imminent grand challenges is requiring attention and efforts from corporations. For our species to survive, companies have to step in, so it is more a question of pace. The most powerful motivation for corporations to take on grand challenges is the internal pressure from younger colleagues. Multiple studies have proven that younger generations' values and interests are much more focused around the natural environment and societal fairness compared to prior generations.

As a result, as young people populate lower layers of firms and start climbing the corporate ladder, executive teams and board of directors will increasingly feel a pressure for change. Now, boards could take a reactive approach and respond to younger generations demands selectively. On the other hand, they could realize the strategic importance acting proactively to solve grand challenges. In a way, an innovative, inclusive, and informed tone from the top combined with pressure for change from the bottom would lead to faster and more impactful change.

Let's see which boards are eager to solve grand challenges and will implement some of these simple radical innovations.

Fundamental Stakeholder Demands in Listed Companies

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1. Introduction

The design practice of board organization – so-called «board governance» – is constrained by both a regulatory environment and the demands of various stakeholders. The regulatory environment in the form of legislative articles, directives, and guidelines provides a framework for board governance. Fundamental stakeholders – which in this article refers to both institutional investors and proxy advisors – make further demands regarding a company's board governance by exercising their voting rights or making recommendations on the exercise of voting rights, respectively.

If the fundamental stakeholders are to be defined, the following usus is applied (graphic 1). In the bottom center a listed company and its board of directors is shown. Institutional investors actively influence a company's board governance by exercising their voting rights (a). Proxy advisors, on the other hand, do not hold any voting rights. Still, they advise institutional investors on how to exercise their voting rights (b). So, indirectly they also have an influence on a listed company's board governance (c). The overall resulting impact is summarized as fundamental stakeholder demands. The magnitude of this impact is analyzed using five board governance categories, which were derived from the Business Roundtable's Principles of corporate governance: Independence, size, diversity, committees, and overboarding (graphic 2).[1] These are frequently emphasized in the context of board governance. However, this selection should not be regarded as conclusive. Holistically seen, there are further board governance categories such as succession planning and board operations.

1 Business Roundtable. (2016). Principles of Corporate Governance. Harvard Law School Forum on Corporate Governance, heading III.

Figure 1:

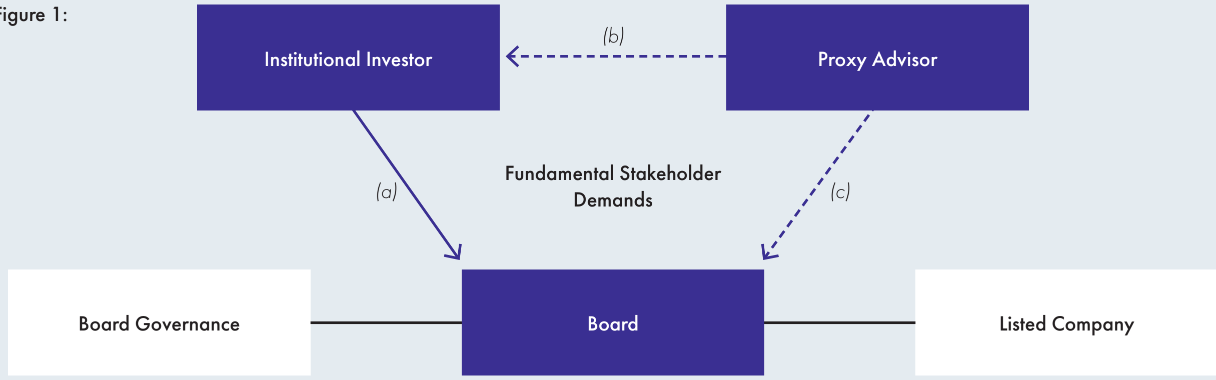
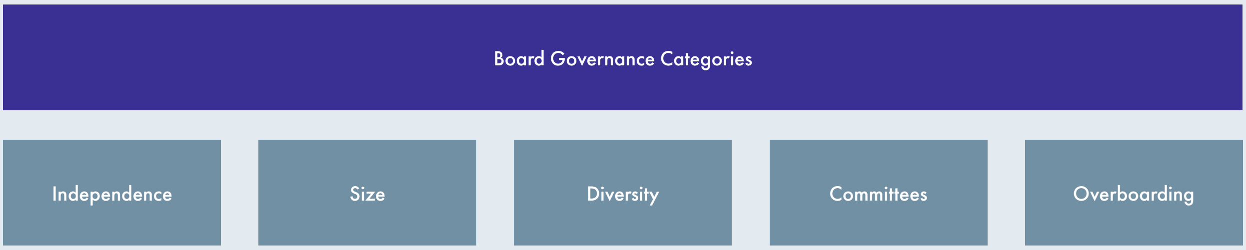


Figure 2:



2. Change in shareholder structures leading to power shuffle

The composition of the shareholder base of listed companies in Switzerland has changed significantly in recent decades. The proportion of shares in listed companies that are held and professionally managed in various collective funds – together called «institutional investors» – was around 60% in 2007. Today, it often exceeds 70% in large publicly traded companies.[2] Depending on their size, these institutional investors may hold thousands of different shares and thus have the rights to vote on tens of thousands of agenda items at AGMs.[3]

This situation requires vast research to provide the necessary basis for decision-making and implies an infrastructure that can cope with electronic voting at such high volumes, particularly because most of these votes are concentrated in a few months of the year.[4,5] Both research and infrastructure services are offered by so-called proxy advisors. These advisors are not shareholders themselves. Rather, they advise others on how to vote and then cast the vote on behalf of the institutional investor.

Hence, proxy advisors give their opinions on behalf of a large number of institutional investors, who in turn have considerable voting power. The opinions of proxy advisors thus affect the voting behavior of institutional investors, although the significance of their influence is difficult to measure.[6] Many researchers agree that their influence is increasing.[7]

2 Böckli, P. (2015). Proxy Advisors: Risikolose Stimmenmacht mit Checklisten. Schweizerische Zeitschrift Für Wirtschafts- und Finanzmarktrecht , 209–224.

3 Faery, R., Sharma, C., Franco, M., & Thrasher, C. (2022). The Investor Landscape.

4 Gustinetti Henz, T. (2016). Die Rolle und Rechtsstellung von Stimmrechtsberatungsunternehmen (Proxy Advisor) im schweizerischen Recht unter besonderer Berücksichtigung der Regulierungsfrage.

5 Rose, P. (2021). Proxy Advisors and Market Power: A Review of Institutional Investor Robovoting. Harvard Law School Forum Corporate Governance, para. 7.

6 Spatt, C. (2019). Proxy Advisory Firms, Governance, Failure, and Regulation. Harvard Law School Forum on Corporate Governance, para. 5.

7 Edelman, S. (2013). Proxy Advisory Firms: A Guide for Regulatory Reform. Emory Law Journal, 62(3), 1369–1409.

3. Voting guidelines as behavioral directives, further contextualized by expert opinions

Fundamental stakeholders base their proxy voting and voting recommendations, respectively, on voting guidelines.[8] While institutional investors can tailor their voting guidelines to their own needs, proxy advisors' guidelines tend to be more comprehensive and detailed due to their provision of voting recommendations for multiple institutional investors.

In terms of voting guidelines, a sample of four institutional investors (BlackRock, Vanguard, UBS Asset Management, and Norges Bank Investment Management) and four proxy advisors (ISS, Glass Lewis, Ethos, and Inrate) have been considered for analysis. The former were chosen based on their number of shares held in SMI companies and only if they published their voting guidelines. The latter were selected as these proxy advisors cover the Swiss market almost entirely.

Besides the voting guidelines, four fundamental stakeholder representatives and a representative of a corporate governance think tank were interviewed.
Experts were selected based on their leadership positions in the investment stewardship team among institutional investors and the corporate governance team among proxy advisors. The idea behind this was to contextualize identified similarities and differences with the help of experts after analyzing the voting guidelines. The corporate governance think tank expert was brought in to provide a third-party perspective to the analysis.

4. What the analysis of voting guidelines and expert opinions revealed

As already introduced, the extent of the fundamental stakeholders' demands was examined on the basis of five board governance categories. The results of this examination are subsequently revealed by category.

8 Diem, H.-J., & Gaberthüel, T. (2022). The Corporate Governance Review: Switzerland. The Law Reviews, para. 4.

4.1. Independence

The majority of stakeholders agree that the board should be independent, with at least a third of board members expected to be independent in the case of a controlled, listed company. Various criteria are used to assess board members' independence, including the use of two- or three-class systems, with stakeholder-specific definitions of the classes. The voting rights threshold for determining independence classification varies significantly. BlackRock applies a 20% threshold. The other institutional investors do not comment specifically. ISS and Glass Lewis apply 10%. The analyzed data suggests that institutional investors seek more flexibility in assessing director independence, while proxy advisors prioritize transparency in ownership rights by relying on the SIX Swiss Exchange threshold.

4.2. Size

None of the stakeholders prescribe an exact board size, but four suggest approximate ranges, with a minimum of five board members and a maximum of 20. The size of the board seems to depend on the size of the company, with Swiss proxy advisors Ethos and Inrate applying different ranges for small-cap, mid-cap, and large-cap companies. The institutional investors interviewed do not specify an ideal board size but note that unusually small or large boards may require company engagement. Inrate imposes a limit on the number of board members depending on the company size, while Ethos does not have a firm opinion but acknowledges potential drawbacks of both small and large boards. The Swiss corporate law requires at least one natural person on the board, but the size of the board is left to the company's discretion. Overall, fundamental stakeholders are not prescriptive in terms of a specific board size. If anything, the adequate number of board members is demanded as a function of the company size.

4.3. Diversity

The importance of a diverse board was recognized by the fundamental stakeholders, who recommended regular reviews of the board to maintain diversity of skills and experience, and disclosing the results. A gender quota of 30% representation was demanded by most stakeholders, with some exceptions that tolerated partial compliance provided a commitment to narrow the gap was made within a year.

UBS Asset Management demands 40% gender representation by 2025. The regulatory environment in Switzerland lags behind its European neighbors, with gender representation introduced Swiss corporate law on a «comply or explain» basis from 2026. The Swiss Code only recommends both genders be represented with appropriate diversity. One stakeholder expressed concern that the gender requirement at board level may lead to a shortage of women at management level.

4.4. Committees

The demands of fundamental stakeholders regarding committees are mainly focused on the independence and objectivity of key committees, while few demands were observed regarding the organization and number of committees, which is mostly left to the companies themselves. Institutional investors and proxy advisors did not impose specific committees beyond the key ones and do not want to micromanage companies. The regulatory environment imposes certain demands on committees, such as the requirement for the compensation committee to be elected by the AGM and for the audit and compensation committees to be composed of non-executive, independent members. The Swiss Code also sets requirements for the nomination committee to be composed of a majority of non-executive, independent members. There seems to be no one-fits-all solution in this regard. The analysis showed that the vast majority of fundamental stakeholders leave the organization of companies to themselves.

4.5. Overboarding

Most fundamental stakeholders recommend a maximum of five non-executive mandates for board members in listed companies, with some allowing for one or two additional mandates depending on the role of the member. Weighting systems for mandates vary, with a non-executive chairperson mandate usually being weighted at least double that of other mandates, and executive roles being equated to three mandates. The experts consulted believe that tolerated mandates are likely to decrease in the future, especially for executive functions. The regulatory environment allows companies to specify the maximum number of mandates in their articles of association, and the Swiss Code does not impose explicit requirements regarding mandates.

5. Conclusion

The examination of both voting guidelines and expert opinions has revealed a considerable divergence in the core demands expressed by fundamental stakeholders across the various categories of board governance investigated. This disparity is contingent upon the nature of the stakeholder in question, as well as the unique characteristics and preferences exhibited by each individual stakeholder.

Unsurprisingly, yet remarkably, institutional investors demonstrate notably less explicit and comprehensive demands concerning board governance in comparison to proxy advisors. During expert interviews, representatives of institutional investors underscored their preference for engaging in dialogue to cultivate the requisite comprehension necessary for determining company-specific voting behavior. On the surface, this approach appears commendable; however, doubts arise regarding whether institutional investors possess the requisite resources to execute such an undertaking. It is prudent for a company to anticipate sensitive agenda items for annual general meetings and proactively address them with fundamental stakeholders at the earliest possible juncture. This proactive approach ensures that the unique circumstances of the individual company are duly considered in the decision-making process regarding the exercise of voting rights. Failure to do so runs the risk of voting rights being exercised solely based on prescribed voting guidelines, thereby undermining the nuanced assessment of each company's situation.

ESG – How stock exchanges are accentuating positive change

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Capital markets are playing an integral role in facilitating the move towards net zero. FMIs (financial market infrastructures) such as SIX, operator of the Swiss stock exchange, are using their unique position in the market to support this transition.

1. ESG is here to stay

A failure to meet climate targets risks plunging not just our capital markets – but the entire human habitat – into an existential and potentially irreversible crisis. Having recognised the scale and urgency of the problem, governments around the world are passing legislation which requires companies to publish information detailing their ESG (environmental, social, governance) policies and practices.

Governments are also providing subsidies to institutions and corporates which pursue sustainable objectives, and are imposing punitive costs on behaviours and activities which are not considered helpful to the climate change cause. A recent example is the EU, which moved to further cut emission allowances, expand carbon fees on additional sectors, impose carbon fees on imports, and ban the import of deforestation-linked goods. And this trend of pro-sustainability market interventions is expected to accelerate. In the article «A new world order seeks to prioritise security and climate change» published on 11 May 2023, The Economist observed that «After the cold war, America and Europe established an economic order based upon markets ... and limited state meddling in the economy ... Not anymore. Policymakers on both sides of the Atlantic have come to the conclusion that national security and climate change must now come first.»

Additionally, regulators are taking a harder line against greenwashing, by imposing fines on asset managers for poor business practices – including misdemeanours such as mis-labelling their investment products as being sustainability-compliant.

But it is not solely governments who are engaging with sustainability. Increasingly, investors are taking note too, and are incorporating ESG data into their investment decisions. This is evidenced by the strong flows we are seeing into ESG investment products. According to PwC, ESG assets could account for 21.5% of all global AuM (assets under management) – or $33.9 trillion – by as early as 2026.[1]

2. To reach critical scale and impact – the returns need to be there

The topic of sustainability, and thus ESG data, are here to stay. But to successfully transition to a more sustainable economy, it is not enough for sustainability to stay in the spotlight. Success requires that a large number of pro-sustainability projects be undertaken. If net zero targets are to be met, McKinsey believes projects costing around $9.2 trillion will be required each year until 2050 to fund climate-change mitigating projects – 60% more than what is currently being deployed.[2]

Most of these projects will have to be undertaken – and funded – by the private sector. Clearly, this is primarily a call for action from companies. But financial markets can have a decisive influence on which projects are carried out. By shaping the behaviour of companies, investors and shareholders can drive positive change.

