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FOUR PILLARS TO INTERNATIONAL BUSINESS SUCCESS

A Guide to Business Sustainability

  

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What does it take for business units to operate effectively and succeed in new markets? What do failed business expansions have in common? In a volatile and diverse economy, how should top business executives redefine the relationship between the head office and business units to drive future growth?

The answer lies in building robust, well-coordinated and integrated corporate oversight to supervise, support, control and monitor business operations on an enterprise-wide level. With a unifying and shared corporate culture, effective corporate oversight could instil good governance and supercharge business performance and strategy formulation.

A CASE STUDY ON WEAK CORPORATE OVERSIGHT: HANJIN SHIPPING'S TRAGIC COLLAPSE

South Korea's Hanjin Group was founded by Mr Cho Choong Hoon in 1945. The Hanjin empire was divided into four business units after the patriarch's passing and handed over to the four brothers according to family seniority. The eldest son inherited Korean Air, the second son received Hanjin Heavy Industries & Construction, the third son got Hanjin Shipping, and the fourth son was given the smaller pie of the finance and insurance business. The perceived unfairness and favouritism towards the eldest son soured family ties. Consequently, the animosity among the four brothers certainly destroyed any synergy and mutual support left among the business units.

However, the underlying root cause for the tragic collapse of South Korea's largest shipping company stems from

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more than just a long-standing Korean family feud. When the patriarch of Hanjin Group divided his empire, he did not foresee the risks of letting his four sons run their own shows and relinquishing group-level control. Debt-laden Hanjin Shipping's collapse was due to a multitude of factors such as lack of head office support for strategic direction, management capability, financial resources and risk management. In retrospect, the demise of Hanjin Shipping might have been prevented if strong corporate oversight was established to provide adequate supervision, support, control and monitoring from the head office.

Effective enterprise-wide oversight allows detection and rectification of early signs of strategic errors, incompetent management, operational weaknesses, as well as poor governance and risk management practices. It allows a disciplined and proactive approach towards managing business units and lays the foundation for instilling good governance, which promotes transparency, accountability and business sustainability.

DO YOU HAVE THE FOUR PILLARS OF EFFECTIVE CORPORATE OVERSIGHT?

To assist the Board at the group level in exercising good governance over its business units, RSM has synthesised the multiple roles of an effective head office into the Four Pillars (4Ps) of effective corporate oversight (Figure 1) – Supervise, Support, Control, and Monitor – to ensure business sustainability and good corporate governance.

Supervise

Supervision is a process of managing and overseeing business unit performance in executing strategic, operational as well as financial plans and targets. A business unit without supervision runs the risk of failing to achieve its strategic objectives. It is not enough to design a good game plan for the business unit without putting in place a disciplined supervisory plan to make it really happen.

Supervision from the head office is operationalised through line management. The head office assigns line managers with direct control and accountability for results of business units to drive performance and delivery.

Support

With a whole spectrum of business challenges and market diversity, a newly-formed overseas unit is often too thinly resourced to handle them alone. It therefore requires a period of hand-holding from the parent to tap into its financial, human capital, operational, technical and innovation resources.

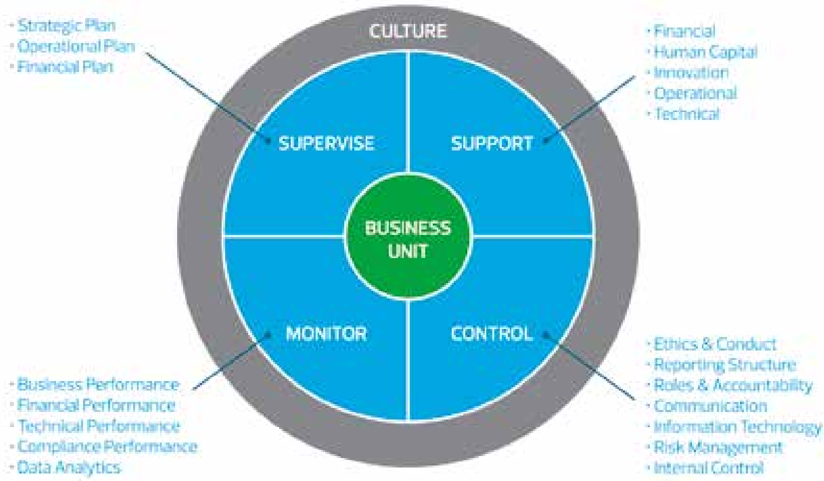
To optimise resource allocation, key executives first require a deep understanding of business units' goals and constraints. This gap analysis helps the head office to deploy the right expertise and capital to address the business unit's major concerns. Support could come in two forms: shared services and separate support.

