KCB | 40 YEARS of Excellence in Governance Education

Corporate Governance

Session 1

Introduction

Neill McWilliams, MSc MBA FCG

Agenda

1. Introduction
2. Introduction to Corporate Governance module
3. How to succeed in the CGI examinations
4. About KCB Flexible
5. Developing your Learning Schedule
6. How we support you

The Examination

Syllabus Area	Nov-25	Jun-25	Nov-24	Jun-24	Nov-23	Jun-23
Definition and issues	Q1. Weak governance practices (5 marks)	Q2. Shareholder Primacy (5 marks)	Q1. Difference between corporate governance and compliance (5 marks)	Q2. Difference between a rules-based and a principle-based approach to CG (5 marks)	Q3. Principles (5 marks)	Q1. 'Comply or Explain' (5 marks)
Corporate Governance in the UK						
Other governance issues					Q9a. Governance of family owned companies (10 marks)	Q8a. Governance of family owned companies (8 marks)
Role of the company secretary	Q6b. Role of CS (10 marks)	Q9b. Dual role of CS (10 marks)	Q4. Liability of the company secretary (5 marks) Q6a. Appointing a company secretary (13 marks)	Q6b. Dual role of CS (10 marks)	Q4. Appointment (5 marks)	Q4. Independence (5 marks)
Role and membership of the board of directors	Q2. Role of the SID (5 marks)		Q7a.Role and Appointment of the Chair (10 marks)		Q5. Matters Reserved for the board (5 marks) Q8a. Restructuring the board inc Chair v CEO (12 marks)	Q8b. Chair v CEO (8 marks)
Directors' duties and powers	Q8a. S175, s176 and s177 (13 marks)		Q5. D & O insurance (5 marks)	Q3. Explain s174 (5 marks)	Q7a. Conflict of interest (13 marks)	Q5. D&O Insurance (5 marks) Q8c. S172 (9 marks)
Board Composition and succession Planning	Q7a. Role of the Chair (12 marks)	Q7b. Benefits of a NED (13 marks) Q8a. Appointment of a new CFO (10 marks)	Q2. Re election of directors (5 marks)	Q6a. Board composition and reporting (15 marks) Q8a. Nomination Committee and appointments (15 marks)		Q7a. Recruitment of NEDs (12 marks)