So what is needed for investors to support pro-sustainability projects? A study by PwC found that while 27% of investors would be willing to accept a lower rate of return on having exposure to a company whose activities have a positive impact on society or the environment.[3] This is a slight drop from 2021 when 34% of investors told PwC that they would compromise on returns in exchange for a societal or environmental benefit.[4] And a closer look a the data reveals that the relevant number is likely much lower because 81% of investors say that they would not accept either any reduction in returns or would tolerate a drop of 1% or less.

In other words, the vast majority of investors oppose pro-sustainability projects – unless these projects positively affect the company's bottom line.

3. Exchanges can accelerate positive change by enhancing capital-market efficiency

The acceleration of pro-sustainability market interventions suggests that we can expect sustainability improvements will increasingly have a positive effect on profitability in the future. This means we can expect to see more investors back sustainability improvements. This is why we believe that stock exchanges can support the transition to a more sustainable economy by reducing two types of capital market inefficiencies that hinder optimal capital deployment towards sustainability.

First, exchanges can leverage their position to reduce costs for issuers and investors by providing economies of scale/scope. If tasks require less OPEX/CAPEX to complete, capital is released which can be used productively elsewhere – for example, to finance more sustainability improvements. Reducing costs related to data may additionally increase transparency, allowing investors to make better-informed decisions. Minimising the costs related to the collection, review, reporting, and dissemination of data may indeed encourage companies to make more ESG information available as well.

ESG-data-related costs are substantial. An analysis by the Sustainability Institute shows that US corporations spent on average $530,000 each year on climate related reporting, while climate related data costs the average institutional investor around $1.37 million per annum. This means that even a small percentage reduction in the costs related to the collection, verification, disclosure, acquisition, or usage of ESG data would enable significant amounts of capital to be used more effectively. This is why SIX Swiss Exchange provides reporting guidance aimed at clarifying the regulatory disclosure requirements and offers insights on investor expectations.

1 PWC, Asset and wealth management revolution 2022: Exponential expectations for ESG (October 2022).
2 McKinsey – The Net Zero Transition.
3 PWC Global Investor Survey 2022.
4 PWC Global Investor Survey 2021.

Second, exchanges can also help drive capital towards pro-sustainability activities by improving transparency which allows investors to make better-informed decisions by facilitating the detection of the highest-potential sustainability improvements. By providing investors with the relevant ESG information, stock exchanges play a crucial role in facilitating the detection of the highest-potential sustainability improvements. To name just one example: SIX Swiss Exchanges has created a set-up to provide investors with information on green bonds and on other bonds with a strong link to sustainability.

4. Harmonised standards and transparency cannot be compromised on

The lack of harmonisation between disclosures is a key issue facing ESG data. Today, there are dozens of different ESG standards which makes investing and reporting both complicated and costly. The same applies to ratings agencies and other ESG data providers, which often use tailored methodologies when assigning ESG ratings to issuers. The scores bestowed by the different ratings agencies – even to the same companies – are rarely consistent, which creates further complications for investors.

Although widely-perceived as the most objective ESG data points, the lack of harmonisation even plagues the reporting of Greenhouse gas (GHG) emissions. The GHG protocol left a significant amount of discretion in how companies estimate their emissions – because the goal was to track inter-temporal progress of individual companies. This, however, can lead to substantial differences in total emissions, especially at a Scope 3 level which includes both upstream and downstream variables. [5]

This lack of standardisation not only consumes substantial resources at companies, but it also prevents investors from making proper comparisons between companies.

A homogenous approach to ESG standards and data would therefore allow more capital to be directed towards sustainability improvements, and even help capital to flow towards better improvements. This is why a key pillar of the sustainability strategy of SIX Swiss Exchange is to support the harmonisation of disclosures through its membership of various industry groups.

5. A driving force for positive change

As a leading European FMI, SIX and the stock exchanges it operates can leverage the listing, trading, clearing, settlement and custody infrastructure to accelerate positive change by reducing the sustainability-related capital market inefficiencies that impede optimal capital allocation across the economy. Tackling the challenges facing the ESG-data market is an absolute priority, in order to drive investment into this segment.

5 SRN – October 29, 2022 – Designing for comparability: A foundational principle of analysis missing in carbon reporting systems.

Five Cornerstones for Successfully Embedding «Skin in the Game» in Executive Pay Strategy

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1. Introduction

Recent years have witnessed rising expectations by investors, proxy advisors and regulators on the interplay of executive pay and risk alignment, conduct-related matters, and sustainability. For example, the United States Securities and Exchange Commission (SEC) has included a mandatory clawback policy for listed companies. This is a concrete way to ensure executives have «Skin in the Game» and helps embed this important notion in pay strategy.

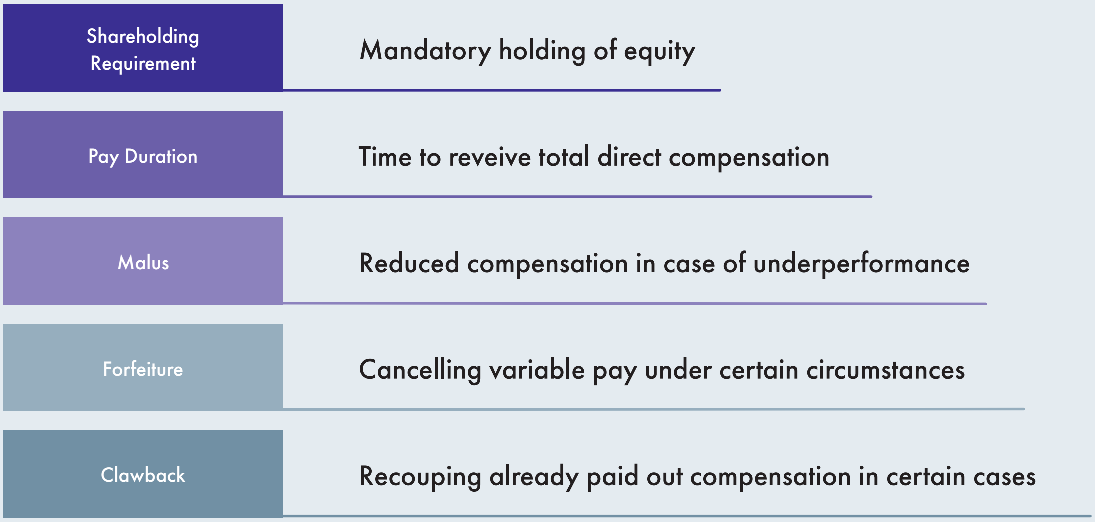
The renowned principal-agent theory builds on the assumption that ownership and control are being separated and that the agent (or executive) has an advantage in terms of information over the principal (or shareholder). From this context dating back to the 1970s, today's corporate governance models including compensation strategies have been developed. How can they be implemented effectively so the executive acts in the best interest of the shareholder? To get straight to the point: by embedding «Skin in the Game».

A closer look at «Skin in the Game» demonstrates its relevance through promoting an entrepreneurial mindset, setting measures to ensuring accountability of actions, allowing for participation, and supporting a positive external perception by different stakeholders. Among others, the most important questions include: What are effective measures to implement «Skin in the Game»? What is the current market situation and how has it developed over recent years? What are top considerations when designing «Skin in the Game» measures?

2. Five Cornerstones of «Skin in the Game»

These five cornerstones can be dealt with independently, either linked to pay or governed by regulations outside compensation matters, and/or also complementarily. For example, a shareholding requirement could be established regardless of the actual compensation framework.

Figure 1: Five cornerstones of «Skin in the Game»:

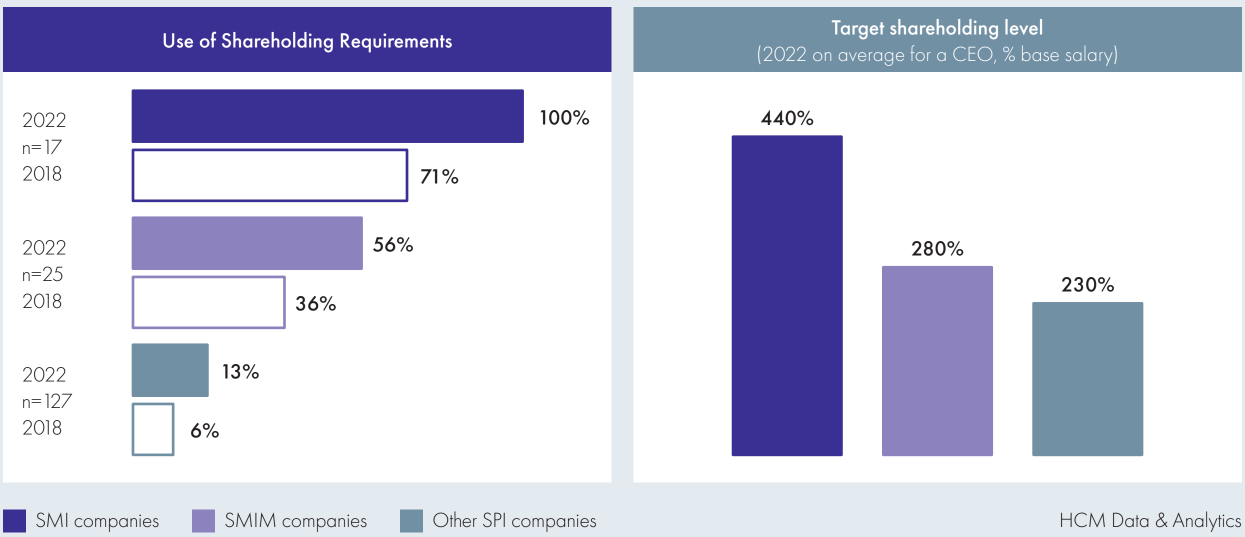


2.1. Shareholding Requirements

The first measure to embed «Skin in the Game» is to establish a Shareholding Requirement, i.e., a policy requiring an executive to accumulate and hold a certain amount of shares (often expressed in a multiplier of base salary or a number of shares) within a defined time period. The accumulation can be done by acquiring shares by own means or by keeping and not selling shares received as deferred compensation. One decision point is whether to count only shares which are fully owned or to also include unvested shares from deferred awards. In essence, the Shareholding Requirement increases the alignment of the executive's wealth to the interests of the shareholder.

In the market one can observe an increasing use of shareholding requirements between 2018 and 2022. All leading firms (SMI) in Switzerland have included Shareholding Requirements in 2022, up from 71% in 2018. The trend can also be seen in the SMIM companies where 56% made use of it in 2022, an increase of 20 p.p. from 2018. In smaller firms (Other SPI companies), the use of shareholding requirements was still lower, but doubled from 6% (2018) to 13% (2022).

Figure 2: Shareholding requirements use and target level for Swiss CEOs



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In terms of the target amount (i.e., how many shares must the CEO accumulate), the range in 2022 for SPI companies on average went from 440% of the CEO base salary at SMI companies to 230% on average for Other SPI companies in 2022. The target level has remained stable since 2018 for SMIM companies at 260% on average of the CEO base salary while increasing for SMI (390% in 2018) and decreasing for Other SPI companies (250% in 2018). Typically, the build-up period for the CEO is 4.6 years on average, with a range of 3 to 5 years.

Should members of the Board of Directors (BoD) also be required to have Skin in the Game? There are two views: To be an «independent judge» a Board member should not have any financial stake in the company's performance. Or, to best represent the shareholders' interests, the Board member should have some personal financial exposure to the share price developments of the company, in effect sharing in the «shareholder experience». Market data confirms this split of views: Around 50% of SPI companies pay BoD fees partly in shares in 2022 (often between 20% to 50% of the total fee). As such shares are typically blocked but fully owned, this can be considered an implicit Shareholding Requirement. Explicit Shareholding Requirements for BoD are less prominent with only 11% of companies employing such a policy.

Applying Shareholding Requirements is the first step to increase «Skin in the Game», nonetheless, controls must be established. In case the requirement has not been met after the stated build up period, some mechanisms can be used, such as a holding lock for vesting shares from long-term incentive plans (LTI).

2.2. Pay Duration

Even though Shareholding Requirements have gained significant momentum and expose (part of) executives' wealth to shareholder experience, other forms of alignment are found in the structure of executive's compensation frameworks. Particularly, this concerns deferred compensation schemes, including forward-looking LTI plans.

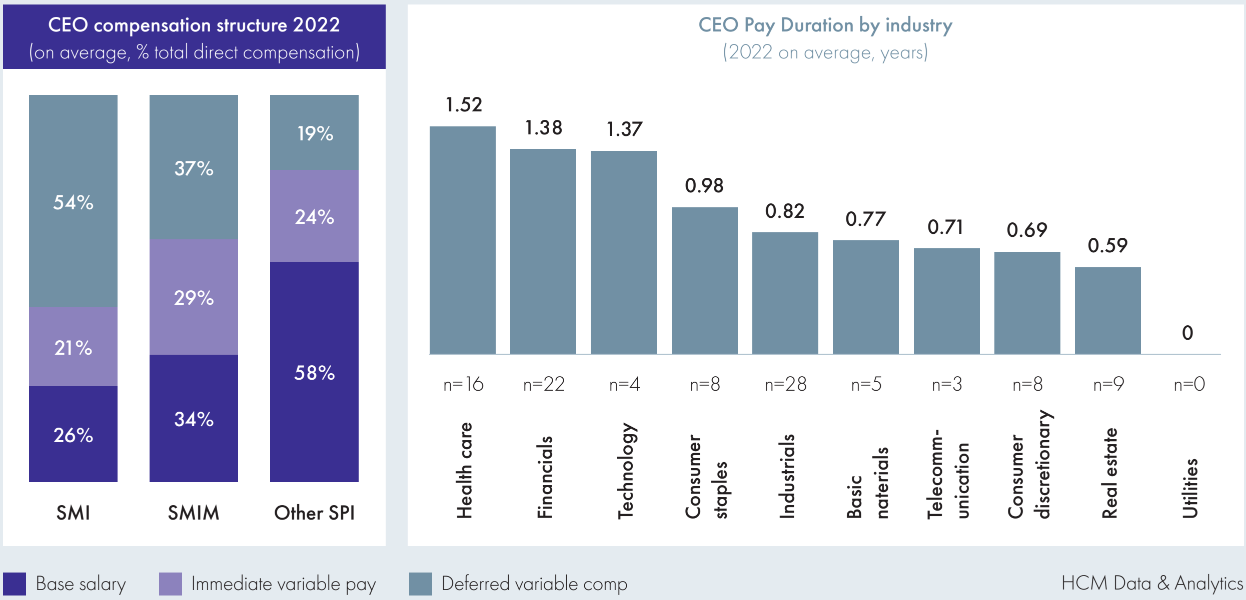
When designing an LTI to embed «Skin in the Game», two factors are important: time (how long should the period be until vesting?) and structure (how much of the total pay package should be delivered later vs. immediately?). The longer the period and the larger the deferred compensation included in the compensation package, the more «Skin the Game» and thus the greater opportunity to hold executives accountable. The weighted average of time and structure is the so called «Pay Duration».

