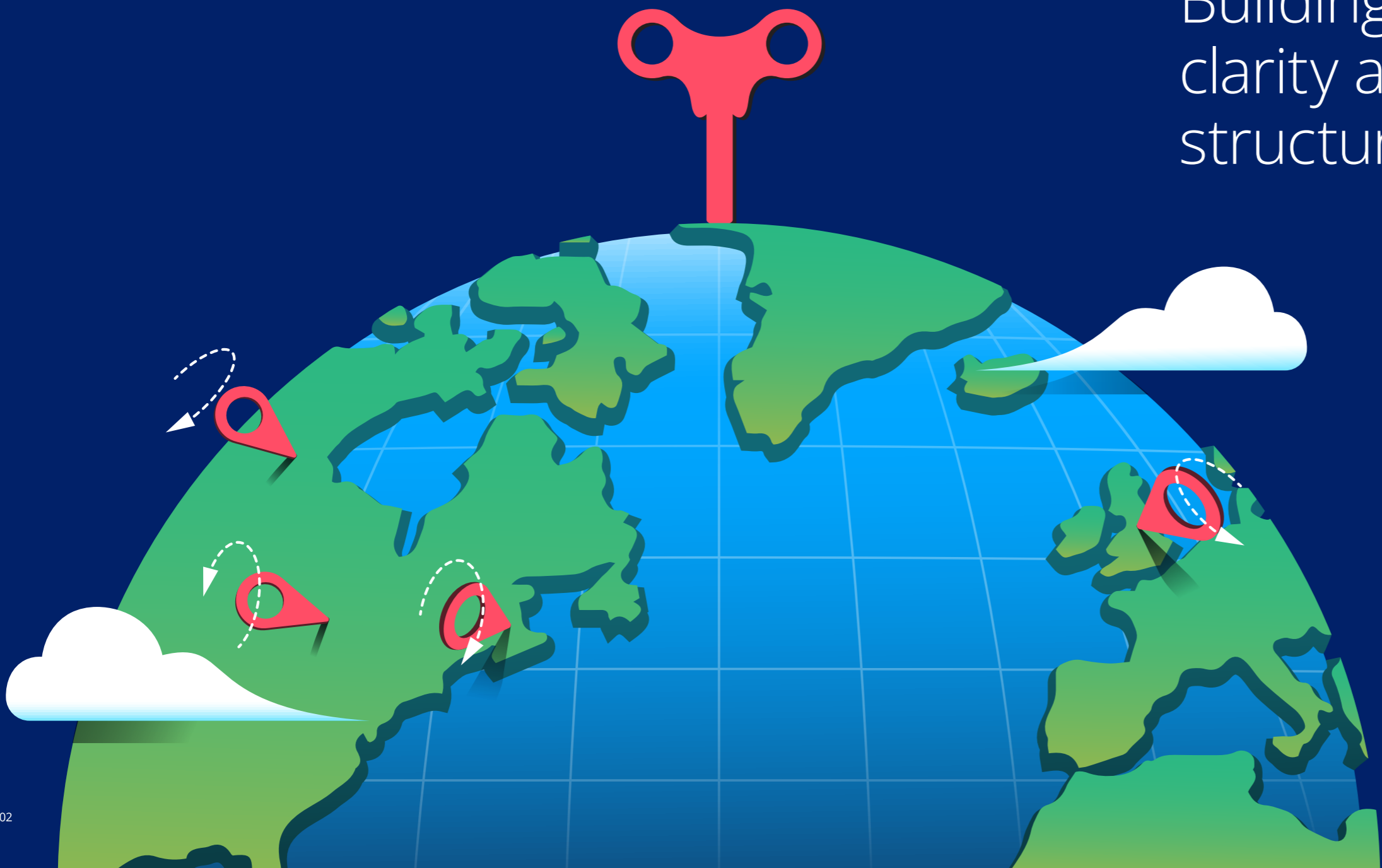# Subsidiary governance: Building control and clarity across group structures

As business groups scale across borders and sectors, their legal entity structures inevitably become more complex. In dynamic markets, large organizations often operate through numerous subsidiaries that span multiple regulatory jurisdictions, service lines, and local markets. While this model offers flexibility and responsiveness, it also introduces significant governance risk if oversight is inconsistent or disconnected from the parent entity's oversight.

Increasingly, boards and regulators are recognizing that governance must extend beyond the parent company. Subsidiaries—often holders of key assets, licenses, and relationships—require structured oversight to ensure compliance, alignment, and accountability. As such, subsidiary governance is a strategic enabler, not just another legal requirement.