Introduction - Myself

01
Lecturer for the CGI Corporate Governance module for over 15 years

02
Full-time Programme Leader at KCB

03
Possess a strong practical understanding of governance

04
PhD researcher at Henley Business School

05
Fellow of the CGI

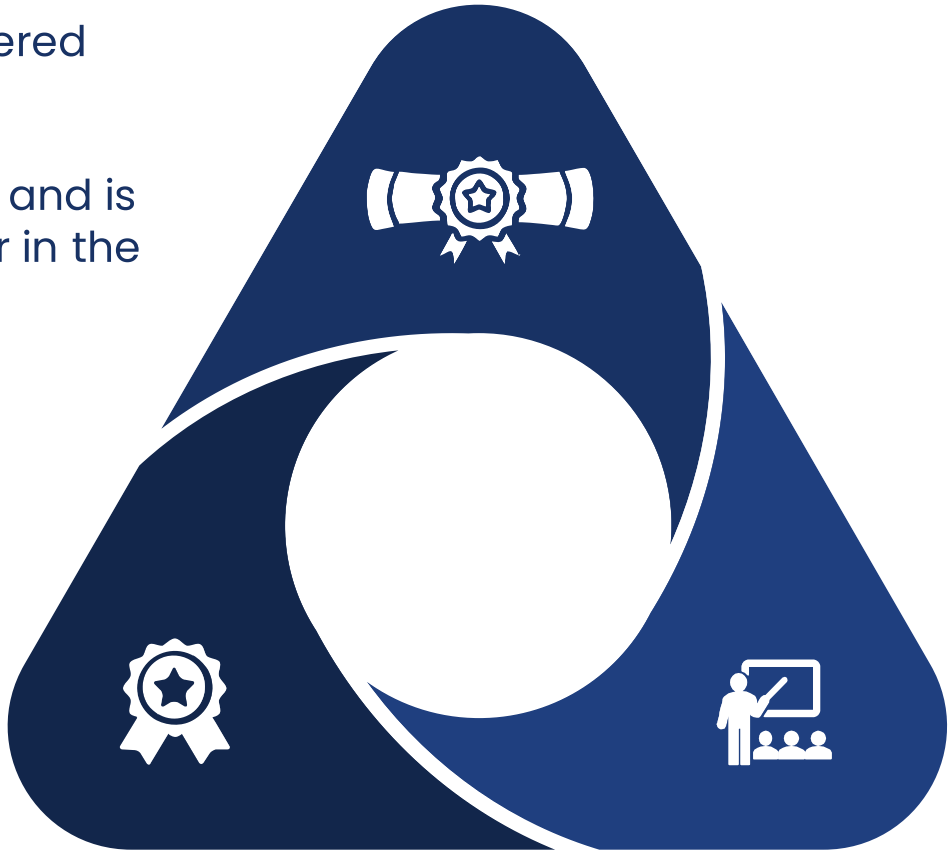
06
Previously employed at CGI

07
Ex member of the CGI Global Professional Standards Committee

Committed to student examination success

Introduction – KCB Global

Founded in 1986. Has offered tuition for the Chartered Governance Institute qualifications since 1986 and is now the leading provider in the UK and across the globe



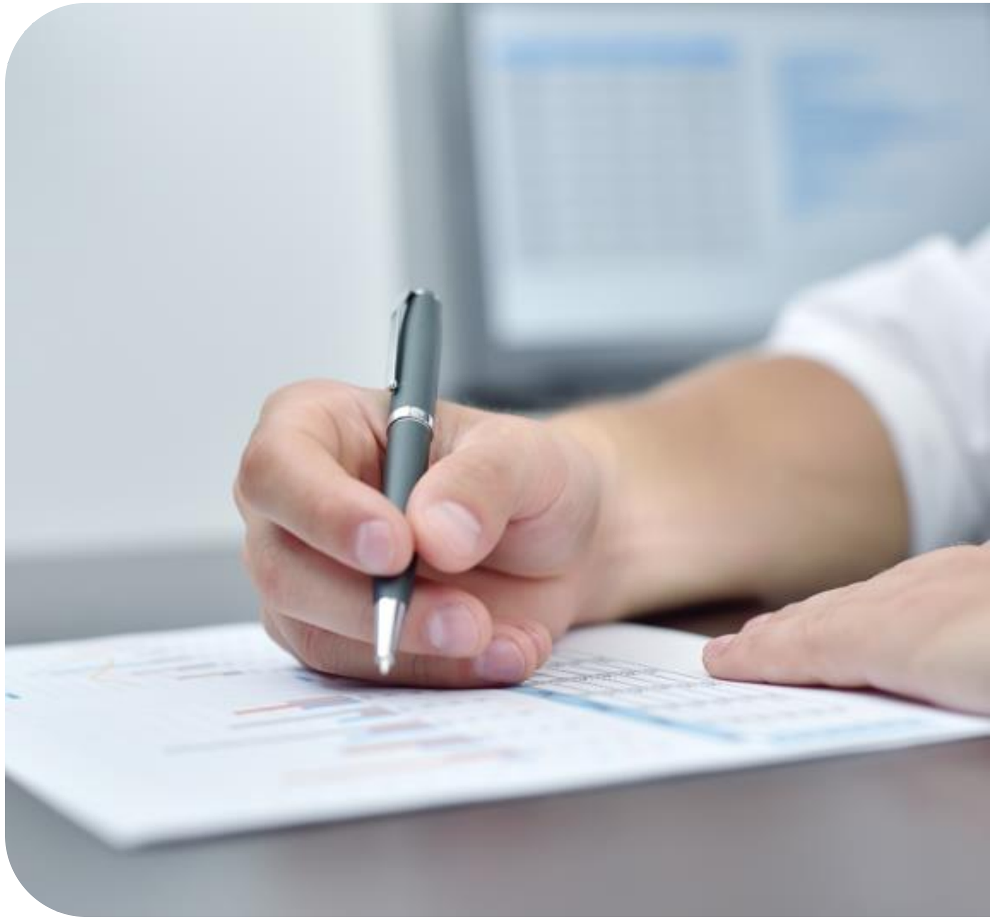
Continue to strive for excellence in developing new innovative programmes and learning resources to support governance students

