Paving the Yellow Brick Road[1]

The corporate equity story as effective strategy tool for the Board of Directors

Ralph P. Siegl
Ralph P. Siegl is Chairman and Managing Partner of Experts for Leaders AG, Zurich. A former CEO in the international consumer goods business, he operates today as independent Trusted Advisor specialized in corporate governance, business development and brand building. He is a multiple senior Board member and / or chairperson of various listed and private medium-sized companies based in Switzerland in the international food industry, luxury goods, banking & finance as well as in the logistics sector. Ralph Siegl graduated from the University of St. Gallen and the London School of Economics and Political Science.

1 «A course of action that a person takes believing that it will lead to good thing». See https://www.oxfordlearnersdictionaries.com/us/definition/english/the-yellow-brick-road.

To adequately assume its strategic leadership role, the Board of Directors (BoD) as the governing body of the firm, must engage in proactively paving the road ahead. The corporate equity story offers an effective way to lead and drive the strategy process as it puts facts and vision together for meaning. It also provides a practical framework for the BoD to debate the way forward.

A reference to the fantasy novel «The Wizard of Oz»[2] as inroad to a critical corporate governance issue may seem far-fetched. Yet, the famous «Yellow Brick Road» that leads toward Emerald City as a symbol for success and happiness, fame and riches may serve as adequate metaphor for the point to be made here: The case for a rather active role of the BoD in shaping the strategy. Signing-off recurring mid-terms plans, technical budgets and rolling forecasts projecting the corporate way forward is not sufficient for the BoD to assume the strategic leadership role. Much like Dorothy in the famous novel, encouraged by the crowd of local experts (the Munchkins), «just» curiously follows the Yellow Brick Road without much thought («because, because, …»)[3] as a handy guideline provided by those who must know, corporate processes, data models and simulation results compiled by the Executive Management may imply a seemingly straightforward future derived from the past. It is rather common that Boards tend to «just» go along with the qualified propositions made, eventually questioning some obvious and imminent aspects.

Unlike the protagonists in the «Wizard», who begin to question the direction of the road only when they encounter pitfalls on their way, it is highly advisable that the BoD takes a more critical position with respect to the assumptions made in the plans designed by the Executive Management. As governing body of the firm, the Board needs to regularly engage in proactively paving the road ahead.[4] The corporate equity story offers an effective structure for a fruitful exchange of thoughts about what is required to stay ahead of things. In general, there seems a need for the BoD to be more self-critical with respect to the task of driving the process.

2 L. Frank Baum, «The Wonderful Wizard of Oz», 1900.
3 https://www.youtube.com/watch?v=Mm3ypbAbIJ8.
4 The discussion in this paper follows a distinct Swiss interpretation («Gestaltungsrat») of the responsibility of the Board of Directors according to Art. 716a Swiss law of obligations. Other corporate governance concepts such as e.g. the German «Aufsichtsrat» may attribute more strategic influence and leadership to the top executive team («Vorstand»).

1. Strategic leadership is Board responsibility

Apart from supervision, strategic leadership is a main responsibility of the BoD. While recent improvements in Board diversity have equipped many Boards with a wider range of specific expertise for a more effective and more competent supervision of the various fields of operation and with respect to regulatory matters, the corporate strategy process often remains cumbersome. As a deliberate and structured process beyond the standard agenda, strategy discussions need time to cover the key elements for «today for tomorrow» – judgement calls in a rather disciplined way.

Corporate strategy and subsequent business planning are mostly delegated to the CEO and the Executive Management. Given the information advantage of the operational team, this makes total sense. But it must remain the BoD that drives the strategy *process*. Eventually, the chairperson is involved to a certain extent, depending on his or her personality, genuine engagement level and leadership ambition or visionary power. Sometimes, the assistance of external strategy advisors also facilitates the process. Regular Board members may tend to follow what Niall Ferguson identifies as «bystander apathy»[5] and often display a spirit resembling a defense lineup on the playing field.

Eventually, the BoD is presented with the results during a strategy day or is left to just (but inalienably) signing off what is proposed without much debate after the CEO's presentation at a Board meeting usually scheduled for the third quarter of the year when mid-term plans are on the agenda. Does this sound familiar? It may be fair to assume that this situation holds true for quite a number of companies, especially if run by a charismatic CEO or Chairperson (or even a combination of both), or for privately owned businesses led by owners or major shareholders. The pattern is even more common in small and medium-sized companies, where capital and operational leadership are represented by the same person. The consequential bias behind the facts on the table is reason to challenge this plot.

