CORPORATE RESILIENCE RECOMMENDATIONS

By the Netværk for RESILIENT Selskabsledelse, January 2021

Translated into English by IDONEA

Find the original Danish "Anbefalinger for RESILIENT Selskabsledelse" on:
www.resilientselskabsledelse.com

CONTENT

	Page
PREFACE	2-3

RECOMMENDATIONS

CORE
C1. Purpose	4
C2. Values	4
C3. Core Competencies	5
C4. Leadership Foundation	5
C5. Promises	5

PEOPLE
P1. Organizational Design	6
P2. Engagement	6
P3. Team & Team-Dynamics	7
P4. Talent & Succession	7
P5. Incentives	7

STRATEGY
S1. Assumptions & Position	8
S2. Breakthrough	8
S3. Direction	9
S4. Story	9
S5. Crisis Management	9

EXECUTION
E1. Raison d'etre	10
E2. Initiatives	10
E3. Strategy-Progress	10
E4. Focus & Role	11
E5. Board Development	11

EPILOGUE	12

PREFACE

The average life expectancy of companies, according to a study by Credit Suisse, has fallen in recent decades to around 20 years and is predicted to be only 12 years in 2030 – down from 60 years back in 1950.

There is no indication that the world will become less turbulent in the coming decades, as technological development is expected to increase in its speed and scope.

So it is more important than ever that companies gain the **ability to survive and maintain corporate vitality in a world that constantly requires adaptation.**

The "Corporate RESILIENCE Recommendations" seek to explore how Boards can contribute to that crucial task.

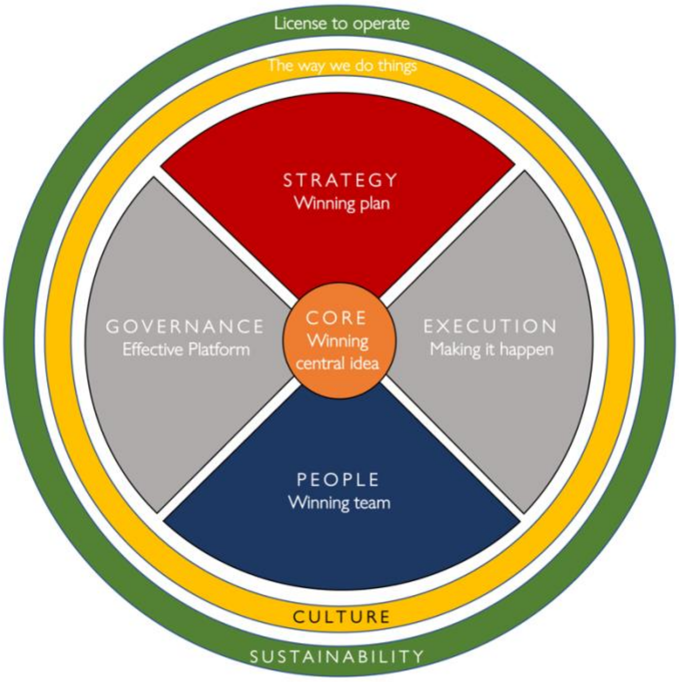
The "Corporate RESILIENCE Recommendations" should therefore be considered as a supplement to "Recommendations for good corporate governance" which nations around the World have issued in response to financial incidents over the years.

Good "Governance" can never be trivialized. It is a critical condition to any enterprise. And thanks to the "Recommendations for good corporate governance", most companies have become good at "Governance".

However, a number of studies and the business literature suggest that value-creating Boards concern themselves with much more than "Governance".

It would be fair to say, that there is nothing new in the 20 supplementary recommendations, and most companies are already working on "Core", "People", "Strategy" and "Execution". But institutionalizing that work increases the likelihood that it will become part of the company's DNA/Culture.

Some might ask why "Sustainability" is not a category in itself. The reason is that "Sustainability" ("People / Profit / Planet", triple bottom lines, etc.) and the UN's 17 Sustainable Development Goals are the starting point for the work of achieving resilience. Only by actively incorporating "Sustainability" into everyday life does the company get its "license to operate".



The most important aspect is neither the disciplines themselves nor the tool used to work with them. What matters is that discussions around these topics find their way into the Board's Annual Wheel, so that concrete actions are crystallized, and companies as a result continuously improve and develop.

We hope the "Corporate RESILIENCE Recommendations" can contribute to this.

Copenhagen, January 2021

Komitéen for RESILIENT selskabsledelse
(Committee for RESILIENT Governance)

CORE

The foundation of most companies is a central idea, the "core", that defines the company and its interaction with its customers, employees, and other partners.
It is around this "Core" that the strategy is formulated, and action plans are drawn up.

Companies who lost track often did so because they ended up forgetting to focus on that central idea.

The "core" is defined by a number of components that must be coherent. This also makes it a lot easier for companies to ensure a coordinated and sustainable development as it grows and enters new markets.

The recommendations below help Boards ensure clarity around the company's central idea.

C1. IT IS RECOMMENDED that the Board reflects on and approves the company's **"Purpose"**.