For example: An executive's pay package which includes a base salary and an immediate cash award without any deferred compensation has a Pay Duration of 0 years. Once a deferred element is added, duration increases. Say an executive has 100 as base salary, 100 as immediate cash award and 100 as an equity grant which is deferred over 3 years, then the package's Pay Duration is 1 year (0x33%+0x33%+3x33%).

For compensation structure, market practice indicates that larger companies have more deferred compensation. For SMI companies, deferred compensation represents up to 54% of CEO total direct compensation on average. SMIM companies defer 37% of CEOs' pay and Other SPI companies 18% on average. Hence, the Pay Duration of executive pay packages very much depends on the size of the company (see also graph in Section 2.3).

On the other hand, Pay Duration also varies depending on industry. The highest Pay Duration is found for CEOs in the Health Care industry with an average of 1.52 years, whereas the average of all SPI companies is close to one year.

Figure 3: Compensation structure and pay duration for Swiss CEOs



2.3. Malus

A Malus applies when deferred compensation is reduced in part or totally due to the non- or under-achievement of quantitative and/or qualitative performance targets. The relevant measure could be, for example, not having any regulatory investigations or fines or not meeting some minimum financial performance hurdle. In other words, Malus brings performance risk into a compensation package.

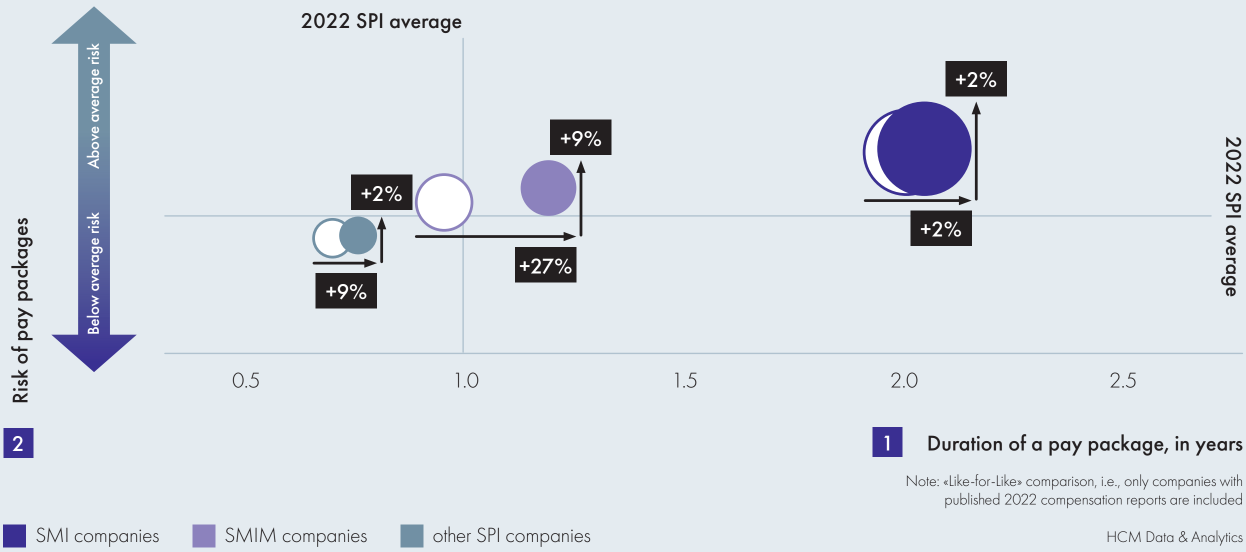
In terms of the nature of the performance targets in deferred plans, 87% are financial and 13% are non-financials, including ESG. In fact, companies are increasingly using ESG-related KPIs. For example, for SPI companies, the number of companies linking long-term performance conditions to ESG has doubled from 2018 to 2022.

The graph below combines Pay Duration and Malus. Naturally, both measures are correlated: where there is a longer Pay Duration there is also more risk given pay is deferred and subject to future outcome. For example, a blocked share award over 3 years exposes the participant to lower risk than a performance share unit grant subject to underlying equity performance, relative share price performance, and other operating performance indicators, in addition to the possibility of losing the award in case the employment ends before vesting, i.e., Forfeiture (see Section 2.4).

The graph, which compares 2018 and 2022, shows that the size of a company, again, affects the Pay Duration and risk of the pay package, but overall, it increased among all companies. On average, duration for SMI companies was 2.0 years (+ 2%), 1.2 years (+27%) for SMIM companies and 0.7 years (+9%) for Other SPI companies.

Over the last five years, both the Pay Duration and the risk pay package has increased on average for large and also smaller firms. However, it is in the nature of larger pay packages that they carry more risk and also take longer to become realizable.

Figure 4: Development of risk of pay packages and pay duration of CEO pay packages 2018 to 2022



Note: «Like-for-Like» comparison, i.e., only companies with published 2022 compensation reports are included

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2.4. Forfeiture

As noted above, Forfeiture is a design measure of compensation which cancels an award or prevents vesting, partly or totally, of the amount of deferred compensation in certain circumstances. This can include conduct conditions or the termination of employment.

Forfeiture is a broadly used measure in the market. Forfeiture clauses were present on average at 80% of all SPI companies in 2022. Among SMI companies all had had Forfeiture clauses for their long-term plans in 2020, though it decreased to 95% in 2022 Other SPI companies have steadily increased (43% in 2019 to 55% in 2022) and SMIM companies remained slightly below the SMI companies at around 90% in 2022.

Forfeiture clauses are not necessarily applied to all compensation plans of a company and the application also differs between companies. In the relevant plans, the application of Forfeiture will vary depending on the type of compensation (e.g. blocked, restricted or performance-based etc.). Some companies apply it to all share-based awards but not to cash, while others foresee it for all kinds of deferred awards. Some events in which compensation elements are forfeited include certain specificities in termination of employment, a change of control, misconduct or financial restatements.

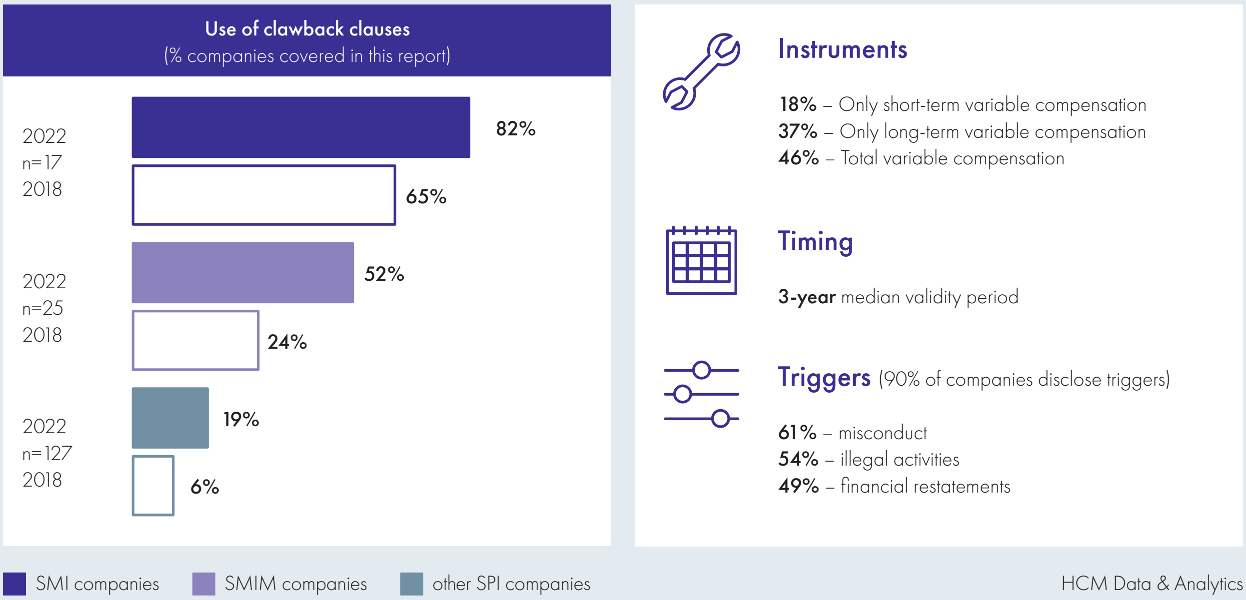
2.5. Clawback

A Clawback is a mechanism to reclaim vested and/or paid out compensation awards that are already in the ownership of a beneficiary. They are an effective element for embedding «Skin in the Game» in an executive pay package. While part of the regulatory regime in other countries, Clawbacks are controversially discussed in Switzerland, especially in the banking context.

Still, around 82% of SMI companies included a Clawback in 2022, an increase of 17 p.p. since 2018. The increased prevalence of Clawbacks in SMIM and Other SPI companies also confirms the growing importance of this mechanism (24% and 6% in 2018 compared to 52% and 19% in 2022). Evidently, larger companies are at the forefront with regard to Clawbacks, potentially because they are in the spotlight and under public scrutiny to follow best governance practices.

Data shows that Clawbacks are applied either to the entire variable compensation (46% of Clawbacks), or solely to certain elements (18% for short-term, 37% for long term elements). They usually enable the reclaiming of relevant compensation for up to three years if certain trigger events occur, e.g., misconduct (61% of companies with disclosed Clawbacks), illegal activities (54%), and financial restatements (49%).

Figure 5: Overview of clawback use in Swiss companies



Although there is some legal uncertainty on the enforcement of Clawbacks, this does not mean that they are not effective per se. Indeed, the effectiveness of a Clawback could be deemed to be most effective due to its preventive character, i.e., it creates an incentive for the executive to avoid the trigger event. A Clawback could also be understood as a signal to employees about the kind of conduct and risk-aligned behavior that is expected by the company. The low number of cases of (public) enforcement might suggest they are having this kind of a positive preventive impact.

Clawbacks have been rolled out in other jurisdictions for more than a decade. In the UK for example, financial services companies are required to implement Clawbacks for risk taking functions for seven years following the grant and up to ten years in case of ongoing investigation. And recently, the SEC made Clawbacks compulsory for all listed companies following «restatements due to material noncompliance», for a three year look back period from the event happening. Further, Clawbacks are generally well perceived by proxy advisors.

3. Conclusion

«Skin in the Game» is an important consideration when assessing executives' pay packages. This article presented five cornerstones having growing market prevalence for increasing «Skin in the Game»:

Although the specifics of the measures are diverse, they serve the same purpose in giving executives a relevant and tangible stake in the company's performance and align their interest with the shareholders' experience. In terms of implementation, they have to be designed carefully, monitored, and observed. Here the Board Compensation Committee plays an important role.

The data shows that many firms make use of these measures, with differences mainly stemming from company size, which is also a main driver for the level of executive pay. Overall, the data supports what one would expect: The larger a company, the more the «Skin in the Game», i.e., the larger the pay package, the more risk is embedded and the longer it takes to realize such pay.

While «Skin in the Game» is essential, there are other important objectives of a compensation framework. The primary drivers of compensation design should be the culture and strategy of the company to anchor the ambitions, values and desired behaviors, thereby promoting a more sustainable development and value creation.

A new and strategic role for Corporate Communications has emerged that Boards have to consider

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1. Introduction

Advising the CEO and the executive committee on the strategic direction of the firm certainly is the noblest obligation of any Board of Directors. Yet, in today's «perma-crisis» or «poly-crises» environment with its various geostrategic, macro-economic, environmental, political, and regulatory facets, it is also the toughest one.

More than ever, the future viability of companies is determined by factors that far transcend their short-term success on the marketplace.

Why should today's Boards be composed of personalities with diverse professional and personal backgrounds, bringing to bear a broad variety of expertise and experience, if not out of this very need to navigate the fate of the corporation in a constantly shifting, multi-layered environment? Undoubtedly, ensuring an adequate degree of multi-perspectivity has become fundamental to situational awareness and assessment which, in turn, is needed to trace the path towards long-term prosperity.

In short, it is all about judgment – understood as the capability to perceive and process a wide variety of signals and to jointly distill from these signals judicious conclusions on opportunities and threats the company and its license to operate are faced with.

A field that, it appears, is more in flux today than it used to be in earlier decades. A case in point is the revived debate around globalization. For sure, we still live in a world so connected through the flows of information, goods and services that shocks and their ripple effects can be felt in faraway countries – just think 'Ukraine war and grain supply'. But fewer of the factors that help govern globalization and which we took as structural givens can still be considered as such – just think 'stable democracy in the United States'.

Stakes are higher than they used to be – while stakeholders' acceptance and trust are harder to gain and maintain.

Taking this diagnosis as a departure point leads us to a first conclusion: it is part of any Board of Directors' duty of care to hold executive committees accountable for the attention they pay to those corporate functions whose task it is to provide company leadership with insights and advice on stakeholder perspectives and help navigate the company and its license to operate through an ever more demanding societal environment. The function that springs to mind first here is Corporate Communications and Public Affairs, also called «Corporate Affairs» in some companies. It has always been part of its mission to observe and evaluate relevant stakeholders' views in order to anticipate whether a company position or action would resonate with audiences or, to the contrary, provoke resistance and challenge. But now, even more prominently, it is all about weaving the corporate narrative into the societal tapestry, highlighting its relevance and contribution.

Which provides us with first ingredients of a common understanding regarding the purpose and ambition of a contemporary Corporate Communications function. Its task is to influence key stakeholder groups – e.g., employees, clients, opinion leaders – to align with the company's strategic interests. We will have a look at the structurally determining factors of the public realm companies operate in in a moment. Yet, from the outset it is clear that this objective can only be achieved if communications is considered in its original, centuries-old sense – as a dialogic process that, however, today is conducted in a highly mediatic, moralized and politicized environment. Consequently, listening to and understanding the company's audiences is as important as conducting the outreach in a way that is in tune with their preferences.

Easy to grasp, then, that a modern Corporate Communications and Public Affairs function needs to be organized and equipped in an equally professional fashion as those geared towards product and financial performance.

It needs to:

- Have a thorough understanding of the company's strategic discourse and objectives – enabled through close proximity to and trust from the executive leadership team and the Board of Directors' Chairperson;

- observe and, ideally, survey and measure audiences' predispositions to gauge their receptiveness for the company's strategic intent;

- be methodologically up to date and excellent in terms of the outreach techniques it uses.

Yet, to this very day, not all communications departments have what it takes to overcome the convenient but narrow inside-out 'broadcast service' type of outlook.

Against this background, the intent of this essay is to:

- Outline the underlying changes in the larger environment of corporations that determine the possibilities and limitations of today's communications functions;

- propose some practical vantage points from which to assess the preparedness of a corporate communications department to face today's challenges;

- and finally, in broad strokes, describe some of the strategies which need to be applied to deal with this environment.

