

Subsidiary governance: part of the bigger picture



Subsidiary companies must sometimes navigate a labyrinth of regulations. For subsidiaries, and particularly those of multinational organisations, aligning the parent company's policies and strategies can be both challenging and interesting. Challenge accepted!

This is a brief guide to some important matters to take into consideration when deciding on your subsidiary governance framework.

Legal and compliance frameworks

It is often difficult to find the right balance between allowing subsidiaries the independence to make decisions and maintaining sufficient control to ensure alignment with the parent company's objectives. How to balance the self-government of the subsidiary with appropriate controls exerted by the parent company, and without creating shadow director scenarios or compromising a director's duty to exercise independent judgement, is therefore a frequently-asked question.

The parent company often sets overarching policies, and the subsidiary must adapt to these. This can cause tension, particularly around decision-making and strategic direction, if expectations are not clear.

To manage the autonomy vs control balance, a clear governance framework should be established. This framework should outline the decision-making authority of the subsidiary, the role of the parent company, and any escalation processes.

Having a robust governance framework in place does not in itself secure good governance - it is how the business set and interacts with that framework that makes the difference.

Risk management

Effective risk management protects both subsidiaries and the parent company. Regular risk assessments should be conducted as part of each subsidiary's governance and risk framework.

Subsidiaries are often exposed to unique risks that differ from those faced by the parent company, therefore they should implement risk management frameworks that address their specific risks and their significance to the subsidiary business.

However, at Group level, a process to combine risks from different entities is also essential to ensure that there is a comprehensive picture of total risk that can be assessed in the round, and to ensure that the Group's risk appetite is not exceeded.

A unified culture

Whilst subsidiaries often develop their own corporate personalities, it is essential that these distinct cultures are aligned with the Group's overarching purpose and values. Each subsidiary may have its own ways of operating, processes, behaviours, special requirements and practices, nonetheless ensuring that all parts of the organisation share a common vision, and goals is crucial for maintaining cohesion.

This alignment ensures that every subsidiary, although operating independently, is contributing to the same overall mission, with all parts of the Group pulling in the same direction to drive long term success.

International subsidiaries and reporting

Having strong governance practices for international subsidiaries is essential for good governance. The parent company's board should satisfy itself that subsidiary boards have enough knowledge of local risks, and legal and compliance obligations and are effective in ensuring a compliant, resilient regime is in place.

The parent and subsidiary boards should work together to navigate and understand the cultural differences and regulatory requirements that apply in each jurisdiction, recognising that, where the Group is multinational in nature, it may be necessary to apply higher standards than those that are strictly needed at a local level in order for the Group as a whole to be compliant. A good example of this is the requirement under UK legislation for anti-bribery measures to be implemented worldwide, notwithstanding that local norms elsewhere may take a more lenient approach to practices that we would consider to be corrupt.

IT systems

Protecting data across multiple subsidiaries with different cybersecurity standards and practices increases the complexity of managing subsidiary governance and has become increasingly important. Maintaining a centralised repository for information retention including HR, finance, IT and company management systems, can support the implementation of universally high standards and help prevent loss of data, create audit trails, simplify training and streamline reporting. However, transfer of data across borders is also a consideration where a business trades across multiple countries.

Next steps

Are you looking to create or strengthen your subsidiary governance framework?

Whether you are in the initial brainstorming phase or are ready for more concrete action, our team at Indigo is here to support you. Please reach out to us for guidance and help to elevate your subsidiary governance game!

For an initial conversation, please contact either David.gracie@indigogovernance.com or Bernadette.young@indigogovernance.com