A purpose must describe the challenge the company is trying to solve, and preferably where and for whom. A purpose should be short, precise, and unique, thus making a difference and being easy to remember in everyday life.
Future generations will put increasing importance to a clear and value-creating purpose when choosing an employer, which is another reason why it is important that the purpose is sustainable and attractive.

C2. IT IS RECOMMENDED that the Board reflects on and approves the **"Values"**, which should characterize every employee.

Values should be the essential characteristics that you want all employees and significant business partners to represent in everyday life.
It is often a good idea to appeal to both "heart", "brain", and "feet", in recognition that all three are important components, and it is particularly important to ensure that they support purpose and strategy and thus the ongoing development.

C3. IT IS RECOMMENDED that the Board assesses the **“Core Competencies”** which are essential to succeed.

Core competencies are the operating disciplines that are absolutely crucial to master in order to succeed with the purpose and the promises that the company has chosen. They must be recognizable in both customer preferences and the profit and loss statement, and it is important to ensure that they are solved in a way that is both efficient, effective, and superior to the competition.

C4. IT IS RECOMMENDED that the Board determines the **“Leadership Foundation”,** for which anyone with leadership responsibilities must be a role model.

The leadership foundation is the approach that all Leaders should represent. It is needed not least to provide the necessary momentum and fighting power at all times. The leadership foundation must harmonize with the values so that they appear as a whole.

C5. T IS RECOMMENDED that the Board of Directors reflects on the **"Promises"** the company seeks to fulfill for the respective stakeholders.

A brand is a promise. Promises should help make the company competitive, if not unique. Promises must not stand in the way of each other but must be able to be fulfilled sustainably, hand in hand, and simultaneously for customers, employees, suppliers, owners, communities, and others, so that "multiple bottom lines" are delivered.

PEOPLE

Even asset-heavy companies have, over the years, had to recognize that the most critical asset is their people. In a digital world, that truth is only becoming more and more important to recognize.

The "tangible" assets are included in the annual report and are carefully evaluated by the Auditors, Boards, and Executives.
But only the fewest companies approach the "human" assets with the same thoroughness. The key is to be aware of the connection between systems, assets, and people – and the influence they have on each other.

The recommendations below help Boards ensure that companies are prepared to support their strategies with the necessary human resources.

P1. IT IS RECOMMENDED that the Board annually assesses whether the company's **"Organizational Design"** is suitable to meet the strategic goals.

More and more companies are experiencing a matrix-like everyday life, where products / services, geographies, market channels, etc., create a complicated decision web.
There is no ideal organizational structure. No matter which one you choose, it has its advantages and disadvantages.
What matters is that you find a design that can support the strategic priorities, creates the necessary sense of ownership, and has the capacity to ensure coordination of the essential strategic efforts, including the right level of decentralization.
It is furthermore important that the structure stimulates decision-making and that it mobilizes resources through network collaboration across the company and with its stakeholders.

P2. IT IS RECOMMENDED that the Board ensures that the company's **"Engagement"** is assessed annually.

A number of studies show a strong correlation between employee engagement and companies' results and innovation power. However, they unfortunately also suggest that too many companies have too many directly "disengaged" employees. The financial consequences of "disengaged" employees and managers are substantial, and the Board should therefore take co-responsibility for creating a company characterized by a strong commitment and followership.

P3. IT IS RECOMMENDED that the Board annually reflects on the **"Team & Team-Dynamics"** in the top management.

It is one thing to have a lot of skilled players on the team. It is quite another to have players who complement and make each other better. To accomplish that requires insight into the individual profiles, and a good understanding of personal and team characteristics. Attention needs to be paid to diversity, and it must, furthermore, be assessed to which the extent the necessary agility is in place and the degree to which the top management, as a team, is ready for change/change-focused and willing to challenge the status quo.
It is equally important to know which employees are critical for the company's operations and which are crucial to implementing those changes that should ensure the company's continuous development.

P4. IT IS RECOMMENDED that the Board annually considers whether the company has the necessary robustness with regard to **"Talents & Succession"**.

In a turbulent world with increasingly rapid development cycles, it is crucial for any company to have the talents needed to secure the innovating power needed to develop the company in the short and long term. It is therefore important to understand what it takes to attract and retain that talent.
In addition to being a "sanity check" on how solid the company's talent pool and diversity are, reviewing succession plans is also a good opportunity to consider which external candidates might be of interest.

P5. IT IS RECOMMENDED that the Board annually evaluates whether the company's **"Incentive Programs"** encourage the correct behavior.

Remuneration is already an integral part of most national "Recommendations for good corporate governance". It is, however, also included here to ensure that the assessment entails that the programs stimulate and drive the right organizational behavior and that they do not only apply for top management.

STRATEGY

Strategy is essentially about making choices in order to create the focus that will ensure sustainable, profitable growth.

That work requires a deep understanding of the company, its markets, value chains, and customers, as well as the surrounding realities and competitors. It is a task that does not leave much margin for error, which makes it imperative to carefully structure the work and ensure that the strategy is made measurable so its progress can be closely monitored and the strategic choices (re-)assessed on a regular basis.

The recommendations below help Boards ensure that the company has a well-founded strategy that can be communicated and monitored.