What we are not looking at here is communications of the Board, in particular the Chairperson. Board members enjoy the privilege of entrusting the representation of the Company to its executive committee members, in particular the Chief Executive. Accordingly, few are the occasions when the Chairperson becomes visible under normal circumstances: the Annual General Meeting speech; investor dialogues and roadshows; and when top executive position holders change. Very selective, high-profile media interviews or fireside chats, covering an appropriate set of strategic industry or macro-economic subjects, e.g., on occasions such as the Annual Meeting of the WEF in Davos, complement the public visibility of the Chairperson.

Beyond this, if the Chairperson must weigh in on current company affairs, we are most likely in crisis mode. If this occurs, the initial judgment of a situation or action was incorrect; signals have not been perceived and processed the way they should have.

2. Some key factors that drive a shifting environment

While it would be easy now to simply enumerate the various shocks the corporate world has undergone over the past, say, ten or twenty years, of which the return of war to Europe is only the latest, a closer look suggests that the root causes are deeper-reaching. Let me name a few.

a) Stakeholder expectations: while trust in institutions weakens, companies can still make a difference

It is not original to state that big corporations are under constant scrutiny, and that this scrutiny has grown over the past years. It is a phenomenon that can be observed globally – yet, even in a generally pro-business country like Switzerland, public policy initiatives with a critical predisposition vis-à-vis big corporations can garner voters' support («Konzernverantwortungsinitiative»).

Why is that? Already in 2016, Christine Lagarde, at that time Managing Director of the International Monetary Fund, offered a clear reasoning: «Putting it simply: growth has been too low for too long, and benefitting too few.»[1] The impression that the imbalance in the distribution of wealth within Western societies but also globally, comparing industrialized countries with the «Global South», has continued to grow, is exacerbated by a number of factors such as skyrocketing state debt since the Financial and Euro Crises, years of zero-interest on savings, and, most recently, inflation.

Additionally, top-of-mind worries such as war, inflation, food and energy shortages have further undermined the anyhow waning optimism. In most industrialized Western counties, less than one in three respondents thinks they and their families will be better off in five years. A drop of between six and 11 percentage points year-on-year, according to the 2023 edition of the Edelman Trust Barometer, a survey based on more than 32 000 interviews globally.[2]

1 Cf. imf.org/external/am/2016/speeches/pr02e.pdf
2 2023 Edelman Trust Barometer Global Report, see: www.edelman.com/trust/2023/trust-barometer

The advent of populism is the resulting political symptomatic. All of that is well known, no need to dwell on it here.

What it boils down to is a widespread loss in trust in the established order – of which big companies are considered to be an integral part. However, this is only one side of the coin.

Interestingly, if you look up the results at a more granular level, it turns out that companies are the most trusted institutions. More trusted than governments and media – and even more trusted than NGOs. The Edelman Trust Barometer results show that trust in business records considerable leads in trust compared to government: a three points lead in Germany, 11 points in Italy, and even 13 points in both the US and the UK.

An asset and an opportunity, but arguably also an obligation. Citizens, in doubt about the leadership qualities of their voted political leaders, look towards business leaders – particularly in global companies – to contribute constructively to addressing the fundamental challenges of society. Companies have a role to play. They are better placed than other institutions to show challenges can be constructively addressed. Which, in turn, provides them with the opportunity to demonstrate they are part of the solution rather than part of the problem – and to share this – through their Communications and Public Affairs work – with politicians and decision makers to create trust and more informed discourse at that level.

No doubt, in terms of communications, this environment requires careful navigation – but it would be harmful to both business and society as a whole if companies fell silent and ignored the expectation that is still that of a broad majority of civil society.

b) Getting politicized: why it is crucial to strike a wise balance between relevance and risk in polarized societies

Addressing societal issues is needed but has grown riskier in recent years. Let us pick climate change as a telling example. According to the Trust Barometer, 82 percent of respondents expect CEOs to take a stance and act on climate change; 53 percent globally expect companies to «do more» on climate change, whereas only eight percent of respondents say companies are overstepping their role.

This looks like a clear case and by now, most leading companies pursue net-zero 2050 plans. Yet, it isn't. The whole concept of ESG has come under massive fire, and most visibly its most advanced component in terms of measurable ambitions, namely the environmental element.

And yet, while these are meaningful steps to mitigate CO2 emissions, not everyone agrees. Particularly in the Unites States, some political actors regard integrating ESG criteria into corporate or investments strategies as hurting consumer and shareholder interests and fiduciary duties.

This is the new reality we are faced with: While these powerful legislator or regulatory actors incriminate companies' efforts to mitigate emissions as diverging from free-market orthodoxy, grassroots environmentalist movements accuse companies of greenwashing (sometimes literally, i.e. through legal action), and take to the streets with civil unrest-like campaigns to express frustration with what they consider too slow progress.

From a communications standpoint, this situation characterized by growing militancy on both ends of the spectrum puts corporate leadership into a very uncomfortable position. Whatever they do, they cannot expect to rally any unanimous or overwhelmingly large majority of stakeholders behind them.

Leadership teams need to carefully weigh and evaluate reputational versus legal and political risks. Benefitting from the aforementioned trust lead which companies enjoy versus other institutions requires a high degree of professionalism not only in both communications and public affairs. Just as important is to have and execute a clear reporting strategy, given sustainability is not about having an opinion – but about making a contribution.

Being well-intentioned has never been sufficient – but naivety by now is a material risk.

Company leaders need to define a strategic and well-reasoned pathway between the extremes – constructively and ambitiously addressing climate mitigation while avoiding activism and any claims that cannot be backed up by demonstrable progress. And then, stay the course.

c) More than ever, communications management reaches far beyond media relations – a brief look at the fundamentally changed media environment

The last aspect to briefly tackle is today's media environment. If companies need to weigh in on societal topics and yet have to do it in a risk-minimizing way, what media environment do they have to work with?

In previous decades, if we discussed media, we primarily meant renowned media brands – more likely than not thinking of opinion-leading broadsheet newspapers. And oftentimes, top executives' expectation vis-à-vis their communications teams was to somehow 'control' what was getting published. Even then, a misguided concept which was principally based on an 'us vs. them' logic.

Since those days, the whole ecosystem has undergone fundamental change – with technology being the main driver of this revolution.

- In the digital media realm, publications space (e.g., text length) is virtually unlimited, but attention spans are short. Century-old media brands compete with the latest app, the number of channels has skyrocketed. Everything depends on whether you 'cut through the noise'. The next content offer is only a swipe away. In short, it is a hyper-competitive space.

- Access is «democratized» (while this probably is a normatively too positive description) – anyone can publish their perspectives and mobilise others by holding companies accountable, instantly, agnostic of geography

- While established media brands still enjoy a higher degree of readers' and viewers' trust, entertainment or personal interest-based social media channels attract especially younger demographics. Instagram is a news channel, too. And even if it isn't, it distracts attention from more important questions.

- Text is supplemented or even replaced by video and audio formats which are easier to consume – but harder to produce.

- Media lifeblood, namely advertising revenue, is dependent on content performance. This means that journalistic articles need to earn their clicks against all the other offers out there. Social media has created a level playing field where potentially everyone can be a publisher and vie for attention.

- And performance is analysed, predictive models are put in place. With the effect that complex stories about unknown or remote subjects are less likely to be produced in the first place.

All of this results in a huge power shift from media producers to media consumers, helped by the hardly transparent inner workings of technology platforms. Editors-in-chief are if not replaced at least complemented by algorithms-in-chief which push some types of content while they deprioritize others.

Which, in turn, in most instances means a shift from «insightful» or «educative» to «entertaining» or «useful» content. To grapple with the new environment, publishing houses have invested in tech and data but let go editorial staff. Consequently, journalistic industry expertise in editorial teams has severely diminished – and with that, the analytical depth and the breadth of what is published. Reports about individual companies have become scarcer and more superficial. A very recent in-depth analysis run by the University of Zurich corroborates this diagnostic.[3]

3. Interim summary: where does this leave us?

In summary, this means for companies that:

- Solid quarterly figures will not earn them coverage anymore.

- Coming back to the beginning, they need to have a textured understanding of the prevailing narratives and discuourse underway in society and among decision makers to be able to address key issues of our times, navigate the environment, and provide relevant viewpoints that protect and enhance their reputation.

- They cannot rely on established media as distribution mechanism but need to be digital media-savvy themselves and master distribution techniques.

- The capability to produce captivating and relevant content inhouse and to push it out to readers is key.

- In short, in a dis-intermediated media world, they are well-advised to consider themselves as publishing houses and maintain a set of well-curated «owned» channels. «Owned» is equally if not more important than «earned» (i.e. coverage in classical media) – all the more as «owned» content determines what is «shared». Content that is shared is already nobilitated by the fact that «someone like me» read it and found it interesting before the content found me.

- The trackability of digital interactions – i.e., how users pick up or not on company content and campaigns – offers huge potential for companies. This holds true in particular with regard to marketing communications. The old joke saying that «half of advertising spend is wasted, you just don't know which half» is outdated. Creating a coherent ecosystem consisting of email marketing, social media channels, and the corporate website can prove to be a highly powerful tool for producing qualified leads.

Summing up, today's environment calls for an integrated communications management across channels and regions. Technology requires – but also facilitates – constant development and improvement. A contemporary corporate communications function is a learning function, constantly refining its approaches and techniques.

3 The latest Zurich University study sheds light on this phenomenon (study results in German) – see https://www.foeg.uzh.ch/de/News2/2023/Studie-Unternehmensberichterstattung.html

4. Assessing the preparedness of a Corporate Communications department

To enable a company to cope with and even thrive in the environment we have now walked through together, the Corporate Communications function needs itself to be enabled: through a professional leadership team, an appropriately sized FTE and financial budget, and a direct reporting line into the Executive Committee.

Consequently, the first strategic check Boards need to conduct regards the role and position of the Corporate Communications department within the company.

Does it have voice and visibility, or is it simply considered as a back-office service? Is it measured by fulfilling strategic objectives, or is it assessed merely on internal stakeholder «satisfaction» with its services?

If the latter is the case and it is positioned as a mere service function, with no own strategic contribution expected, this must be considered a red flag. Because most likely, neither it is equipped to deal with the complex environment; and even if it were, these capabilities are not used to the benefit of the company.

To apply their duty of care, Boards need to ask: are the Corporate Communications leadership and team credibly enabled to navigate the three key factors mentioned above: a) understand stakeholder expectations, b) master the heightened risk environment, and c) operate mindful of the strong impact of technology and muster the capabilities needed to build a strong and established presence for the company in the digital media environment?

In other words, Communications must be positioned as a full-blown strategic management function. It needs a seat at the table (with the table being that of the Executive Committee), being part of the overarching conversation. Only then can it act as the external stakeholders' advocate, serve as early warning system, and be an integral part of any strategic or transformational initiative. Only if properly set up and equipped can it shape and execute initiatives and run processes that create value.

To define this value-add more concretely, we come back to the main task for any Corporate Communications function: to safeguard or, ideally, achieve deliberate alignment between the company's strategic intent and those societal actors who hold power over the company's license to operate

- Facilitating business transformation – i.e., build consensus and support around the company's change trajectory;

- Safeguarding and building the company's reputation with the wider realm of societal decision makers – regulatory, public policy figures, industry observers, and opinion leading media (the latter, nota bene, not being stakeholders in the proper sense); and

- supporting the company's commercial success through lead generation and, ultimately, conversion.

Besides the initially mentioned overall positioning of the Corporate Communications function within the company, clarity about its purpose and envisaged stakeholder impact provides cues for Boards to double check the communications' leadership's own understanding of its mission.

Do they convincingly articulate what their contribution is supposed to be? (Of course, nuances apply from company to company, as this essay can only put forward a general view.) Have they created the right organizational set-up and are they nurturing the right set of capabilities to deliver on the mission? Do their targets and plans reflect what they are supposed to achieve with measurable, timed goals and objectives?

In summary, the image of a Corporate Communications department in line with today's strategic imperatives has little in common with the old-school «press» department. The capabilities needed nowadays are much more specialized, and so are the technological means needed to conduct and measure the success of the outreach.

5. A few enabling strategies

Finally, let us have a look at some crucial capabilities – communications capabilities that are needed to serve the company well and to ensure continuous development of the function. Many of the points below can hardly be achieved in a single year. They require longer-term efforts.

Let us have a look at them along the whole value chain of communications – from analysis to impact.

- It is an interesting phenomenon that most communications teams are much better equipped to speak than to listen. Obviously, the associated risk is not to be cognizant of shifts in attitudes and to distribute content that does not correspond to what stakeholders are interested in – be it in terms of topics covered, tonality and focus, or in terms of formats and channels. To verify the audience understanding, listening, and monitoring capabilities, therefore, is crucial. Annual surveys, be it employee surveys or external reputation surveys, are barely enough to provide strategic guidance regarding audiences' attitudes and usage habits. The caveat that applies here, however, is that larger stakeholder surveys are expensive and require advanced methodological understanding. The same applies for comprehensive media and social media monitoring and analysis. But even if an audience understanding survey – for price reasons – cannot cover all relevant geographies or has to make do with relatively small sample sizes, interesting insights are guaranteed; insights that advance the understanding of stakeholders expectations, help guide budgeting and facilitate decisions about which activities to start, continue, and stop.

- Based on sound insights, planning is the next step. An annual planning process still is the most common approach – and it is still a healthy one. Even if plans (and goal setting) are adapted throughout the year, «agility» does not obliterate the duty to have a clear understanding of the department's objectives. Also, without planning, how should budgets be reasonably allocated? How should goals be formulated and complemented with measurable targets? Thus, not keeping the crucial next steps embedded in the annual plan top of mind while adapting and coping with emerging necessities, enables the communications leadership team to progress multi-year projects (e.g., building its digital eco-system) while it keeps adapting to the emerging needs of the company. – Closely monitoring the achievement of the associated targets is a key capability we will only mention here in passing. Analysing the success of what has been published on an ongoing basis will provide communications teams with vital input on what to keep, and what to do differently next time.

- The company's brand is an essential asset. Every few years, brand expression deserves to be thoroughly reviewed. E.g.,does it still «work» in the global context, and is the brand expression designed to be in line with today's digital-first approach? Does the brand have a distinctive look and feel? Or does the branding look better on paper than when used on video? As mentioned, not a year-round topic – yet a bi-annual check point makes sense to decide if and where a refresh is needed.

- Whether internally or externally, owned channels provide companies with direct access to stakeholders – without the need to pass classical «gate keepers», i.e. journalists. Reach on big social media channels can easily outnumber that of classical news media, in particular if you consider trade media who oftentimes have only five-digit readership. And while we can safely assume that all companies run websites and branded social media channels, the interplay between these channels – for instance, attracting traffic to the company's website through social media outreach – and to create a true eco-system of digital channels that allow the orchestration of multi-channel campaigns takes digital communications to a more advanced level. Communications departments should master the interaction of paid, owned, and shared content, to augment their impact. Overcoming silos between marketing, social media, and content producing teams is a first but always easy to achieve prerequisite here. Worth noting also that much of what applies to e.g. client communications also applies to talent communications. Employer branding therefore is an adjacent activity where many of the same techniques need to be mastered to attract talent and make them submit their applications to the company.