The subject of availability and confirmation bias and other heuristics has been widely discussed by Nobel laureate Daniel Kahneman in 2011, when he made a convincing point about planning fallacies, control illusion and overconfidence in business administration. He recommended to always put expert data in perspective for mitigation.[6] With Board meetings usually loaded with formalities, regulatory content and operational matters put forward by the Executive Management, it is highly unlikely that the assumptions behind the provided information are sufficiently present when Board decisions are being made. To change this shortcoming may incur that a Board mandate takes more time and personal engagement than planned. The ever-growing complexity of the task is most likely to call for ever more time of members of a BoD as well as for more professionalism in the trade. This is truly necessary as many BoD are still inadequately staffed.[7] A BoD waiving the strategic leadership role by taking a rather passive stance versus the Executive team is not in the best long-term interest of the company as they succumb to a strong Executive influence. Critics rightly claim that this leads rather sooner than later to an unacceptable, compromised governance.[8]

2. Storytelling: Facts and vision put in context

The corporate equity story is some sort of ultimate selling line you may align with your peers to convince current and potential shareholders and stakeholders (including yourself) to put the money on you and your business endeavours rather than on others. At any given point in time, your equity story also reconfirms all parties involved that what you do still makes sense and sounds like a reasonable and relevant plan. By selling your story to yourself, you should therefore be actively questioning its situational credibility and logic.

5 Niall Ferguson, «Doom – The Politics of Catastrophe», 2021 – individuals are inclined to abdicate their responsibility when in a crowd.

6 Daniel Kahneman, «Thinking Fast and Slow», 2011.

7 Among a wide literature on the issue see the subject of «Expectation Gap» raised Dr. U. Schenker in «Verwaltungsrat in der Praxis – Rechtliche Anforderungen», Walder Wyss, 2015.

8 Neue Zürcher Zeitung, 1 August 2021 – «Warum Verwaltungsräte mehr schlecht als recht funktionieren».

Not only does a common story lead to a more stringent and self-effective, purpose-driven corporate culture, it also develops an attractive selling line with respect to brand personality and positioning for an eventual investment case. In other words, writing a compelling story engages meaning and emotional bonding, facts and figures with perspective and outlook. It puts the corporate endeavour on the map of options for investors and allows them to make a choice. Yuval Harari makes a strong point that calls for a regular re-writing of the corporate story: «Meaning is created when many people weave together a common network of stories. Yet over decades and centuries, the web of meaning unravels, and a new web is spun in its place. To study [this]... means ... to realize that what seems to people in one age the most important thing in life becomes utterly meaningless to their descendants.»[9]

Regular, periodic reviews of your story are important also for another reason: Daniel Kahneman et al. have just recently shown that, apart from bias, the same set of information and facts on the table can lead to quite some different decisions based on the situation and circumstances they are made in.[10] Accepting that «history is a process too complex to be modelled»[11] there is a need for more lateral thinking[12] to draw a specific big picture in form of a story as adequate «best guess» roadmap for the company. This might be good news for the humanities to make inroads again into management functions predominantly shaped by more functional qualities over the past decade. A common picture evolves better the wider the diversity on hand is used and the more independent individual views are heard and taken into consideration. Kahnemann et al. even recommends a periodic «Noise»-audit by external moderators as the most effective and efficient way to address the issue:[13] «Organizations that want to harness the power of diversity must welcome the disagreements that will arise when team members reach their judgements independently. Eliciting and aggregating judgements that are both independent and diverse will often be the easiest, cheapest and most broadly applicable decision hygiene strategy.»

9 Yuval Harari, «Homo Deus», 2015.
10 Daniel Kahneman, Oliver Sobony, Cass R. Sunstein, «Noise – A Flaw in Human Judgment», 2021.
11 Niall Ferguson, «Doom – The Politics of Catastrophe», 2021.
12 Ralph Siegl, «Helden lassen sich helfen», in Schweizer Monat November 2018.
13 Daniel Kahneman, Oliver Sobony, Cass R. Sunstein, «Noise – A Flaw in Human Judgment», 2021.

So, you are well-served when you put the same story up for debate in the BoD in different circumstances. Do you still believe in your equity story in the context of the current pandemic? Have you given yourself time to question the assumptions during the most recent months of distress or are you absorbed by crisis management? Do you work on the symptoms or on the cause? A disciplined distribution of responsibilities between Board and Executive team may be required to resolve the issue here.

For judgement calls with such substantial impact on the company as the strategy, you may take more seriously into account to reduce «Noise» within your decision-making body and your organization by sequencing information and breaking it down in various pockets. You shall find it easier to cope with the variety of conclusions and opinions within each topic before you put the puzzle together. This may be done by looking into the individual chapters of your equity story separately.