S1. IT IS RECOMMENDED that the Board annually revisits the company's "Assumptions & Position" and assesses whether there is a need for strategic changes.

The starting point for any strategy process is a thorough understanding of the position the company is in and the assumptions it has made, including how it relates to the trends that are emerging for its markets and customers and their future.
This requires a solid database, which includes: Risk analysis, market analysis, competitor analysis, customer analysis, supplier analysis, assessment of significant/strategic partners, core competence assessment, cultural assessment, employee engagement, megatrends, etc.

S2. IT IS RECOMMENDED that the Board reflects on and approves which strategic **"Breakthroughs"** the company must deliver on.

On the basis of a thorough Assumption and Position Analysis, it is possible to crystallize which strategic breakthroughs the company must be able to meet.
By doing that, the company makes the crucial choices which are the center of any strategy, and the necessary prioritization is established for where the organization must focus its resources and energy.

S3. IT IS RECOMMENDED that the Board annually reconsiders the roadmap for the company's strategic **"Direction".**

In a turbulent world, it is necessary to focus not only on the very long-term goals and structural initiatives (marathons) but also, to a large extent, on the first steps on the way there (sprints).
By making the plan as concrete as possible, the momentum and thus the execution power is increased.

S4. IT IS RECOMMENDED that the Board considers the strategic **"Narrative"** alongside a communication plan for cascading the strategy.

When the Board and Executives have spent months on giving thought to a number of complex considerations and have finally reached their conclusion, there is a risk that the importance of cascading the plan is ignored. A lack of onward communication can result in insufficient momentum for the changes and efforts that are required to be made.
It is critical to these efforts that the strategy is crystalized into a few sentences and can be told within the same time it takes to ride an elevator.

S5. IT IS RECOMMENDED that the Board reviews the **"Crisis Management"** plan.

In a world where news travels faster than ever before, and where companies that are not prepared to deal with sudden attacks easily get into media crises, it is important to be well-prepared.
A good starting point for this is to identify an "Issues List" covering the areas that might be subjected to particular public scrutiny and if handled wrongly could risk undermining the hard-earned reputation of the company.

E X E C U T I O N

To avoid the risk of strategy documents merely ending up in cupboards and drawers without having achieved much else, it is crucial that the strategy is firmly anchored in the individual Business Units and Departments and thereby supports the company's strategic development.

To create the right framework for this work, it is crucial that there is a common understanding between the Board and Executives of what their respective roles are and where the focus is expected to be.

The recommendations below help Boards ensure that the company mobilizes sufficient and focused execution power.

E1. IT IS RECOMMENDED that the respective Business Units and Departments formulate **"Raisons d'être"** to create the necessary execution force.

With the strategic framework in place, the work begins with ensuring that the strategy is anchored and that the individual Business Units and Departments have the right focus and support the strategy in their respective initiatives and plans.
To ensure this, descriptions should be formulated of how they each add value, which systems/processes/policies, etc., they "own", and how their success is measured.

E2. IT IS RECOMMENDED that the respective Business Units and Departments prioritize and ensure focus on those **"Initiatives"** in their plans that support the company's strategy.

In addition to ensuring that the Business Units/Departments support the strategy, it must be ensured that their respective plans determine which specific short-term (sprints) and long-term (marathon) actions and initiatives they will and need to focus on.

E3. IT IS RECOMMENDED that **"Strategy-Progress"** is reported on a quarterly basis.

Strategies run for 3-5 years, but it is crucial that progress is evaluated regularly for the company to avoid going too far down the strategic path before it finds out that the strategy may not have the expected effect.

E4. IT IS RECOMMENDED that the Executives and the Board annually coordinate "Focus & Role".

On the basis of the Annual Board Evaluation, it is important that an Annual Wheel is developed for the Board and that the respective roles of the Board and Executives are clarified.

E5. IT IS RECOMMENDED that an annual plan is established for "Board development".

A Board Evaluation is already part of most national "Recommendations for good corporate governance", but it is also essential that the Board devotes resources, time, and effort not only to make an evaluation but also to develop "itself" and its way of working. Doing so will assist in cultivating the courage to face the relevant issues and ensure openness in all relationships/aspects, constructive participation, and unity within the Board as well as in the interaction with the Executives.
This involves not least ensuring that the Board has the diversity, competencies, and resources, and also requires that the Board develops and carefully plans succession.
An evaluation of the relevant meeting structure and Board committee and relevant involvement of external know-how as well as the employee representatives is essential.
Therefore, an annual Board seminar with a focus on how the Board adds value and contributes energy should be considered.

EPILOGUE

The work with the "Corporate RESILIENCE Recommendations" has led to many good discussions about which disciplines and questions should be included in the Board's Annual Wheel. But during the discussions, it has also been suggested time and time again that for Boards to add value, they need not only to ask the most important questions, they also need to ensure that the dynamics in the board room allow for constructive discussions.

The VALUE–ADDING Board

When that happens, Boards, in close collaboration with the company's Executives, have the opportunity to be a **catalyst and create the space and focus on the value-adding conversations and questions.**

"Corporate RESILIENCE Recommendations" are available on www.resilientselskabsledelse.com