Shared services arrangements consolidate core functions that are more cost-efficient to perform at the head office. Separate and targeted support is rendered to high-priority projects based on circumstantial factors such as time and capital requirements. The head office could assign senior leaders to each new business unit, forming a "virtual head office" there to help establish its presence in the foreign market in an organised and disciplined manner.

The head office should aspire to forge a customer-supplier relationship with business units, providing them with the needed resources and helping them "stand on their own feet" and navigate through the new terrain.

The collapse of Hanjin Shipping highlights the critical role of leadership support and succession planning by the head office. With the head office hollowed out from the group's management structure following the split of family assets among the four brothers, Choi Eun-young was forced to switch her role overnight from a housewife to the CEO of Hanjing Shipping upon the passing of her husband. To better cope with external shocks, the head office needs to identify and groom a

Figure 1 RSM's Four Pillars (4Ps) of effective corporate oversight



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pipeline of qualified leaders who are able to take over the helm and ensure sustainability of the subsidiary.

Control

A new business unit is bound to struggle with risks such as operational lapses, regulatory breaches, IT failure and possible financial fraud, which could make or break the new establishment in its infancy stage.

Good corporate controllership ensures that business units stay compliant with internal company rules as well as external regulations. Policies and procedures should be formalised at the head office and subsequently localised for subsidiary operations. A clear reporting structure and accountability matrix with proper segregation of duties should be implemented to prevent miscommunication and avoid over-reliance on any single individual. Controllership guided by formal policies will ensure consistency in areas such as risk management practices, internal controls, ethics, technical standards, operational quality and IT processes.

Monitor

Ongoing monitoring enables the head office to assess business, financial, technical and compliance performance of the respective business units. A whole universe of key performance indicators could be consolidated to form an information dashboard or scorecard, enabling corporate leaders to assess business performance accurately and in a timely manner.

Such regular insights better equip top management to make informed strategic decisions. Continuous monitoring therefore introduces greater clarity, visibility and predictability of business performance, and enables top management to steer the company towards the right strategic direction.

In the age of digital disruption, information gathered from market trends could be aggregated and synthesised by business information analysts, generating a unique data repository for the company. Such a data analytics process serves the head office function beyond monitoring of performance; it allows proactive management of company strategies and offers predictive insights for the management.

CULTURE

A strong group culture cements the foundation critical to supporting the four pillars and binding them together. When a company ventures overseas, its culture – the collective values and mindset instilled in its employees – should also cascade down to all business units. Culture influences subconscious behaviours and permeates every aspect of the business. No amount of strategic planning or policy-setting will work if the doers lack the discipline, accountability and integrity to follow through and do the right thing.

Ultimately, companies need to empower and inspire employees with the right culture to sustain growth across business segments. While the cultural foundation is hard to construct, successful business leaders start by setting the right tone at the top and tenaciously communicating it to the rest of the organisation.

A CASE STUDY ON GOOD CORPORATE OVERSIGHT: GE'S INTEGRATED MODEL

General Electric (GE) – a conglomerate whose operational and financial impact reaches almost every corner of the world – has created a parallel system that turned its sheer scale of operations into an advantage to drive strategic growth and performance.

Through GE's Operating System, regional C-suite executives set annual strategic plans and financial targets that guide and reprioritise resource allocation to support business segments. This system forms the Supervise and Support Pillars of effective corporate oversight. Running in parallel with the Operating System is the Controllership Initiative, which taps into the knowledge of staff functional teams to track, analyse and synthesise key performance indicators. The GE Controllership Initiative forms the Control and Monitor Pillars of effective corporate oversight. Embedded in the two systems is GE's culture of commitment and integrity, which is consistently cultivated and practised across all business units worldwide.

Despite geopolitical changes and digital disruptions, Singapore companies remain sanguine about economic conditions and strive towards internationalising operations to tap into bigger markets. To drive future success, it is now time to redefine the role of the head office as a long-term partner of business units and how corporate oversight could become a source of growth and value. ISCA

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