Converted to a charity in 2022 with our aim being ‘The advancement of professionalism in governance globally, through education and research’

After successful completion of this module you should:

- Be able to research and critically apply the growing global, regional and local information sources on corporate governance.
- Be able to advise on the duties of directors as well as the role, membership, composition and effectiveness of the board, within legal and regulatory frameworks and ethical standards.
- Be able to apply the concepts of disclosure (including accountability, audit and transparency), corporate social responsibility and stakeholder engagement.
- Be able to critically appraise and apply corporate governance principles and best practices in risk management for the board in the employing or client organisation.
- Be able to exercise appropriate judgment in the use of professional knowledge and skills to the resolution of practical issues and problems in the proper governance of an organisation, including shareholder engagement and directors' remuneration.

- Exam Format
  - 5 short questions of 5 marks each. Compulsory
  - 3 from 4 Scenario based questions of 25 marks each covering multiple syllabus areas
- Pass mark: 50%
- Pass Rate: 65% (Nov 25)



01

Detailed knowledge and understanding across all syllabus areas

02

Ability to apply the knowledge and understanding to examination question scenarios

03

Develop a good Examination Technique

04

PRACTICE PRACTICE PRACTICE

Building & Testing Knowledge

Developing a deep Understanding of the knowledge and exploring how it links with other areas of the syllabus and the context in which it will appear in examination questions