- The final check to be mentioned here is all about «content» – a noun that has become commonplace to designate written text, video or audio offered to stakeholders. One suspects that it has also become so popular because of the multiplication of channels and the void that needs to be filled. Equally popular is the phrase «compelling content». While it is unspecific about what «content» actually means, it should be relevant and enticing for audiences to look at it and react or «engage» with it. The logical consequence is that Corporate Communications leadership must place great emphasis on the capacity to create such «compelling content». The facet of risk management – safe sign-off protocols and legal checks – must be a given in its production process.

6. And why all this? A final thought on the contribution of corporate communications in today's environment

Throughout this essay, we have noted expectations and opportunities associated for companies who enter the arena of societal discourse.

We have mentioned that companies and their license to operate is under constant scrutiny – and that they are operating on a level playing field with innumerable sources, individual, corporate, or political; media's influence has decreased, access to stakeholders has become largely dis-intermediated through technology. Relating back to the findings of the Edelman Trust Barometer, we have reminded ourselves of how audiences expect companies to chime in on key societal challenges – all the more as companies are the most trusted institution.

Counting some of the most brilliant researchers and engineers, strategists and innovators amongst their ranks, taking a long-term view to generate the long-term returns their investors want from them, defining and advancing their own net-zero 2050 plans, being sensitive to risk and cognizant of geopolitical differences, many of today's global companies are to be counted amongst the most advanced players in the business of problem-solving. They have a role to play – to win or lose the trust people place in them.

Against this background, while recognizing that corporate communications by definition are biased towards the company's strategic agenda, a new role for corporate communications emerges: namely, to inject fact-based reasoning and viewpoints into an arena of discourse.

Voices that are advocating problem-solving strategies are more needed than ever. Make sure they are heard.

Board efficiency and effectiveness: The key for strategic success

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Boards of directors play a key role and must lead by example in providing a favorable environment for their company to successfully execute on strategic goals. This view is supported by the largest institutional shareholders that perceive their say on board elections as the most important tool to drive value generation in their portfolio companies.[1] In a more recent study, institutional shareholders as well as corporate representatives clearly stated that a successful implementation of a company's sustainability strategy requires a strong corporate governance and thus board of directors.[2] Given these key responsibilities of a board of directors, it is crucial that it can execute its tasks efficiently and effectively. In SWIPRA's view, this requires not only solid and resilient established structures for the oversight of a company's day-to-day business, but also a dynamic and forward-looking approach to ensure the board is able to think ahead and address the challenges of tomorrow (see Figure 1).

1. The starting point: Having a clear vision and well-defined strategy

To be able to have a forward-looking mindset, the board needs to have a clear understanding of where the company should be heading, in terms of vision, strategy and behavioral execution, and also of how expected regulatory developments as well as changing stakeholder requirements, in particular challenges along the value chains, may impact the future path. This requires that boards have an overall deep understanding of the industry, trends in the market and regulation, as well as the company's competitive surroundings and challenges. The increasing complexity of today's businesses, value chains and expectations regarding environmental and social responsibilities make it indispensable that each director contributes with complementary know-how to the board's overall intelligence. This ensures that the board covers a range of perspectives and insights that are key in taking the best possible strategic decisions.

1 SWIPRA Corporate Governance Survey 2015.
2 SWIPRA Corporate Governance Survey 2021.

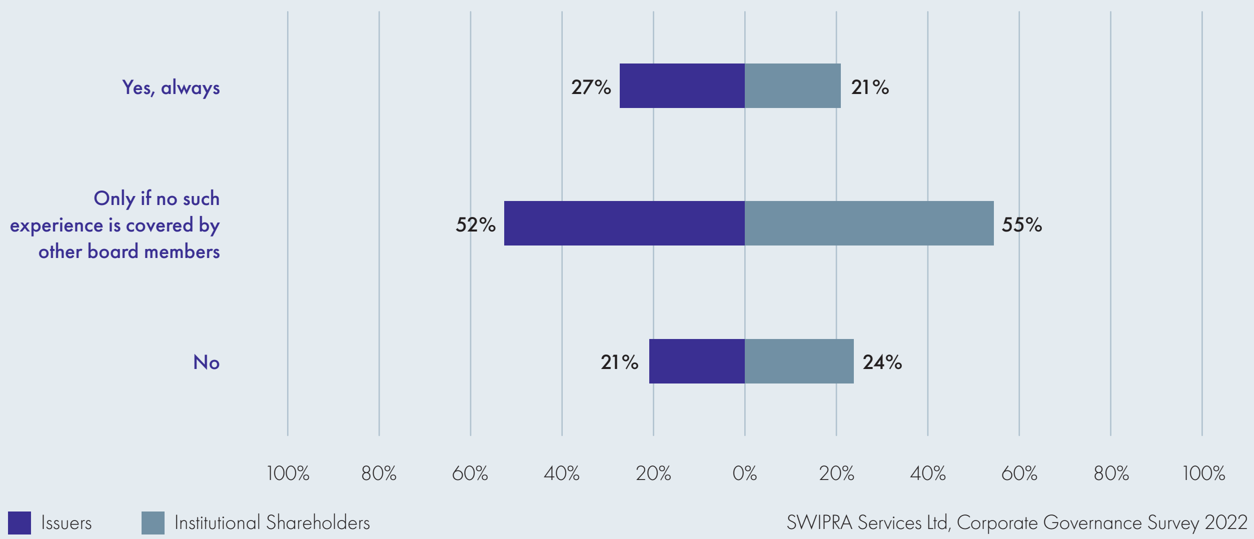
Figure 1: Expectations for a modern professional board of directors

It is a company-specific question which skills and experiences are needed on a board, and they may change over time in line with the development or business transformation of a company.

In the current environment, sustainability knowhow is one of the perceived key criteria for the election of new board members. According to the SWIPRA Corporate Governance Survey 2022, 76% of participating Swiss companies indicated that they use sustainability experiences and competencies as one criterion when searching for new board members; an effort that is welcomed by 79% of the institutional shareholders (see Figure 2 below). Often sustainability experiences and knowhow come combined with extensive strategic experience and change-management skills, personal backgrounds that are key in the currently ongoing transformation of businesses.

In addition to tapping the individual board members' experiences and the company's internal intelligence, stakeholder engagements by boards has become very important, obviously also a key capability for members of a board of directors. SWIPRA's recent practical work with listed companies of various sizes has clearly shown that boards' direct engagements with external industry experts, shareholders, and other important stakeholders have become very valuable in providing boards and their companies with essential insights and objective feedback to further develop boards and managements understanding and thinking.

Figure 2: Are sustainability (environmental and social) experiences and competencies a selection criterion for new appointments to your board of directors?



SWIPRA Services Ltd, Corporate Governance Survey 2022

2. The catalyst: Driving processes with a strong leadership

Making the best use of internal and external pools of information to draw up a comprehensive picture requires that the board's leadership has a broad and far-sighted perspective. The board chair is expected to guide and direct the board's work towards achieving the company's strategic goals while fostering an effective and well-organized team environment and corporate culture. For professional boards, this includes a culture of inclusivity, high ethical standards and respect that encourages a constructive debate and feedback amongst the members of the board and throughout the organization. It must be ensured that every director is contributing effectively to the board's work and an open dialog is possible.

3. The foundation: Levering the power of complementary board members

A precondition for such a collaborative and effective environment is to have the «right» group of people around the table whereas right not only means skills, backgrounds, and experiences from former roles, which generally can be observed quite easily, but even more importantly the ability to work together in an open minded and constructive way. Even the most comprehensive experience and deepest knowledge cannot help a company if there is no open dialog in the group and throughout the organization, often called the «speaking up culture». Bringing together the right individuals is the true challenge for boards and their nomination committees.

An instrument helping boards to come as close as possible to the right mix are external board assessments. In working together with its clients conducting such reviews, SWIPRA was able to observe that, if done comprehensively and tailored to the company, such reviews not only support the board in becoming more effective in working together and with its senior leadership team, but also to broaden the horizon, identify new items that should be put on the agenda going forward and organizing the board's processes in an efficient manner. SWIPRA witnessed that an open discussion of such an assessment's findings sharpens the understanding of individual responsibilities, how each member contributes to the overall functioning of the board, the quality of the relationships with senior management, how the board could improve overall and which personal and professional skills it could be complemented with. Overall, effective and trustful communication and collaboration amongst board members and between the board and executive management are essential for a board to work effectively and efficiently.

4. The result: Robust governance and oversight

A complementary set of skills and knowledge paired with a constructive working environment not only facilitates the board's forward-looking strategic development tasks, but also its ongoing interaction and oversight of management. It supports the development of robust governance and oversight mechanisms that ensure the company's strategy is being executed effectively. Besides monitoring key performance indicators and holding management accountable for their development, this predominantly includes the ongoing assessment of financial and non-financial risks and opportunities relevant for successful strategy execution.

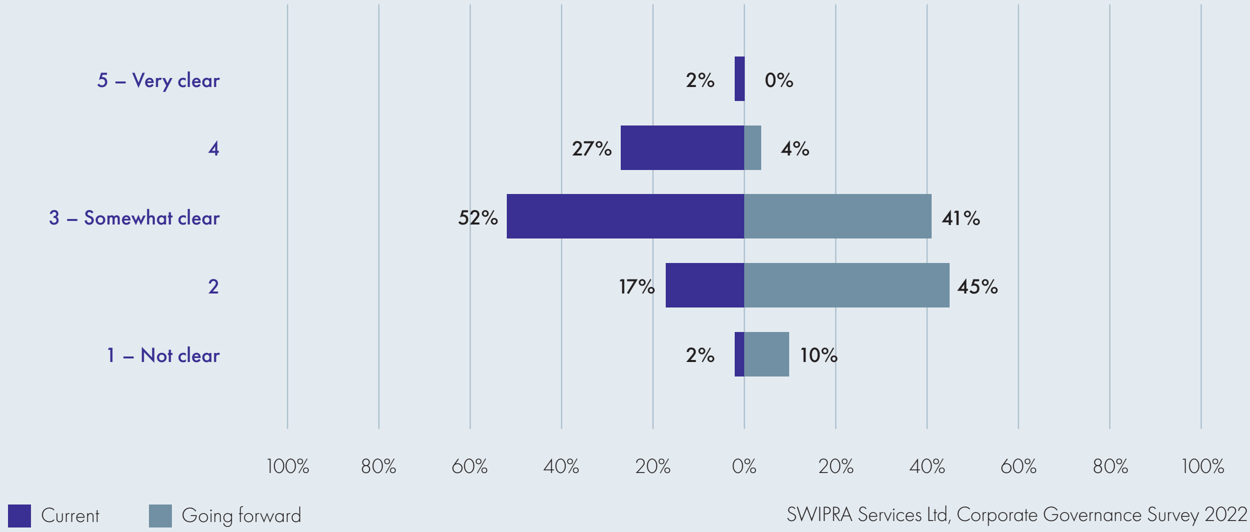
5. The gap: Contrasting outside perception

Understanding a board's work and effectiveness from the outside is very challenging, the assessment of an individual contribution almost impossible. Nonetheless, shareholders are asked to annually (re-)elect board members. Only about one in three institutional shareholders is really satisfied with the amount of information Swiss companies disclose on their board of directors' composition.[3]

Absent more specific information, shareholders often rely on more easily accessible but often less precise information when forming their view on these elections. The most often considered piece of information is the assessment of a director's independence. It generally refers to the extent to which a board member is free from any potential conflicts of interest and able to exercise objective judgment in the best interests of the company and its shareholders.

3 SWIPRA Survey 2019.

Figure 3: Is it generally clear from Swiss companies' disclosure which key skills and experiences the board of directors is expecting from its members going forward?



SWIPRA Services Ltd, Corporate Governance Survey 2022

Only 25% of asset managers indicated that they believe boards of Swiss companies are set up appropriately to ensure independent decision making and functioning checks and balances.[4] Institutional shareholders believe that independent directors are more likely to provide effective oversight of management, hold management accountable, and make decisions that are in the best interests of the company and its shareholders. This can also be observed at annual general meetings. For the 100 largest SPI® companies in 2022, the board members who received more than 20% AGAINST votes 57% did so because of shareholders independence concerns. This raises the question about how this gap could be closed?

6. The way forward: Make effectiveness visible

As discussed above, a professional and effective board should have the right skills and experiences amongst its members to discuss the company's strategy, risks, and problems of tomorrow while holding management accountable to execute the strategy of today. A dedicated leadership can support these tasks by ensuring that the board makes use of the collective intelligence when taking decisions.

In addition, a regular and company-specific board assessment is an efficient means to ensure that these tasks can be done effectively. It also informs the ongoing board refreshment process by raising awareness of changing needs in terms of skills and experiences to tackle future challenges.

In SWIPRA's view, having established these processes internally, boards should take the opportunity to also speak about these processes with their shareholders, explaining how they ended up with the current composition and how they intend to develop the board going forward.

4 SWIPRA Survey 2019.

Therefore, this will lead to more criticism in cases where investors perceive boards are lacking independence.

In SWIPRA's experience from supporting clients in their outreach to their shareholders, a robust internal assessment also allows to credibly communicate with the outside about why the current board composition allows the board to truly assume its responsibilities. Leading a discussion based on observable experiences and skills rather than on a simplified and sometimes dogmatic definition of independence will improve everybody's understanding of how a board functions and allow a more nuanced and informed decision, eventually also increasing the overall credibility of the board. Such information can be included in existing corporate disclosure and should be reinforced by shareholder engagement campaigns led under the board's leadership.

Improving board effectiveness: A board advisor's perspective

Dr. Sigrid Artho
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1. Introduction

As board advisors to many of Europe's leading listed companies, Spencer Stuart has accumulated a significant body of data on board governance trends which it publishes annually in its Board Index series, covering more than 20 countries around the world. In this article we focus on data from the 2022 Switzerland Board Index, draw comparisons with other countries on key governance metrics, and comment on three areas where we expect to see significant change in board governance practice over the coming years, namely: diversity (especially in board leadership); the rise of the sustainability-focused committee; and the externally facilitated board effectiveness review.

2. Board diversity

2.1. Swiss boards are highly international

The Switzerland Board Index covers the 48 companies in the SMI Expanded index (SMI and SMI Mid) which represent around 95% of the Swiss listed equity market.[1] Swiss boards are not only the most independent among the countries we analyse (Switzerland tops the list with 90% of directors who meet the criteria for independence) but they are also the most internationally diverse: 53% of SMI Expanded directors are non-Swiss nationals (see Figure 1 for detailed breakdown). What's more, 68% of directors appointed to boards during the 12-month period covered by our research were non-nationals, suggesting an upward trend.

