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The Role of the Strategy Committee in Promoting and Supporting Activities of Members of the Board of Directors in the Framework of the Long-Term Program on Development of Public Joint Companies in the Russian Federation

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Abstract: The study considers and presents the positive and possible negative impacts if implementation of additional management settings of the strategy committee of the Board of Directors. Provides recommendations to maximize the first and eliminate the possible consequences second.

Key words: Strategy committee, development of public joint companies, implementation, management settings, board of directors

INTRODUCTION

Currently, in a down economy, due to increasing threats (external and internal) to business, the establishment of the strategy committees of the Boards of Directors is becoming increasingly popular. In general, the management tasks supported by the committees cover the following issues.

Preparation of decisions of the Boards of Directors and key managerial strategic initiatives which the board is unable to implement during its sessions will be carried out on the basis of existing committees.

It should be noted that each company selects several committees, depending on their tasks and resources; the most common are the committees for audit and strategy as discussed below as well as the remuneration committee (Padget, 2012).

In a number of countries advanced in terms of corporate management, the existence of committees is necessary to ensure execution of key management functions by members of the Board of Directors. In Russia, the establishing of such committees is advisory according to the “Corporate Governance Code” adopted by the Central Bank of the Russian Federation in 2014.

The benefits of establishing the committees of the Boards of Directors include; Ability to focus attention on a particular issue and the formation of special-purpose activities and competences of the Board of Directors; in case the committee is not of just a “decorative” nature, we should expect the reduction of the burden on council members. In the course of work, the committee will support in the decision-making and overcoming standoff among the Board of Directors members, allow allocating more time and attention for consideration of strategically important decisions.

The establishment of an additional expert resource for managers involved in the executive management in the company; outside and independent directors will have the opportunity to perform oversight function without direct interaction with the executive directors, though under the control of the Board of Directors which is important in terms of control over the use of the information obtained, especially at the initial stage of building relationships in the framework of activities within the council.

We should also note a number of shortcomings that may emerge with the appearance of additional management superstructure; the increased time expenditures of executive directors and managers that is needed to process the inquiries of the committee (the increase in the scope of reporting and coordination) that may result due to the increase in paper work and bureaucratic procedures.

The risk of distancing of committee work from the work of Board of Directors in case of in coordination of their work plans for the corporate year (Pozdnyakov 2015); some executive directors might find themselves out of work or perceive themselves as “second-class” members of the Board of Directors due to the fact that they often receive no remuneration for their activities within the council. Given the fact that the formation of existing committees is associated with a specific level of costs and not only financial, the following checklist should be taken into consideration when establishing strategy committee:

- The value from committee establishment
- The role of the committee to the council and the company
- Members of the committee
- The results of the committee work
- Accountability of the committee in its work
- Committee duration and its periodic evaluation procedure
- Already existing committees
- Committees necessary for the activities of the Board of Directors

The following are key policy issues to be considered by the members of the Board of Directors and the strategy committee when elaborating a long-term development program:

- Status and place the company at a given point in time?
- Status of the company at the current pace of development in 3, 6, 10 years?
- And the most important question, whether such a perspective is acceptable for the shareholders of the company?

If the answers received do not meet the expectations of Board of Directors and the shareholders, the following actions should be taken: consideration of options for changing the management team as well as correcting corporate and business strategies (Averin, 2015).

Priority strategic objectives should include the following issues: share of major products in priority activity market of the enterprise, modernization and innovative development, financial efficiency and sustainability, energy efficiency and saving and increasing investment attractiveness of business. Below are the four main stages of strategy development:

- Analysis of the Public Joint-Stock Company (PJSC) activity in comparison with similar organizations in the market
- Definition of strategic development goals of the company
- Development of measures ensuring the achievement of strategic goals by the set deadlines
- Development and updating of the internal documents of PJSC as well as relevant tools

Literature review: In terms of PJSC performance analysis, when designing a long-term development program, it is recommended to use the following indicators (Anonymous, 2011) the net profit margin, the structure of debt and liquidity, leverage structure, product portfolio, market outlets, supplier's structure, workforce productivity and R and D expenditure.

Next, one should determine the strategic objectives of society development according to the following criteria: the enterprise's share of major products in priority market of activity, modernization and innovative development, the costs per ruble of sales, increasing workforce productivity, financial efficiency and sustainability, net profit margin, a moderate leverage, liquidity, resource saving and energy conservation.

After determining the objectives it is necessary to focus on the development of action plan that would ensure the achievement of strategic objectives: activities to build corporate structure as well as production, financial, management and human activities.

Here it is also important to note the development and adjustment of internal documents of the society (list of key performance indicators and their target values, the regulation on remuneration and investment and financial policy).

MATERIALS AND METHODS

Considering the high cost of acquisition and implementation of ERP systems for carrying out analysis of the corporate financial activities and compliance with established key performance indicators, the employees of monitoring departments of middle and small companies need to consider the opportunities to develop the interactive working model as a possible option, by means of Microsoft Excel Software.

The following four major tasks should be considered by the Board of Directors and the strategy committee at the each stage of planning, design and control of the execution of the long-term development program.

Environmental analysis: "stakeholders" mapping, i.e., the expectations of shareholders and key parties, their strategies and restrictions in relation to the company; if necessary the search and recruitment of consultants and critical analysis of data provided by the management.

Development and approval: Formulation and agreement with the shareholders of the route forward, vision and strategic objectives; analysis of possible strategy options, presented by management, including risks of each option; recognition of the strategy (in form of critical design review); approval of the business plan and strategy-based budget.

Execution: Carrying out a comprehensive performance evaluation of all strategy elements; reviewing strategic issues at each board meeting; continuous information distribution to the Board of Directors: key events in the industry/company/economy. Company performance indicators and deviations from the plan; discussion of strategy implementation with management; meetings with major shareholders to obtain feedback/to inform about the achievements of reference points.

Assessment and adjustment: A review and adjustment of short and long-term strategy process organization parameters according to the results of a comprehensive assessment; organization of strategy adjustment process; the revision of the budget, investment plan and business plan/approval by the Board of Directors; personnel replacements; changing the parameters of incentive program.

The signs indicating to the Board of Directors the need to change the strategy include the following: directors and functional leaders define the mission, goals and objectives of a company in different ways; a change of external factors does not entail a change of strategy; internal and external strategic risks have not been identified; the mismatch of strategy and internal capabilities; the discrepancy between the functional and corporate strategies; corporate objectives are formulated vaguely; the contradictions or shortcomings in the business processes; low efficiency, high productivity; personal goals of the sole executive body and other top managers does not correspond to the corporate strategy; the strategy has not been revised for more than a year.

RESULTS AND DISCUSSION

Summing up the results, we should highlight the benefits and constraints caused by establishment of the strategy committee of the Board of Directors.

Benefits: The strategy committee facilitates and ensures regular review of strategy by Board of Directors; specifies and personalizes the duties and responsibilities that also allow enhancing the professionalism of the council’s activities; allow enhancing communication with the executive management and accelerating the achievement of consensus necessary to implement the strategy.

Constraints: The work of the strategy committee should not contravene the principle of full transparency, the results should simultaneously become the property of the council; the committee should not extend beyond its own powers, for example, taking on the role of the Board of Directors and management; the committee should unload the Board of Directors, rather than form additional burden; the committee should not contribute to the “bureaucratization” of the Board of Directors.

CONCLUSION

Proper implementation, setting objectives and work of the strategy committee as part of the design of a long-term company development program has a lot of positive aspects that can prevent business against the negative consequences.

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