Practising examination questions

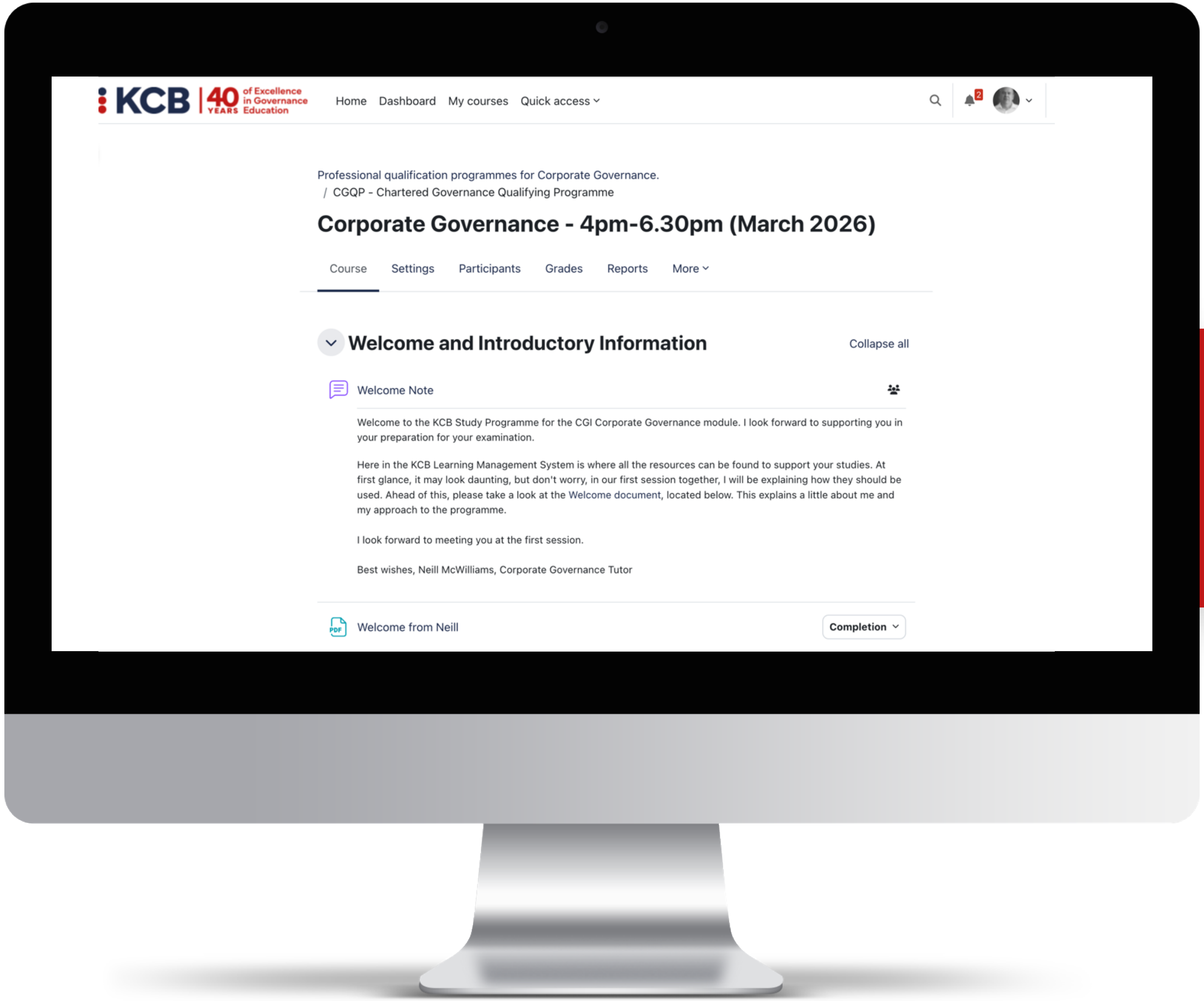
Requires 150 – 200 hours of study