3. Equity Story: Work on the chapters

A stringent and concise equity story may consist of six chapters (see figure 1) addressing the most relevant issues for an attractive and convincing corporate message:

1. What «problem» do we solve?
2. For whom and for how many is this relevant?
3. What are the key challenges and why has the problem not been solved already by others?
4. How do we provide the solution?
5. What is our revenue model?
6. What do we expect from investors?

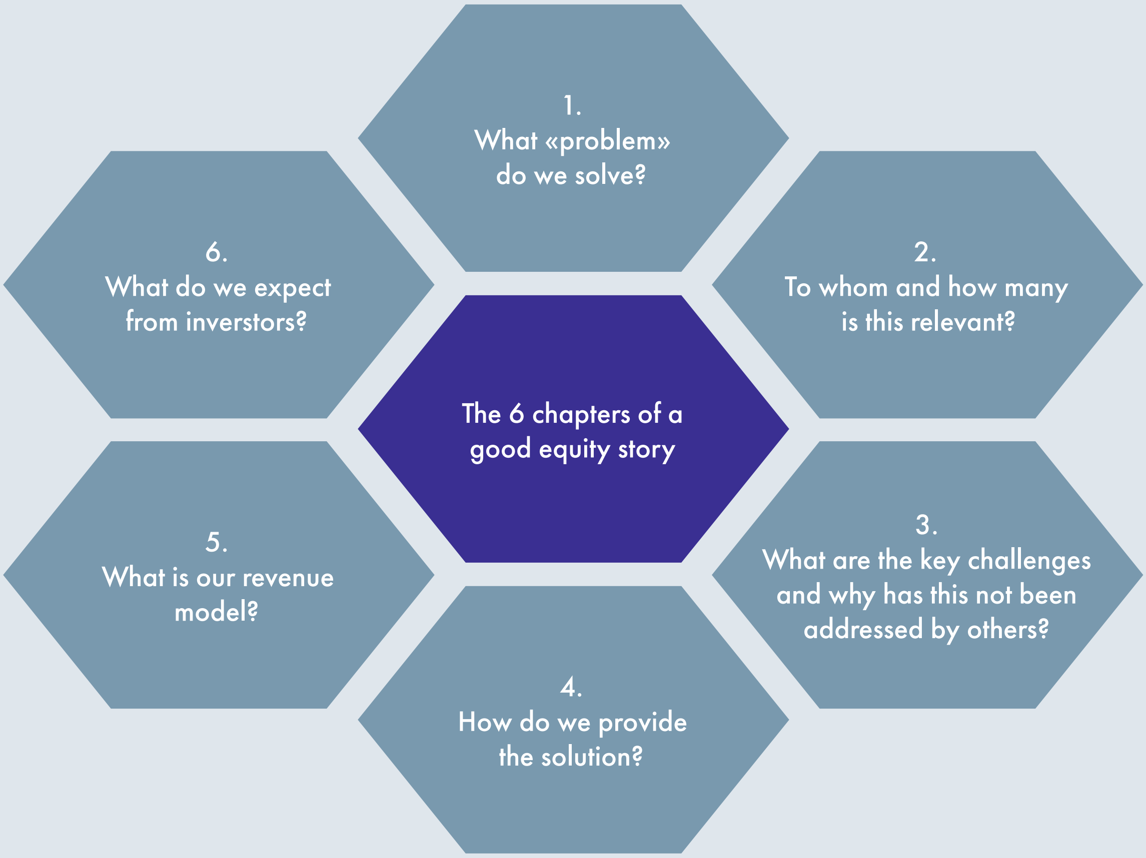

Figure 1: Equity Story Scheme by Experts for Leaders AG, Zürich 2020

3.1 What «problem» do we solve

A common understanding between all high-level decision makers of why the company as an organisation does what is a precondition for effective and efficient judgements about e.g. market positioning, competence management and resource allocation. It also reigns in the aspiration your company may have to make a positive impact on society and stakeholders. Over the last decade the Golden Circle[14], eloquently introduced and cultivated by Simon Sinek, has provided a compelling framework for structuring the respective purpose, vision and mission definitions.

Starting with Why as nucleus for a normative purpose, the subsequent How as an ideally proprietary competence precedes the What positioned in the outer ring of the circle.

Apprehension and economic cost of «problems» change over time: The value attributed to the issue at stake and the respective price premium or margin potential for the problem-solver follow by and large socio-economic megatrends in line with perceived or real pains or gains for the target groups. Usually, first movers on trends are initially penalized by market-making costs but may build-up an interesting market position over time. So, courage and timing are crucial too.