There are a few possible explanations for why Swiss listed company boards are so international, and why this is indeed desirable. First, these businesses typically have a huge global footprint with a relatively small percentage of revenues coming from the Swiss market, hence the need for directors with hands-on experience of different geographies and business cultures. Second, if the customer base is primarily non-Swiss, then it can be an advantage for a company to have a board that brings a deep understanding of customer needs and behaviours in key markets. Third, cognitive diversity is highly prized today and an international board, if well chosen, may score particularly highly in terms of diversity of thought.

1 Its data is drawn from a variety of public domain sources, including annual reports, company websites, public announcements and proxy statements.

Figure 1: Nationalities of board directors in the SMI Expanded

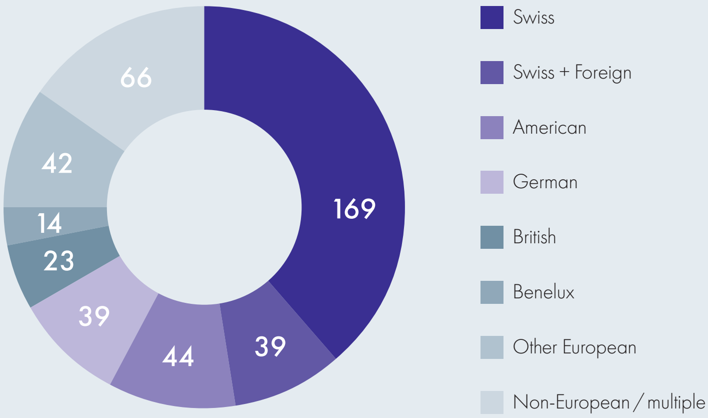
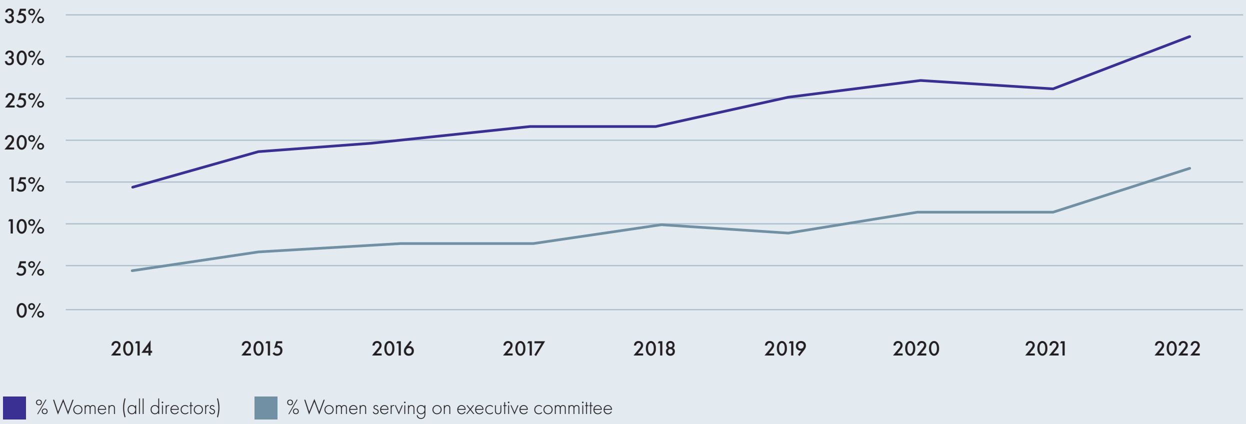


Figure 2: Female representation on SMI boards (2014-2022)



2.2. Gender diversity continues to progress

The decision by Switzerland's National Council in 2020 to approve a legal amendment to board gender targets established a gender quota for boards and executive committees (30% and 20% respectively) for publicly listed companies with more than 250 employees. By 2022, women accounted for 33% of all board members across the SMI Expanded companies and 17% of all executive committee members, indicating that the quotas have been a catalyst for change (see Figure 2).

A similar trajectory has been seen in Norway and France, where the boards of top listed companies in each country have moved beyond their national quotas of 40% women, each country now averaging 45%.[2] Both countries took a few years to surpass their quotas, but have remained at a steady level since.

During the 12-month period covered by our research, the majority of new board appointments at companies in the SMI Expanded index went to women (57%), a highly positive sign. Nevertheless, the fact that 31% of boards in our sample had not yet reached the board quota and 66% had not reached the executive committee quota is a clear demonstration that there is more work to be done before female representation is on a par with many other European countries (see Figure 3).

2 See Boards Around the World: https://www.spencerstuart.com/research-and-insight/boards-around-the-world?category=all-diversity&topic=female-directors.

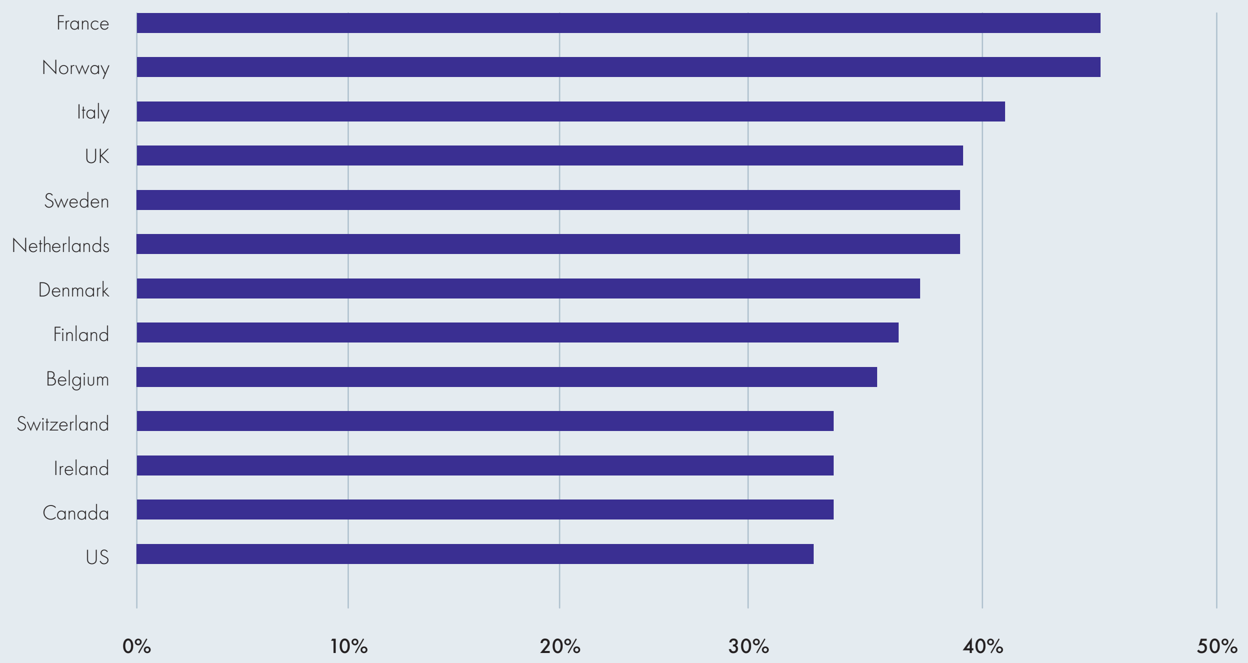
2.3. More women are needed in board leadership roles

In the UK, as the representation of women on boards has edged closer to parity, the focus of attention has switched to the paucity of women in leadership roles.

In 2022 the FTSE Women Leaders review and the Financial Conduct Authority (FCA) issued a recommendation that by the end of 2025 at least one of the four senior board positions (chair, senior independent director, CEO and CFO) should be held by a woman.[3] The 2022 UK Spencer Stuart Board Index records that men occupy all four roles on 73 of the top 150 company boards, so many more senior appointments will need to go to women over the next two and a half years if that target is to be achieved.

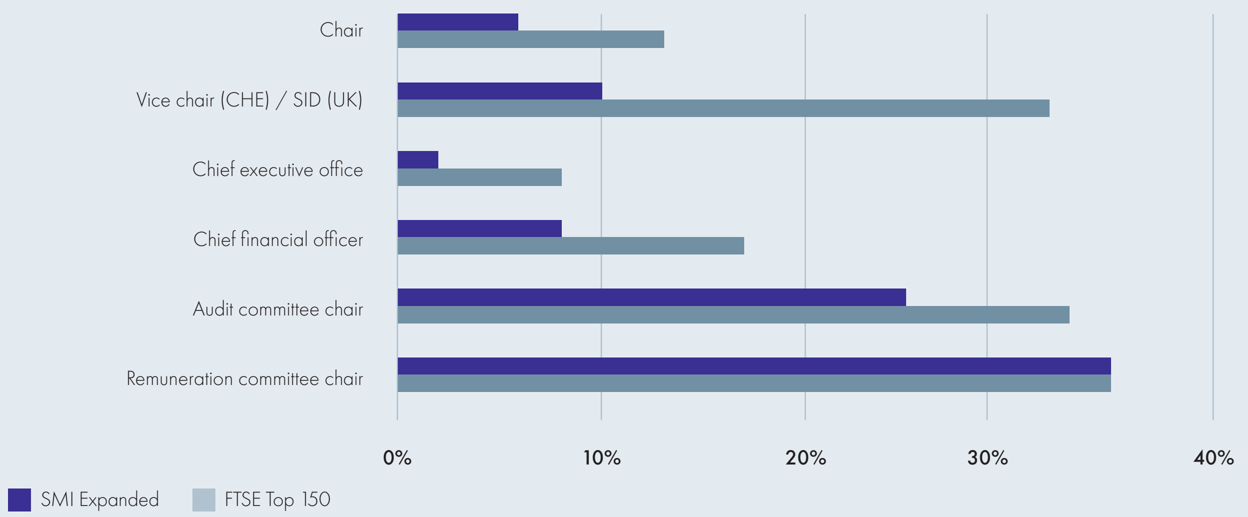
In SMI Expanded companies, relatively few women occupy those four leadership positions; indeed, the percentages have hardly changed over the past decade. This was also the case in the UK, where gender diversity in leadership roles remained low despite a steady increase in women appointed to non-executive positions. It wasn't until the focus of the FCA shifted to gender diversity in board leadership that a sense urgency was created. The data for Switzerland suggests there is an opportunity for companies to learn from this and address the diversity deficit in board leadership sooner rather than later.

Figure 3: Female representation on boards (Europe and US)



3 In UK listed companies, both the CEO and CFO are typically main board members.

Figure 4: Female representation in leadership positions (Switzerland and UK)



On a more positive note, women are significantly better represented in committee leadership roles on Swiss boards than they are in the roles of chair, vice chair, CEO and CFO (see Figure 4).

We expect to see more women occupying the roles of chair and vice chair on Swiss listed company boards in future as overall gender diversity increases, but it will take a concerted effort. The 2023 Swiss Code of Best Practice for Corporate Governance acknowledges the need for succession planning to promote the underrepresented gender, and in our view such succession planning should equally be applied to leadership roles, both at executive and non-executive level.

3. Boards are rising to the challenge of sustainability

The board's remit has expanded significantly in recent years to include topics as varied as digital transformation, cybersecurity and sustainability. Sitting atop all of these is the question of purpose, which is receiving more and more attention at board level. A clear articulation of the purpose of the organisation, it's reason for existence and relevance in the world, helps unite employees across geographies, increases engagement and fosters teamwork and collaboration. Purpose shapes corporate identity, provides an important foundation for the development of strategy, and is a vital component of sustainability.

The topic of sustainability, driven largely by investor focus on environmental, social and governance (ESG) issues, has risen rapidly up the board agenda in recent years. Stakeholders are becoming increasingly active, holding companies to account. For many boards, regardless of sector, securing the social licence to operate is an urgent concern, which means minimising any negative social and environmental impact for which the business may be responsible. Boards therefore need to be well-informed about ESG matters in order to ensure effective risk management.

Boards also need to appreciate the importance of embedding sustainability into strategy, rather than treating it as a separate domain. If sustainability is to be fully factored into strategy, there must be organisational and cultural alignment, and with it a shift in mindset. Boards need to understand the inextricable link between culture and leadership when thinking about a sustainability transformation. As we have written elsewhere, the right culture can unleash tremendous amounts of energy toward a shared purpose and foster an organisation's capacity to thrive.[4]

4 Groysberg, B., Lee, J., Price, J. & Yo-Jud Cheng, J. (2018, Jan-Feb). The Leader's Guide to Corporate Culture. Harvard Business Review.

Boards in Switzerland (like those across Europe) are adopting a variety of approaches to address ESG challenges. A growing number are forming dedicated committees with a specific remit covering sustainability and/or ESG. In Switzerland, 25% of companies in the SMI Expanded index have board committees dealing with sustainability, although only two have committees with ESG in the title: Swisscom (Audit and ESG) and Temenos (Nomination and ESG). Some companies are folding ESG-related work into existing committees, but the majority of boards are choosing to address these issues at main board level.

We have encountered very different attitudes to the creation of board committees dedicated to addressing sustainability issues.

For some chairs, it is an opportunity for a small group of directors to dive deep into the issues, bring in external perspectives and expertise, and share learnings and recommendations with the full board. For other chairs, a dedicated committee is to be avoided; they believe that sustainability and ESG should be dealt with by the whole board. It is still too early to say whether such committees are effective, but it is clear that most boards and committees are currently focused on the compliance and risk aspects of ESG, rather than the opportunities for innovation and growth that come with building a forward-looking, sustainable business model.

A board can only support and oversee a sustainability strategy if it has the right talent in the boardroom capable of providing effective advice and challenge to management. However, sustainability is a relatively new and rapidly evolving topic which is not familiar to many board directors whose executive careers ended a long time ago. For that reason, it's incumbent on every board director to get up to speed on the most common issues (such as climate change, decarbonisation, or human rights in the supply chain) and to understand the materiality of their organisation from a sustainability perspective, so they can see where both the risks and opportunities lie.

The least common solution for boards trying to get ahead of the sustainability challenge is to hire a director with so-called ESG expertise. We have seen very few cases around Europe where boards have hired a director specifically for their ESG credentials. The main reason for this is probably that it is quite rare to find specialists who have the requisite business experience to be able to add value across the entire board agenda.

Developing the next generation of board directors

As fast as the business context is changing, it is hard for boards to keep up. While stability and tenure are important factors in a high-functioning board, so is fresh thinking in the form of new directors who bring insights and experiences (and scars) from the battlefield. Sustainability is only one of the growing concerns that boards need to address, albeit a critical one, but there are other areas too where expertise is needed, for example artificial intelligence and machine learning, cybersecurity, data & analytics and digital transformation. Bringing a subject matter expert on to the board may be necessary in certain circumstances, although the most important thing is that every board seat is occupied by someone with the intrinsic qualities necessary to contribute broadly to board debate and decision making.

