The Dutch Corporate Governance Code and The New Paradigm

The new Dutch Corporate Governance Code, issued December 8, 2016, provides an interesting analog to The New Paradigm, A Roadmap for an Implicit Corporate Governance Partnership Between Corporations and Investors to Achieve Sustainable Long-Term Investment and Growth, issued September 2, 2016, by the International Business Council of the World Economic Forum. The new Dutch Code is applicable to the typical two-tier Dutch company with a management board and a supervisory board. The similarities between the Dutch Code and the New Paradigm demonstrate that the principles of The New Paradigm, which are to a large extent based on the U.S. and U.K. corporate governance structure with single-tier boards, are relevant and readily adaptable to the European two-tier board structure.

Both the New Paradigm and the Dutch Code fundamentally envision a company as a long-term alliance between its shareholders and other stakeholders. They are both based on the notions that a company should and will be effectively managed for long-term growth and increased value, pursue thoughtful ESG and CSR policies, be transparent, be appropriately responsive to shareholder interests and engage with shareholders and other stakeholders.

Like The New Paradigm, the Dutch Code is fundamentally designed to promote long-term growth and value creation. The management board is tasked with achieving this goal and the supervisory board is tasked with monitoring the management board’s efforts to achieve it.

The long-term investment provisions of the Dutch Code are cogent and succinct, and relate so closely to the essence of The New Paradigm that they are worth quoting in full:

1.1.1 Long-term value creation strategy

The management board should develop a view on long-term value creation by the company and its affiliated enterprise and should formulate a strategy in line with this. Depending on market dynamics, it may be necessary to make short-term adjustments to the strategy.
When developing the strategy, attention should in any event be paid to the following:

i. the strategy’s implementation and feasibility;
ii. the business model applied by the company and the market in which the company and its affiliated enterprise operate;
iii. opportunities and risks for the company;
iv. the company’s operational and financial goals and their impact on its future position in relevant markets;
v. the interests of the stakeholders; and
vi. any other aspects relevant to the company and its affiliated enterprise, such as the environment, social and employee-related matters, the chain within which the enterprise operates, respect for human rights, and fighting corruption and bribery.

1.1.2 Involvement of the supervisory board

The management board should engage the supervisory board early on in formulating the strategy for realizing long-term value creation. The management board renders account to the supervisory board of the strategy and the explanatory notes to that strategy.

1.1.3 Role of the supervisory board

The supervisory board should supervise the manner in which the management board implements the long-term value creation strategy. The supervisory board should regularly discuss the strategy, the implementation of the strategy and the principal risks associated with it. In the report drawn up by the supervisory board, an account is given of its involvement in the establishment of the strategy, and the way in which it monitors its implementation.

1.1.4 Accountability of the management board

In the management report, the management board should give a more detailed explanation of its view on long-term value creation and the strategy for its realization, as well as describing which contributions were made to long-term value creation in the past financial year. The management board should report on both the short-term and long-term developments.

These provisions of the Dutch Code are very similar to the comparable provisions of The New Paradigm and would operate in much the same manner as those of The New Paradigm. In each, the provisions are subject to the corporate
laws of the company’s jurisdiction and in each, flexibility is preserved to tailor the governance principles and structure to address the unique circumstances of each company.

Thus, comparison of The New Paradigm with the Dutch Code confirms the applicability and appropriateness of The New Paradigm to companies in jurisdictions that have two-tier boards and corporate laws that differ from those of the U.S. and the U.K. and supports the universality of The New Paradigm.

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