40%
Knowledge

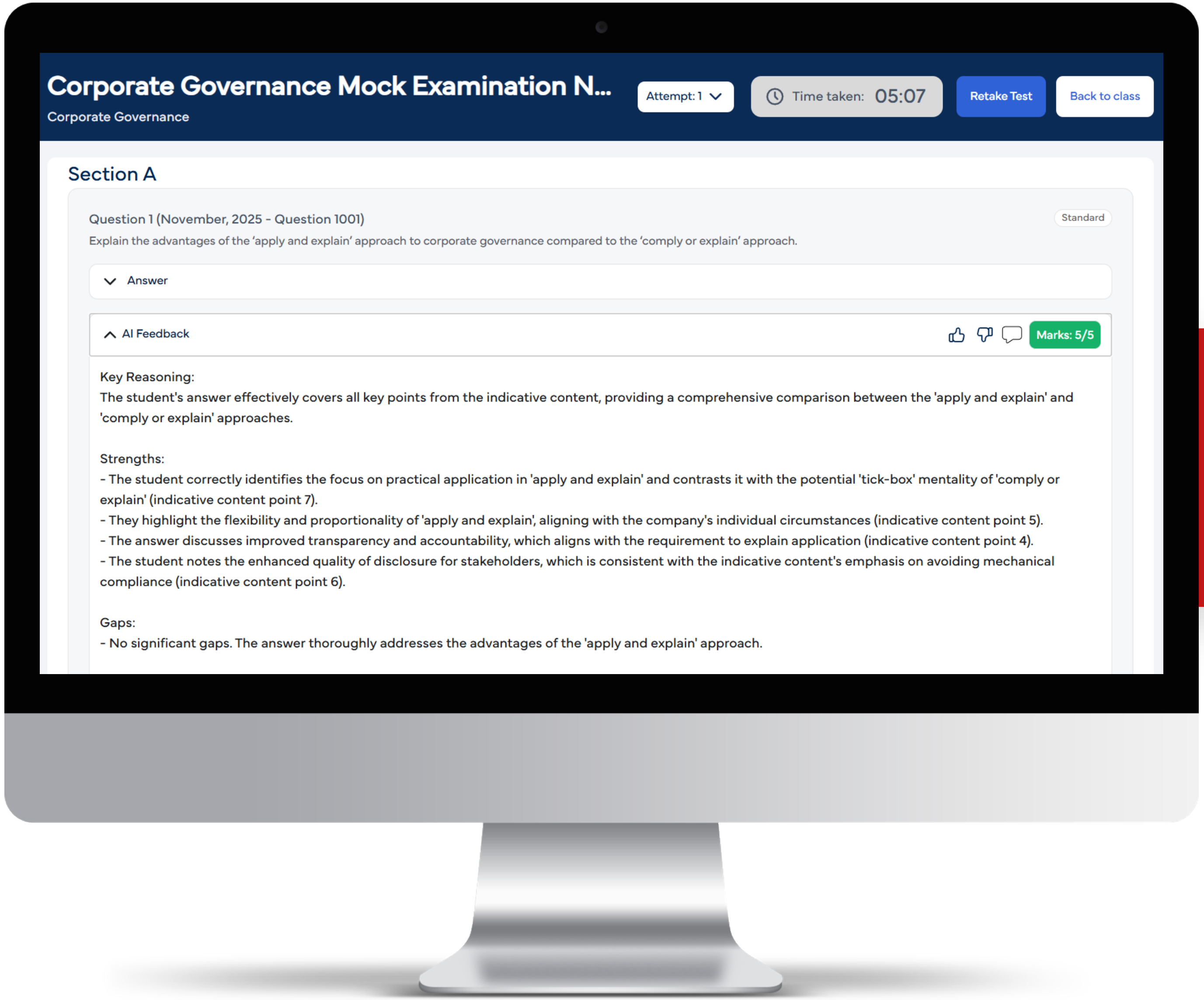
20%
Exploring

40%
Practice