Boards are seeking more diversity and a good balance between experienced hands and new perspectives borne of current, hands-on experience, so our task as leadership advisers is to look outside the traditional pool of candidates to help create boards that are able to exercise oversight and advise on strategy in all the dimensions decisive for business today. For candidates who have never sat on a main board, we apply our Board Intrinsics™ methodology to assess individuals for five qualities: intellectual approach; independent-mindedness; interpersonal skills; integrity; and inclination to engage (motivation). More and more first-time board directors who have these qualities in abundance are able to get up to speed and prove their worth despite their lack of experience in the boardroom.

We also provide practical advice to future board members through our guide to Becoming a Non-Executive Director,[1] and run programmes designed to develop the skills and capabilities of new and prospective board directors, such as Directors' Forum programmes run in the UK and Germany, and academic partnerships, for example in Switzerland with NICG and SIX for Board Essentials.

1 https://www.spencerstuart.com/research-and-insight/becoming-a-non-executive-director

4. Board Assessments

4.1. Measuring board effectiveness

Public expectation of board performance is increasing and boards must be ready to demonstrate that they are both fit for purpose and self-aware. Just as directors are required to be more professional in the performance of their duties, so the monitoring and evaluation of that performance sets a good example to the organisation as a whole. It reinforces a culture of self-reflection and openness to constructive criticism.

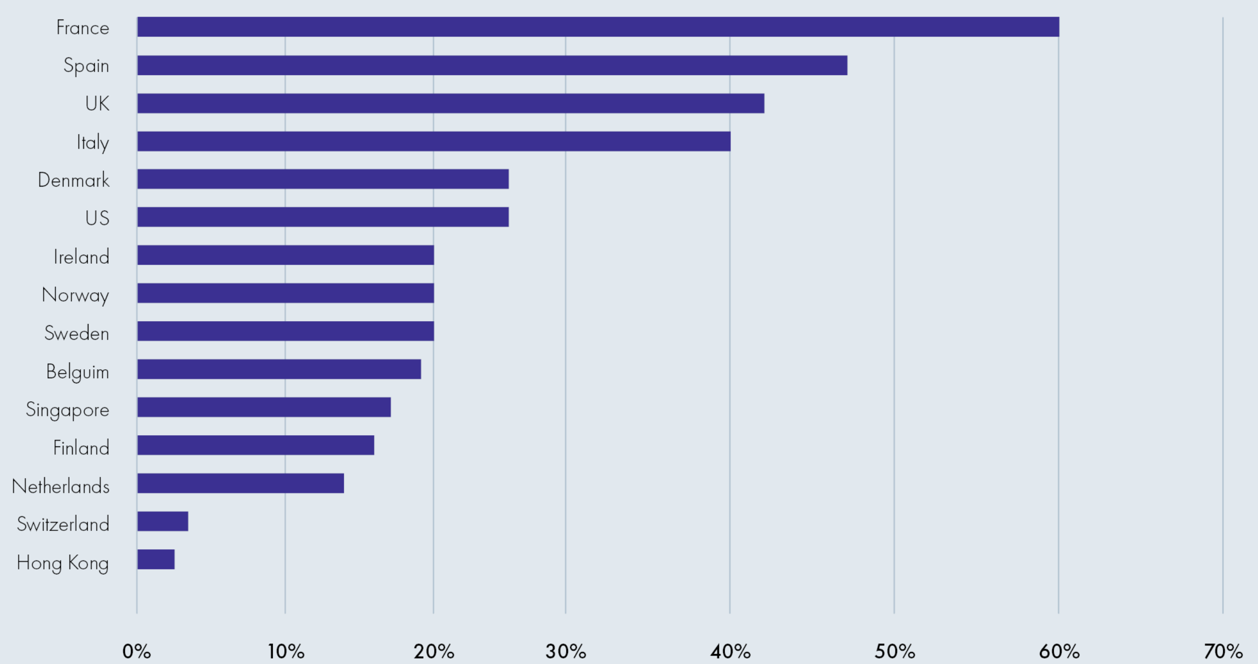
How effectively the board carries out its duties is therefore something that should concern every board member, not just the chair. An annual board assessment plays a critical role in ensuring that any problems in how the board functions are brought to light and addressed in a discreet and timely manner. Board assessments frequently result in improved processes, more accountability and transparent communication, enhanced trust and better decision-making.

These annual evaluations are frequently self-assessments, often conducted by questionnaire under the direction of the deputy chairman, senior independent director, or often the company secretary. Frequently, the results are referred to as part of the governance report published by the company.

Boards should not expect too much of an internally managed board assessment exercise. Self-criticism is likely to be muted and any changes recommended will be modest – a weakness of self-regulation. Those who mark their own homework are likely to award high grades.

In recent years, certain national corporate governance codes have been recommending that boards conduct an externally facilitated board assessment a minimum of every three years and most boards have followed these guidelines. It is noteworthy that whereas 22 companies in the SMI Expanded index reported undertaking an internal board review in 2022, only two Swiss boards (4%) used an outside facilitator. There is no mention of external evaluations in the Swiss Code, and until this gets on the radar the situation is unlikely to change. Figure 5 shows how companies in the SMI Expanded index compare with their peers around the world.

Figure 5: Externally facilitated board assessments (2022)



The ingredients of a successful board assessment

In our experience, clients derive the highest value from an external board assessment when the approach pursues the following key principles:

- The assessment is specifically tailored to the client's current business context.
- The scope is determined on the basis of a comprehensive briefing by the chairman and agreed stakeholders.
- Board members are interviewed individually on a confidential basis and asked both for their qualitative and quantitative assessment of the areas that determine board effectiveness.
- The board's performance is benchmarked against equivalent companies.
- The assessments are conducted by consultants with seniority and experience.

4.2. External facilitation

An external assessment conducted by an experienced, trustworthy and neutral facilitator provides a far richer and more nuanced picture of the board's functioning and effectiveness. Most importantly, it is more likely to provide a true and honest one.

The identification of substantive issues and the ability to benchmark the board against best practices elsewhere are the two principal reasons why an external evaluation can provide the information that shareholders and other stakeholders seek. A well-conducted external assessment of the board will have a number of objectives going far beyond simply reporting on how things are.

A key ambition will be to enhance the board's relationship with management and to ensure that communication among directors and with the executive is more transparent. An ambition will be to improve the board's processes of working together with an aim of building trust among directors, thus allowing for better decision-making, particularly during periods of crisis and transition.

There is real benefit in board assessments being done on a consistent and regular basis. It helps set the right tone at the top and some high-performing boards consider an externally facilitated annual board assessment to be best practice, not least because it enhances the recruitment process.

An effective performance evaluation requires expertise and professionalism on the part of the evaluator. Given the growing legislative requirements for external evaluation, an increasing number of individuals and organisations are offering their services. However, for the best results boards should choose as an external facilitator a firm that has the resources and experience to do the job properly. Each evaluation should be conducted by a specialist in the field of board and corporate behaviour that offers these services across many jurisdictions, bringing experience and best practice from other relevant markets.

5. Conclusion

There are several corporate governance measures where Swiss listed companies lead the way on the global stage, including high levels of independence, international outlook and the proportion of women among new appointments. As we have pointed out, there are also some areas where Swiss companies could enhance their governance to keep pace with best practices established in other European jurisdictions. The prospect of inviting an external facilitator to conduct a board evaluation may not appeal to some chairs, but the reality is that such evaluations are already widespread in many other European jurisdictions and incorporated into their corporate governance codes. By taking a proactive approach, Swiss organisations could enhance their reputation and give them first-mover advantage should similar recommendations for externally facilitated board evaluations eventually come to Switzerland.

Societal expectations and scrutiny around ESG are only going to increase the pressure on boards. While the jury is still out regarding whether dedicated committees are the most effective arrangement for dealing with pressing issues like sustainability, boards do need to be prepared to deliver on more and more complex mandates. They must invest in governance, board effectiveness and succession planning, and consider talent from more diverse candidate pools who can help them to deliver on new challenges. More diversity in the boardroom helps protect an organisation from reputational risk. Not only is it 'the right thing to do', but over time it will have a positive effect on the quality and strength of leadership and ultimately on the future performance and relevance of an organisation.

Corporate Social Media Strategy (CSMS) als neue Aufgabe für den Verwaltungsrat?

Kilian D. Grütter
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Als Dozent, Mediator und Sparringspartner für Executives unterschiedlicher Hierarchiestufen begleitet und berät er mit seinem Team unterschiedliche Unternehmen und Organisationen im Bereich von Social Media Strategien, internem und externem Employerbranding, Leadership, Kommunikation und Konfliktmanagement.

Ausserdem unterstützt er mit seinem Team Strategieprozesse und moderiert Retraiten von Verwaltungsrats- und Geschäftsleitungsgremien.

1. Warum ist eine Corporate Social Media Strategy (CSMS) für die strategische Ausrichtung einer Unternehmung wichtig? Welche Rolle spielt dabei der Verwaltungsrat?

Nach Schweizer Obligationenrecht (Art. 716a OR) hat der Verwaltungsrat unübertragbare und unentziehbare Aufgaben. Davon betreffen eine die Oberleitung der Gesellschaft und die dafür nötigen Weisungen und die zweite die Festlegung der Organisation der Gesellschaft. Oberleitung als zentrale Aufgabe des Verwaltungsrates bedeutet Festlegung der strategischen Ziele. Zu diesem Bereich gehören als (neue oder zukünftige) Aufgaben für den Verwaltungsrat im Bereich des externen Employer Brandings u.a. auch die Unterstützung der Geschäftsleitung hinsichtlich strategischer Ausrichtung der genutzten Social Medias.

2. Was genau ist eine Corporate Social Media Strategy (CSMS)?

Eine Corporate Social Media Strategy (CSMS) ist ein Plan, der von Unternehmen und Organisationen entwickelt wird, um definierte Ziele auf sozialen Medien zu erreichen. Eine CSMS beinhaltet in der Regel eine detaillierte Beschreibung der Ziele und Zielgruppen, eine Übersicht der verfügbaren sozialen Medien und deren Nutzerbasis sowie eine Beschreibung der zu verwendenden Inhalte und Kanäle. Des Weiteren kann eine CSMS auch einen Zeitplan für die Veröffentlichung von Inhalten, eine Strategie zur Steigerung der Reichweite und des Engagements sowie eine Methode zur Erfolgsmessung umfassen.

Die Erstellung einer CSMS erfordert eine gründliche Analyse der Stakeholder, insbesondere auch der Zielgruppen, der Konkurrenz und der Plattformen, auf denen die avisierten Stakeholder und Zielgruppen aktiv sind.

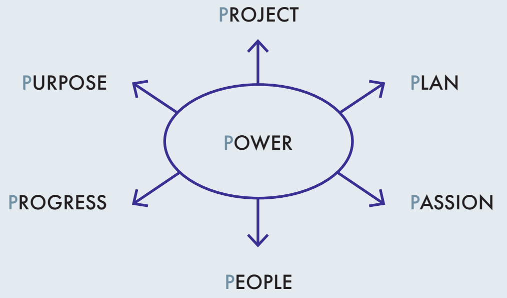
3. Was sind Nutzen und Vorteile einer Corporate Social Media Strategy (CSMS)?

Durch die Entwicklung einer Corporate Social Media Strategie (CSMS) können Unternehmen und Organisationen ihr Engagement steigern, das interne Employer-Branding verbessern, ihr Markenimage verbessern, Talentmagnet für neue Mitarbeitende werden, ihre Werbewirksamkeit steigern und ihre Zielgruppen noch besser erreichen. Summa summarum ist eine erfolgreiche CSMS ein natürlicher und kostengünstiger Energiebooster zur Erreichung der gesteckten Unternehmensziele mit oft ungeahnten, überraschenden und positiven Auswirkungen.

4. Wie gelingt eine Corporate Social Media Strategie (CSMS) erfolgreich?

Eine zeitgemässe Corporate Social Media Strategy (CSMS) erfordert eine Reihe von Komponenten, um erfolgreich zu sein, subsumiert wird sie unter der «strategia sette pi».

Grafik 1: «strategia sette pi»



4.1. Purpose

Jede erfolgreiche CSMS beginnt mit klaren und messbaren Zielen. Diese können von der Steigerung der Reichweite über die Verbesserung des Engagements bis hin zur Generierung von Leads und Verkäufen reichen. Im Verwaltungsrat können die spezifischen Unternehmensziele für die Social-Media-Präsenz definiert werden. Erfolgreich wird es, wenn alle Aktivitäten der CSMS darauf ausgerichtet sind. Relevante strategische Fragen sind z.B: Geht es bei der betriebseigenen CSMS um Imagebildung, Information oder Personalgewinnung oder gar um einen Mix daraus?

4.2. Project

Sobald die CSMS zur gemeinsamen Chefsache (Verwaltungsrat und Geschäftsleitung) des Unternehmens erklärt wird, ist der Scheinwerfer der Aufmerksamkeit der Führung auf diesen Bereich gerichtet und Akzeptanz und Glaubwürdigkeit wachsen bei Mitarbeitenden, Kunden und Stakeholdern exponentiell. Eine stringente Zielvorgabe und klare Guidelines des Verwaltungsrats hinsichtlich Auftritt sind bei einer erfolgreichen CSMS essentiell: Die verschiedenen Beiträge sollten konsistent und das Erscheinungsbild, das ein Unternehmen im Rahmen seiner Public Relations anstrebt (corporate identity), muss in allen Kanälen einheitlich in Erscheinung treten. Es ist wichtig, die richtigen Kanäle in den sozialen Medien zu wählen, um die Inhalte dementsprechend wirkungsvoll zu verbreiten. Dies kann organisch oder bezahlt erfolgen oder von der Nutzung von gezielten Hashtags bis hin zu Influencer-Marketing geschehen. Es ist ausserdem wichtig, diejenigen Plattformen zu wählen, die am besten zu den Zielen passen und auf denen die firmenrelevanten Zielgruppen aktiv sind. Facebook, Twitter, Linkedin, Instagram oder Youtube sind nur einige Beispiele. Jede Plattform hat ihre eigenen Stärken und Schwächen und es ist wichtig zu verstehen, welche Art von Inhalten auf den jeweiligen Plattformen am besten funktioniert.

4.3. Plan

Eine erfolgreiche CSMS erfordert einen konsistenten Projekt- und Zeitplan für die Veröffentlichung von Inhalten. Dies hilft der Geschäftsleitung, das Engagement aufrechtzuerhalten und die Zielgruppen und Stakeholder zu erreichen. Die Geschäftsleitung kann diese Aufgabe selbstverständlich auch der Kommunikations-, Marketing- oder Personalabteilung delegieren, jedoch sollte das Controlling und Monitoring bei der Geschäftsleitung angesiedelt sein. Die Aktivitäten sollten in den sozialen Medien regelmässig überwacht werden, um zu sehen, was funktioniert und was nicht. Die Taktik kann so zeitnah effizient und effektiv entsprechend angepasst werden. Eine konsistente und ansprechende Inhaltsstrategie ist der Schlüssel zum Erfolg in den sozialen Medien.