14 Simon Sinek, «Start with Why», 2009.

As the current ESG-debate in financial investment products shows for example, solutions providing a benefit at one point in time maybe considered less valuable (no ESG consideration) as the market evolves and competition reacts with a growing set of options. Not a surprise. ESG aspects, though termed differently then, have been on the cards for well over two decades in the consumer goods sector, but were largely ignored by the financial industry until recently.

Hence, the Board is well advised to review and validate the corporate value proposition on a regular basis by taking a holistic stance on long-term trends and their possible relevance. A three years' period seems adequate for the task and allows for gradual amendments. Most of the time, you may find that the basics and purpose hardly change fast but that it is necessary to add a contemporary twist and actual interpretation to the «problem solution».[15] In case of exogenous shocks such as the current COVID 19 pandemic, it is highly advisable to dig into the subject at once at Board level (change the company) while the crisis management is left predominantly to the Executive Management (run the company).

3.2 For whom and for how many is this relevant

As markets are constantly evolving, so do the size, relevance and the purchasing power of the customer and supplier base. A constant evaluation of opportunity costs and the competitiveness of the company provides valuable insight into value-chain integration potential and disintegration chances (e.g. making fixed costs variable, improve agility, tap into external innovation power etc.). Some of the most important aspects of high performing companies are their freedom to operate, their structural flexibility and their diversified customer base. As Peter Thiel puts it: «All failed companies have failed to escape competition.»[16]

It is therefore strongly advisable, that not only the Executive Management team takes a close look at the ever-changing negotiating power of the own customer and supplier base, but also the Board debates at least once a year the company's positioning and respective status within its peer group and with respect to shifting market relevance by taking a look behind the curtain of the obvious.

3.3 What are the key challenges and why has the problem not been solved already by others

A thorough understanding of the complexity of the issue and respective tasks to be performed may seem common place in strategy assessments. However, in established organizations standard operating procedures (SOPs) and structures deliberately established for efficiency gains and better controllability tend to turn a blind eye on the specifics of any new problem or situation.

Hence the call for agile organizations in an ever-faster world meant to anticipate better what is around the corner.[17] Innovation, by and large, happens in «not yet regulated» fields. So called «best practices» are derived from the past and may not be more than interesting but limited if not flat-out useless references to address the issues of tomorrow. The saying goes that for a hammer, the problem is always the nail. Established tools designed to overcome a certain situation at one point in time, may not seem fit to solve a problem further down the track – yet they are applied as SOPs just like the Yellow Brick Road promises a good outcome. High time to constantly look for «appropriate practices». Also, the dynamics of the market and (regulatory) framework conditions set the stage and the Board is well advised not to take these for granted but rather think outside of the box, take an opposite stance in the discussion and regularly ask what needs to happen to kill the own business. Still, Porter's classical «Five Forces»[18] analysis method is a quite valuable tool for checking the base lines and to have a structured discussion about the short- and long-term issues at stake here.

15 A classic example for this approach can be studied in the luxury goods market, where Jean-Claude Biver has managed to maintain the brand traditions of e.g. Blancpain or Omega relevant while instilling a contemporary meaning to these brands and their value propositions. See also Neue Zürcher Zeitung, 14 June 2021 – «Wie ein Hippie gleich mehrere Luxusmarken rettete...».

16 Peter Thiel, «Zero to One», 2015.

17 As an example among others see https://www.mckinsey.com/business-functions/organization/our-insights/the-journey-to-an-agile-organization.

18 Michael E. Porter, «Five Forces Framework», Harvard Business Review, 1979.

3.4 How do we provide the solution

Are you sure that everybody in your Board has a thorough understanding about the «secret sauce» of the company? Peter Thiel holds that «every great business is built around a secret that is hidden from the outside: Every great company is a conspiracy to change the world.»[19] It is hence strongly advisable to ensure a common view amongst the members of the Board on what is at stake and what is special.

At the same time, you may clarify the level of ambition of the company as this may define qualitative and quantitative milestones for the management. A simple model for discussion may address three levels of competencies:

- **Legitimation:** What are the minimum (customer or stakeholder) expectations you need to meet in order to be allowed to play on your market segment pitch?
- **Competence:** What are your (proprietary) competencies (or «unique selling propositions») that differentiate you from the crowd?
- **Leadership:** Where are you leading the pack and what are your «must win battles»?