Key Learning Resources

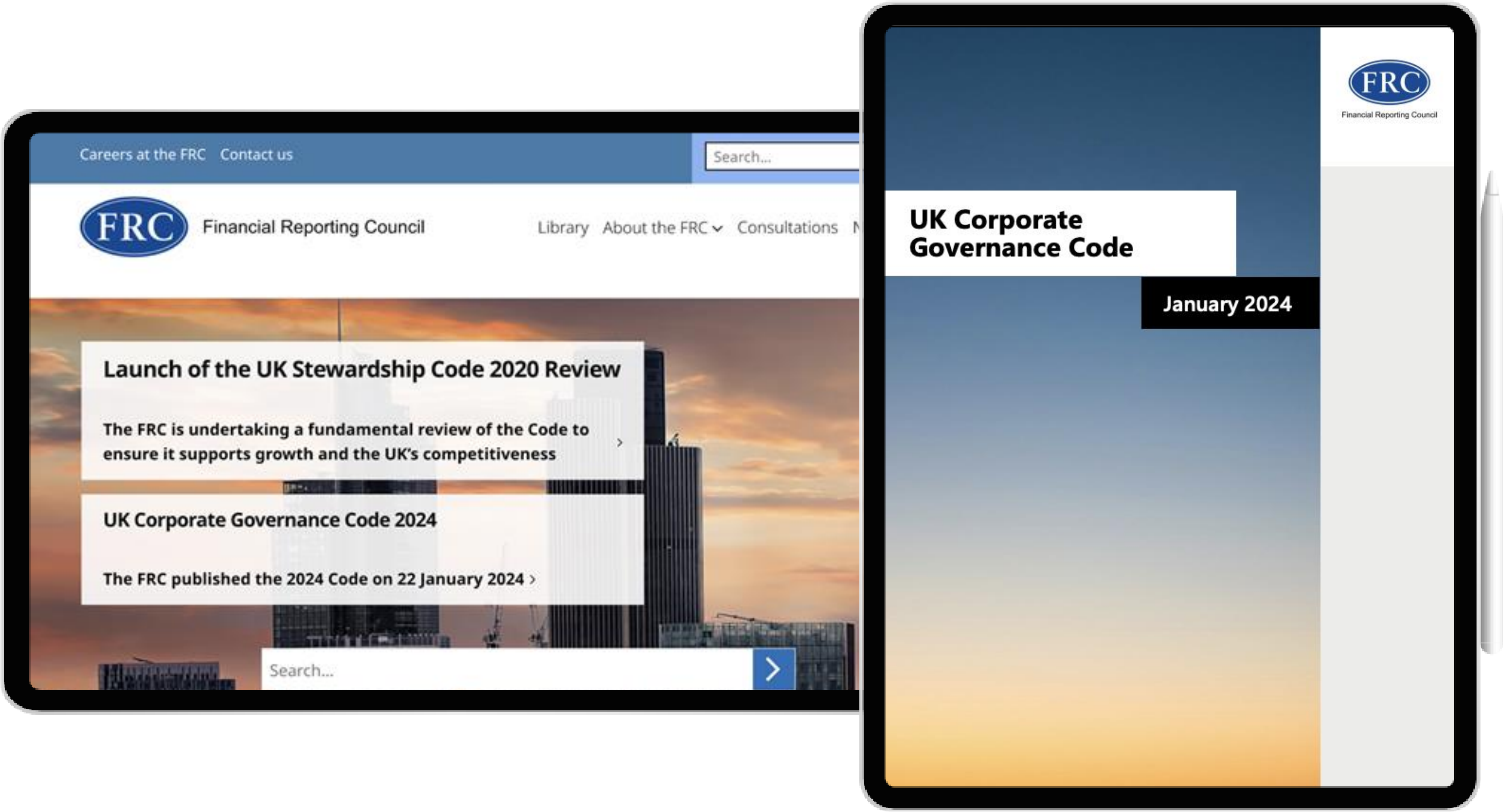


KCB Learning Management System (LMS)