Organizations should aim to develop an integrated framework that brings together board structure, delegation, key controls, reporting, and stakeholder alignment, while also clearly defining how standards and requirements will be cascaded—whether through a risk-based approach or by applying all standards uniformly. When implemented effectively, such a framework strengthens decision-making, reduces risk, and supports long-term enterprise value across the group, with each governance layer calibrated according to the chosen cascade model.

Governance structures that support group integrity

A robust group governance framework should first establish clear criteria for determining which entities within the group require a formal board, based on factors such as regulatory status, risk profile, and strategic importance. Once those entities are identified, the framework then prescribes the appropriate board structure—defining mandate scope, composition, reporting lines, and escalation pathways—so that each board operates with the right level of oversight

and accountability. This approach ensures consistency and substance in governance across the group, while tailoring board arrangements to the needs of individual entities.

Board composition

The composition of subsidiary boards plays a pivotal role in effective governance. Directors must have the right balance of group alignment and local insight, as well as an understanding of their legal responsibilities under jurisdiction-specific regulations.

Delegation of authority

A robust Delegation of Authority framework distinguishes which decisions remain with each entity's board and management and which must be escalated to the group—clearly specifying for each matter whether the group's role is endorsement or final approval. While each entity's constitutional documents set its local authorities, the group-level framework centralizes oversight of strategic issues, preserving operational efficiency and ensuring appropriate control.

Reserved matters and oversight boundaries

Identifying and clarifying reserved matters—decisions requiring group-level oversight or shareholder consent—is an essential control. These typically include major strategic initiatives, significant capital commitments, senior leadership appointments, and structural reorganizations. Reserved matters must be documented in board charters and embedded in operational workflows so that local management clearly understands its decision-making boundaries. In jurisdictions like Saudi Arabia, formal approval rights often rest with the capital owner rather than the parent board, with the board serving as the decision-making mechanism; the governance framework

should reflect these legal and ownership nuances.

From experience, these controls are most effective when supported by robust tools and consolidated tracking, enabling governance teams to maintain oversight and provide timely guidance without unduly disrupting local operations.

It's important to tailor reserved matters to each group's industry context, the maturity of both parent and subsidiary, and the organization's strategic direction—there is no one-size-fits-all. Moreover, reserved matters fall into two categories: those requiring board-level approval and those reserved for shareholders, the latter often defined by law (for example under Saudi regulations).

Integrating strategy and controls

Effective governance extends beyond structure—it must shape everyday business practices. Subsidiary governance should directly support strategy execution through clear expectations around policies, procedures, and controls. The group sets the overall policy framework—defining which policies subsidiaries must adopt, which may require localization, and which they can develop independently—while a structured approval process ensures consistency, compliance, and alignment with strategic objectives.

Reporting mechanism

Effective governance also requires a consistent reporting mechanism from subsidiaries to the group. This includes financial results, compliance updates, operational risks, and board decisions. Many organizations suffer from fragmented reporting, which impedes oversight and makes it difficult to respond to regulatory or stakeholder demands. Centralized dashboards and standardized templates can streamline this process and enhance transparency.

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Role clarity

A robust governance framework must clearly document the roles and responsibilities of board members, executives, and function leaders—establishing defined reporting lines and standardized role descriptions to ensure accountability and clarity.

Clear role definitions and accountability are critical in a multi-entity group context. By documenting precise responsibilities and hand-off points—and using tools such as RACI matrices—organizations eliminate ambiguity and ensure each team member and leader understands their remit. This clarity not only streamlines decision-making but also underpins effective governance across all business units.

Stakeholder engagement and regulatory interface

Effective subsidiary governance must include proactive stakeholder engagement—particularly with regulators—by recognizing that each jurisdiction has its own nuanced requirements and expectations. Rather than viewing regulatory obligations as a bureaucratic burden, group governance should equip subsidiaries with the local expertise, processes, and resources they need to meet these obligations efficiently. This means embedding structured regulatory-engagement protocols into subsidiary charters, providing targeted training on local compliance standards, and establishing feedback loops so that the group stays informed of emerging regulatory changes and can adjust its policies accordingly.

In today's multi-entity environment, effective subsidiary governance is essential for translating corporate strategy into consistent, controlled execution. As organizations expand across jurisdictions and sectors, they must implement an

integrated governance framework that defines board composition, delegation boundaries, operational controls, and stakeholder-engagement protocols—while allowing for local adaptation of policies and processes. By documenting clear roles and responsibilities, embedding reserved-matters and DoA rules, and establishing standardized reporting and approval workflows, companies enhance transparency, accountability, and operational agility. Proactive regulatory engagement and tailored compliance processes ensure subsidiaries meet local obligations without impeding performance.

Ultimately, a robust, fit-for-purpose governance model not only mitigates risk and bolsters oversight but also becomes a strategic asset, enabling sustainable growth and long-term value creation across the group. ●

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