Es empfiehlt sich, einen Redaktionsplan zu erstellen, der die Art von Inhalten, den Zeitplan für Veröffentlichungen und die Verteilung auf verschiedenen Plattformen festlegt. Es gilt hierbei sicherzustellen, dass die Inhalte relevant, informativ, unterhaltsam und visuell ansprechend sind. Verschiedene Formate wie Text, Bilder, Videos oder Infografiken können experimentell eingesetzt werden, um das Interesse der Zielgruppen zu wecken.

4.4. Passion

Mit einer emotionalen Unternehmensvision und mit dazu passendem Storytelling werden Bilder und Geschichten in Social-Media-Beiträgen kreiert, die intern und extern positive Emotionen, im besten Fall wahre Begeisterung, freisetzen. Viele Unternehmen verstehen zwar die Bedeutung von Emotionen, aber noch zu wenige Beiträge in den sozialen Medien erreichen die Herzen der Konsumentinnen/Konsumenten. Der Wahlspruch der Literatur des 18. Jahrhunderts «prodesse et delectare» (nützen und erfreuen) erfährt in den Social Medias der Gegenwart wieder eine Renaissance. Wichtig sind dabei aktuelle und emotionale Inhalte, welche die für das Unternehmen relevanten Zielgruppen ansprechen, sie informieren, erfreuen und ihnen so auch einen direkten Nutzen offenbaren. Am besten sind Inhalte mit spannendem und emotionalem Storytelling, die Diskussionen auslösen und so vielfach kommentiert, geteilt und geliked werden und eventuell sogar viral gehen. Zeitgemässe Verwaltungsräte interagieren als Vorbilder sichtbar mit ihren privaten Profilen als Vertreter der Organisation direkt mit den Stakeholdern mit Kommentaren, Fragen, Abstimmungen und Diskussionen, um eine starke Beziehung zu ihren Zielgruppen aufzubauen. Sie gehen souverän auch mit Trollen oder Stänkerern im Netz um, parieren ggf. verbale Angriffe oder ignorieren diese schlicht. Den Königsweg haben Unternehmen dann erreicht, wenn die eigenen Kunden in den sozialen Netzwerken über die Organisation positiv berichten, indem sie z.B. Vorteile von Produkten erwähnen oder auch positive emotionale Erlebnisse mit Mitarbeitenden schildern.

4.5. Progress

Eine erfolgreiche CSMS erfordert qualitativ hochwertige und relevante Inhalte. Dies können Texte, Bilder, Videos oder andere Medien sein, die auf die anvisierten Zielgruppen abgestimmt sind. Die Unternehmung sollte dabei die Zielgruppen der Social-Media-Kanäle genau kennen, damit gezielte Inhalte erstellt werden können: Wer sind die Zielgruppen, wo sind sie aktiv und welche Art von Inhalten sind von Interesse? Mittels Customer Journeys, Kunden- und Marktbefragungen, Feedbackschlaufen usw. können dabei relevante Informationen für das Marketing eruiert und reflektiert werden. Die Leistung der Social-Media-Aktivitäten sollte zudem regelmässig überwacht und der Erfolg kann anhand relevanter Metriken wie Follower-Wachstum, Engagement-Rate, Klicks oder Conversion-Rate gemessen werden. Analysetools können eingesetzt werden, um Einblicke in das Verhalten der Zielgruppen zu erhalten. Basierend auf diesen Ergebnissen kann die CSMS kontinuierlich angepasst und optimiert werden.

Der Verwaltungsrat als oberstes strategisches Organ wird dabei sehr positiv wahrgenommen, wenn er sich dieser Reflexion auch stellt, indem er sich z.B. regelmässig Reportings und statistische Analysen der CSMS seitens Geschäftsleitung annimmt und diese konstruktiv und kritisch reflektiert.

4.6. People

Die CSMS wird zum Fanal des internen und externen Employerbrandings, wenn den Mitarbeitenden Vertrauen geschenkt wird. Dazu gehört eine (bestenfalls) kollaborativ erarbeitete Social-Media-Guideline, die Spielraum für Kreativität und Gestaltungsmöglichkeiten offenlässt. Die positive Energie und intrinsische Motivation vieler Mitarbeitenden kann mit einem sinnvollen Content-Management (mit sanftem Controlling und stetiger Kommunikation) innerhalb der verantwortlichen Abteilungen (Kommunikation in Umternehmen, Personalabteilung, Marketing usw.) sichergestellt werden.

Social Media dreht sich um den Aufbau von Beziehungen. Es soll sichergestellt werden, dass die Kanäle aktiv bewirtschaftet werden und auf Kommentare, Fragen und Feedback der Follower und Stakeholder professionell, adäquat und zeitnah reagiert wird. Eine gute Kommunikation und schnelle Reaktionszeiten tragen zur Kundenzufriedenheit und zum Aufbau von Vertrauen bei. Möglichkeiten zur Interaktion wie Umfragen, Gewinnspiele oder Live-Events können dabei eingesetzt werden, um das Engagement der Zielgruppen zu steigern.

4.7. Power

Wahre Entfaltungskraft und Wirkung entwickelt die «strategia sette pi», wenn die erwähnten Schritte detailliert und umfassend im Sinne der Unternehmensziele umgesetzt werden. Eine starke Online-Präsenz in den sozialen Medien ist heutzutage für Unternehmen unterlässlich. Eine gut durchdachte CSMS ermöglicht es, die Marke zu stärken, Kunden zu gewinnen und das Unternehmen erfolgreich zu positionieren.

5. Konklusion

Zusammenfassend lässt sich sagen, dass eine erfolgreiche und moderne Corporate Social Media Strategie (CSMS) im korporativen Machtzentrum einer Unternehmung, zwischen Verwaltungsrat und Geschäftsleitung, kollaborativ in beiden Gremien unter Wahrung des strategischen und operativen Rollenverständnisses erarbeitet werden sollte. Als nützliche Unterstützungsmassnahmen zeigen sich hierbei extern moderierte CSMS-Retraiten oder CSMS-Strategietage mit praxiserfahrenen Moderatoren und/oder Social-Media-Strategen.

Dazu sind von Seiten Verwaltungsrat für die Geschäftsleitung die notwendigen Weisungen als Leitlinien (WAS), jedoch nicht als konkrete Handlungsanweisungen (WIE) zu formulieren.

Entsprechende Kontrollmechanismen (Kennzahlen, Zielvorgaben, Meilensteine usw.) ermöglichen dem Verwaltungsrat eine regelmässige Überprüfung der Zielerreichung einer mit der Geschäftsführung gemeinsam etablierten und gelebten CSMS. Sobald die strategischen Ziele des Verwaltungsrats definiert sind, kann die Geschäftsleitung operativ die CSMS so aufsetzen, dass sie zum Unternehmenserfolg beiträgt.

Der wichtigste Faktor für den Erfolg eines Unternehmens ist und bleibt eine klare Strategie und Positionierung, die sich von den Bedürfnissen und Erwartungen der Kunden ableitet und auf zukünftige Herausforderungen vorbereitet.

Zu einer erfolgreichen Etablierung einer Corporate Social Media Strategy (CSMS) braucht es ausserdem eine klare Führung, Verantwortungsübernahme und strategische Vorgaben (ggf. strategische Analysen wie Stakeholderanalyse, Zielgruppenanalyse usw.) seitens Verwaltungsrat. Flankierend unterstützend ist dabei ein echtes Interesse an den sozialen Medien und am besten ein persönlich-aktives Mitmachen mit einem eigenen Businessprofil, mit welchem die Unternehmensbeiträge geliked und kommentiert werden. Diese Aktionen haben einen nicht zu unterschätzenden Signal- und Vorbildcharakter für alle Stakeholder, Mitarbeitenden, Kunden und weitere User und dienen einerseits zur Erhöhung der Reichweite der Community sowie andererseits der Verbreitung von Unternehmensinhalten, die schliesslich einen Beitrag zum Erfolg der CSMS leisten.

Abschliessend kann festgestellt werden, dass eine gelungene Integration und Partizipation von Verwaltungsrat und Geschäftsleitung zur Schaffung einer konsistenten, kollaborativen, erfolgreichen und zukunftsfähigen CSMS förderlich ist. Sie dient gleichzeitig zur Sensibilisierung der strategischen und operativen Unternehmensführung, zur Überprüfung der im Alltag gelebten Vision und damit auch zur Einnordung des gesamten Unternehmenskompasses.

Praxisbeispiel 2023: Deutsche Marine, Teilstreitkraft der Bundeswehr

Info: Deutsche Marine

Die Deutsche Marine, Teilstreitkraft der Bundeswehr mit rund 16'000 zivilen und militärischen Mitarbeitenden, ist weltweit auf See im Einsatz – zum Schutz von Seewegen und Staatsbürgern, zur Konfliktverhütung und Krisenbewältigung, für humanitäre Hilfe und zur Verteidigung.

Unterschiedliche Rekrutierungsstrategien: Von «Shanghaien» bis zur Social-Media-Strategie «Talentmagnet Marine»

Als im späten 19. Jahrhundert mit der wachsenden Bedeutung des internationalen Seehandels die Nachfrage nach Seeleuten stieg, wurde die Praxis des Shanghaiing oder der Entführung geeigneter Männer als Seeleute auf auslaufenden Schiffen üblich. Obwohl gelegentlich stark übertrieben, ist an diesen Berichten etwas Wahres dran.[1] Die damals gängige Praxis: Für die Seefahrt geeignete Männer wurden in eine Falle gelockt, entweder mit Alkohol betäubt, beziehungsweise bewusstlos gemacht oder Knüppel auf den Kopf sowie noch andere brachiale Methoden, um dann den «neuen» Seemannskandidaten auf das Schiff zu bringen. Als dieser wieder zu sich kam, war es schon zu spät, er fand sich auf hoher See wieder und musste sich nolens volens dem harten Regime an Bord für eine bestimmte Zeit unterordnen. Personalproblem also kurzzeitig gelöst!

1 Vgl. https://www.foundsf.org/index.php?title=Shanghaiing (16.05.2023).

CSMS «Talentmagnet Marine» - Aspirin zur Bekämpfung der personellen Migräne?

2023 bereiten ganz andere Kopfschmerzen das Bewerbungsverfahren der Deutschen Marine. Die Personallage hat einen kritischen Punkt erreicht, man könnte sogar von Migräne sprechen. Heute hat es die Deutsche Marine jedoch nicht nötig, den Holzhammer auszupacken, um Menschen zu überrumpeln und zu shanghaien. Sie setzt vielmehr auf ihre Qualität als Arbeitgeber und bietet ausgezeichnete Karrieremöglichkeiten und Entwicklungschancen.

CSMS «Talentmagnet Marine» - zur Chefsache erklärt und neuer Kurs gesetzt

Die Personalwerbung musste in Zeiten massiven Personalmangels jedoch neue Wege gehen und dabei schritten der Inspekteur der Marine, Vizeadmiral Jan Christian Kaack, und der Befehlshaber der Flotte und Unterstützungskräfte, Vizeadmiral Frank Lenski, mutig und mit neuen Ideen voran.

In unserem Alltag haben soziale Netzwerke längst einen festen Platz gefunden. Während einige Marineangehörige mit dem Medium erst lernen mussten umzugehen, ist es für die personalwerbliche Zielgruppe zu einem integralen Bestandteil der alltäglichen Kommunikation geworden. Das Ziel einer Workshopwoche im Februar 2023 war die Etablierung einer Corporate Social Media Strategy (CSMS) mit dem Fokus «Talentmagnet Marine». Dadurch wurden Handlungssicherheit für die Angehörigen der Deutschen Marine geschaffen. Das grosse Potenzial und die vielfältigen Erfahrungen von wichtigen Keyplayers, Marineangehörigen, die bereits social-media-affin und aktiv sind, wurden kollaborativ, partizipativ und agil genutzt.
In einem kreativen Innovation-Lab wurden spannende Ideen (weiter-)entwickelt und so gemeinsam einen wirkungsvollen Beitrag zur erfolgreichen Personalbedarfsdeckung und zur Imagebildung der Deutschen Marine geleistet. Der «Zauber der Marine» wird mit authentischen Bildern und vielfältigen spannenden Geschichten sicht- und erlebbar gemacht. Somit wird eine positive Grundstimmung erreicht, die sich letztlich auch personalwerblich positiv auswirken kann.

Die Guidelines und rechtlichen Rahmenbedingungen der Bundeswehr wurden für die Teilstreitkraft Marine selbstverständlich reflektiert und eingehalten. Der Workshop hatte eine Signalwirkung und er wurde in der Öffentlichkeit wahrgenommen. Mit diesem «CSMS-Aspirin» könnte die Migräne der Personalmangellage gelindert werden, so die Hoffnung des Marinekommandos. Neue Möglichkeiten wurden gemeinsam angedacht, um die Wahrnehmung der Deutschen Marine in der Öffentlichkeit positiv zu belegen. Die Marineangehörigen können so einen Einblick in ihr Leben und ihre spannende Arbeit an Bord einem breiten Publikum ermöglichen. Diese Optionen strahlen Zuversicht aus.

«No shipping - No shopping» - Bedeutung der Deutschen Marine für die Schweiz

Mit dem CSMS «Talentmagnet Marine» wird im Bereich Information die internationale Zusammenarbeit, Partnerschaft und Kooperation als traditionelles Markenzeichen der Deutschen Marine betont. Die Verpflichtungen gegenüber der NATO, der Europäischen Union und den Vereinten Nationen haben dabei hohe Priorität und werden auch in den sozialen Medien immer wieder aufgezeigt.

In einer zunehmend globalisierten Welt und vor dem Hintergrund der wirtschaftlichen Abhängigkeit von Deutschland und auch der Schweiz von freien Seewegen nimmt die Bedeutung der Deutschen Marine als Instrument der Sicherheitspolitik weiter zu. Die Herausforderungen und die Aufgaben der Marine in einer globalisierten Welt sind hoch komplex und dynamisch, daher sind auch die Einsatzbereitschaft von Mensch und Material für ein internationales Krisenmanagement eine entscheidende Grundvoraussetzung, um die Aufträge kompetent erfüllen zu können.

Die Bedeutung der Deutschen Marine ist zudem für die Schweiz von elementarer sicherheitspolitischer Bedeutung. Die Abhängigkeit von freien Weltmeeren ist in der Schweizer Bevölkerung wenig präsent.

Die Deutsche Marine leistet zusammen mit ihren Verbündeten einen wesentlichen Beitrag zur maritimen Sicherheit und damit auch zur Versorgungssicherheit Europas. Deutsche Marineeinheiten tragen Verantwortung für den Schutz der Hoheitsgewässer, der maritimen Infrastruktur und der Seeverbindungslinien. Dazu gehören die Seeraumüberwachung, der Schutz vor militärischen und terroristischen Bedrohungen auf See, aber auch der Such- und Rettungsdienst über See, die Sicherung der interkontinentalen Kommunikationsnetze und die maritime Umweltüberwachung sowie Geiselbefreiung und Evakuieren Deutscher Staatsbürger aus gefährlichen Situationen im Ausland.

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