From experience, more often than not companies and their leaders see unique competencies where the market has already shifted them down to minimum requirements. You are usually not as good as you think you are because you either lack information, or you are blinded by overconfidence and your own bias.[20] Cycle theories state that nations, organisations and individuals err most, when they are prosperous and successful.[21] So, as a corporate leader, you may cultivate some decency to ensure the adequate «tone from the top».

19 Peter Thiel, «Zero to One», 2015.
20 More about entrepreneurial delusions in Daniel Kahneman, «Thinking fast and Slow», 2011.
21 Niall Ferguson, «Doom – The Politics of Catastrophe», 2021.

3.5 What is our revenue model

Following from above, you may also want to make sure that your revenue stream is adequately understood by the members of the corporate leadership team as well as – at least in principle – by your stakeholders. Key aspects here are the scalability of your business and sustainable impact on your profitability and capital returns. A proper understanding of opportunities, chances, risks and threats in the model is an unnegotiable precondition for chance taking as well as appropriate risk management structures and processes. While the financial services sector has been forced to drastically ramp up respective systems and tools to follow new and stricter regulatory requirements over the last decade, it may be fair to assume that other industry sectors still manage predominantly by counting on tools developed by their CFOs and sanctioned by their auditors.

A disciplined self-regulation and the establishment of various lines of defence start however by enabling the members of the Board to develop a qualified sensitivity about corporate value and corporate financial risk within a wider business model understanding. Over the last years, the various business analysis tools (canvas) defined by e.g. Alexander Osterwalder[22] have been very helpful models to deliberately approach the subject.

3.6 What do we expect from investor

Regardless of running a well-capitalized company or weathering a more difficult liquidity situation, Boards are well advised to behave as if they were to sell their company to investors or shareholders at any one time. This is undoubtedly easier in listed companies as they constantly need to answer to the capital markets. Nevertheless, depending on the shareholder structure, it is not always happening there either as Board and Executive Management may claim excessive liberties, especially in companies with a broadly floated shareholder base lacking a substantial individual investor. Where property has a face, accountability is easier.

22 See for example Alexander Osterwalder, «Business Model Generation…», 2010.

In his book «Swiss Made», R. James Breiding made a compelling point about the specific requirements for the long-term success of companies by pointing to the nature and structure of investors, shareholders and the entrepreneurial spirit: «Wherever shares are held by many shareholders, everybody's company turns into nobody's business» (quote by Dale Carnegie).[23] Based on empirical evidence of performance in value creation over time, they championed what Breiding later termed «homo helveticus»: Active and caring investors with a share-holding rather than a share-turning mindset are better for the firm's performance. A concept rather contrary to the «Davos Man», institutional investors or ETFs with their comparatively short-term capital market philosophy and lack of personal engagement and bonding with the company.[24] In the absence of any substantial caring shareholder (in German «Kümmerer»), it may be the Board and its Chairperson that are called for defining a sufficiently clear and binding «owner strategy» as guideline for developing sustainable and competitive corporate value over time. However, Breiding identifies plenty of room for improvement there.[25]

Consequently, the proactive management of the shareholder structure with respect to best ownership of the company is not to be left to investor relations functions in the firm only. It is one of the most important tasks of the BoD and the CEO to tell the corporate equity story to everyone out there.

Rather than hoping for the best on the basis of data extrapolations from current operations, it pays off to take the advice from the Fairy in the «Wizard of Oz» that «it is always better to start at the beginning»[26] and to drive an active strategy process at BoD level with vigour. Like bricklayers planning and paving the road ahead, the BoD plays a leading role in laying the ground for moving the company forward by regularly editing the chapters of the company's equity story together with the CEO and the Executive team. For that every judgement call, priority setting, decision-making or action can rely on a deliberately given direction to the Yellow Brick Road ahead.

4. Take home

- Boards are well advised to maintain a proactive and critical role in strategic leadership.
- To counter biased information, Boards may cultivate regular debates and make use of their internal diversity as well as of independent external advice.
- More lateral thinking and storytelling is required to put facts and figures in context for meaning and perspective.
- A structured periodic review of the corporate equity story is a valuable means to rally decision-makers and stakeholders behind a common goal and to foster strategic alignment.
- Boards reach better decisions and come to a better judgment by addressing the chapters of the corporate equity story separately and individually in a moderated process.
- Make sure you reduce «noise» by putting the same story regularly and under different circumstances to the test.

23 R. James Breiding, «Swiss Made – The untold story behind Switzerland's success», 2013.

24 R. James Breiding, «Houston – we have a problem», Inside Paradeplatz, April 30, 2021.

25 Ibid.

26 https://www.youtube.com/watch?v=Mm3ypbAbLJ8.


PUBLIC ALLEY 5