KCB Companion Examination Practice Tool

Other resources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Financial Reporting Council
Library
About the FRC
Consultations
Launch of the UK Stewardship Code 2020 Review
The FRC is undertaking a fundamental review of the Code to ensure it supports growth and the UK's competitiveness
UK Corporate Governance Code 2024
The FRC published the 2024 Code on 22 January 2024
Search...
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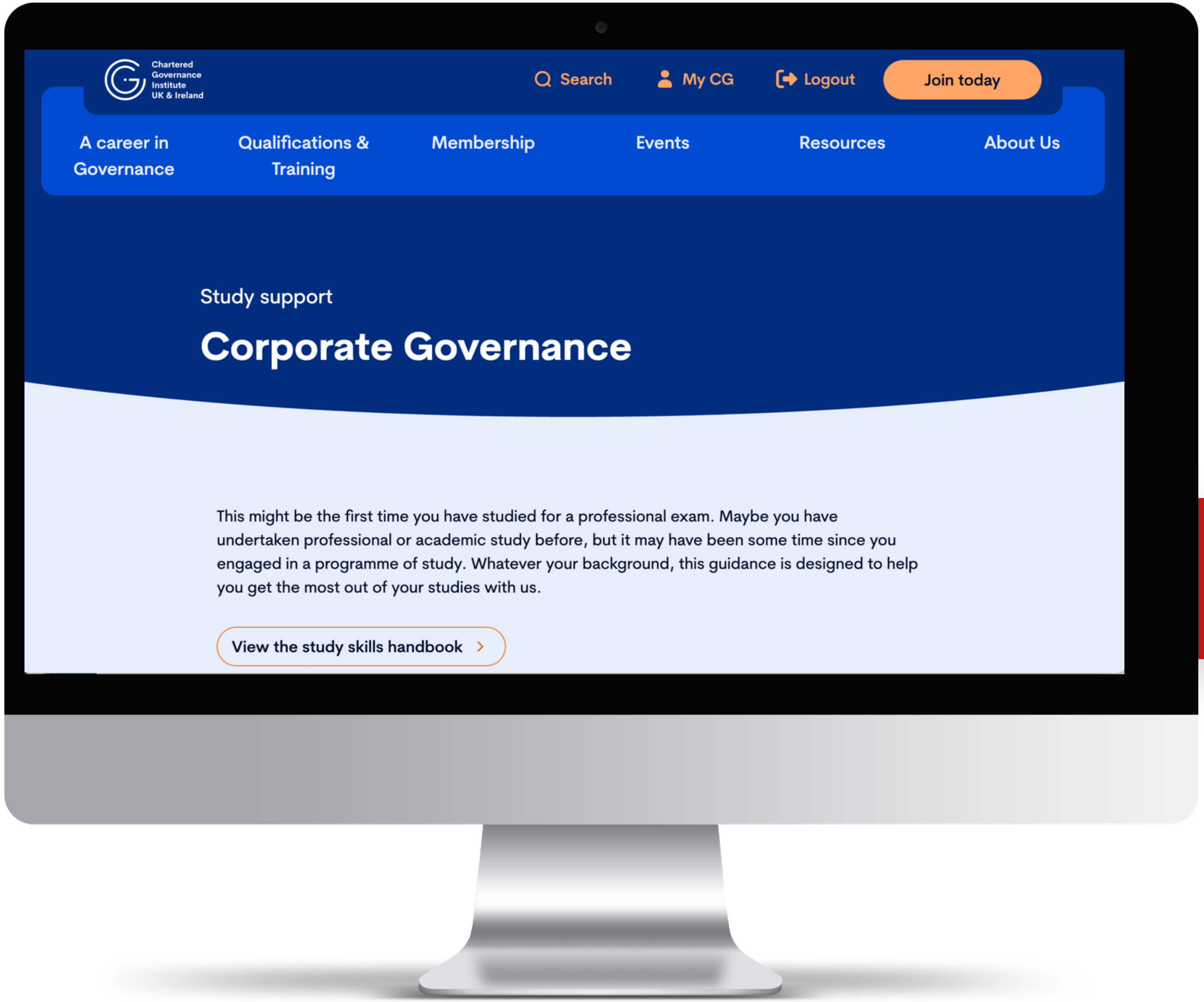
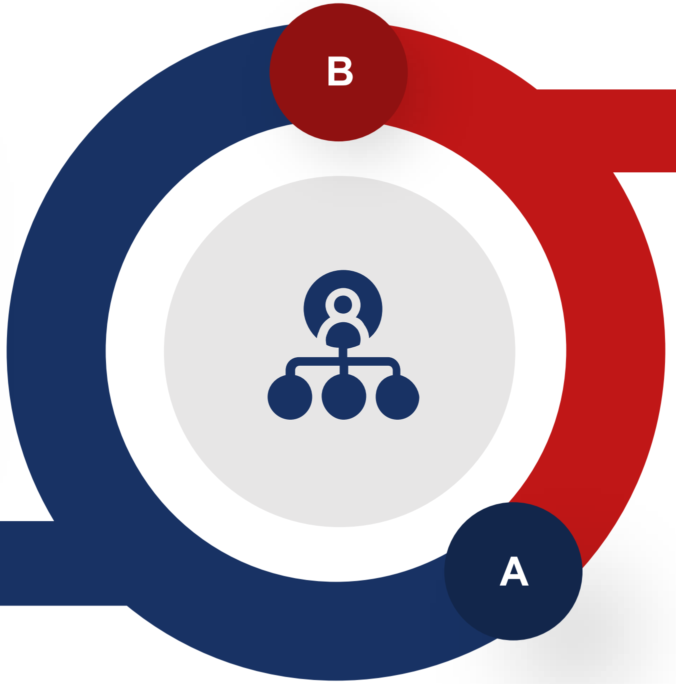
Financial Reporting Council
UK Corporate Governance Code
January 2024



Other resources

Tutor

- Email (neill@kcbglobal.net)
  Phone: (+44 (0)7866 269750)
- Whatsapp
- Class



Fellow Student Network

- Whatsapp
- Class
- Study groups

Lauren Devine
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Questions

Introduction

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Corporate Governance

Session 1

Definitions and Issues

Neill McWilliams MSc MBA FCG

Agenda

1. Definitions of corporate governance
2. Theories of corporate governance
3. Principles of corporate governance
4. Reputational management
5. Corporate governance frameworks
6. Company Purpose
7. The importance of adopting good corporate governance practices
8. Governance v Management

> The system by which companies are directed and controlled.
>
> *The Cadbury Committee 1992*

> A set of relationships between a company's management, its board, its shareholders and other stakeholders…. Also provides the structure through which objectives of the company are set, and the means of attaining those objectives and monitoring performance.
>
> *OECD 2004*

Help build an environment of trust, transparency and accountability necessary for fostering long-term investment, financial stability and business integrity, thereby supporting stronger growth and more inclusive societies'.

G20/OECD 2015

The exercise of ethical and effective leadership by the governing body towards achievement of the following governance outcomes:

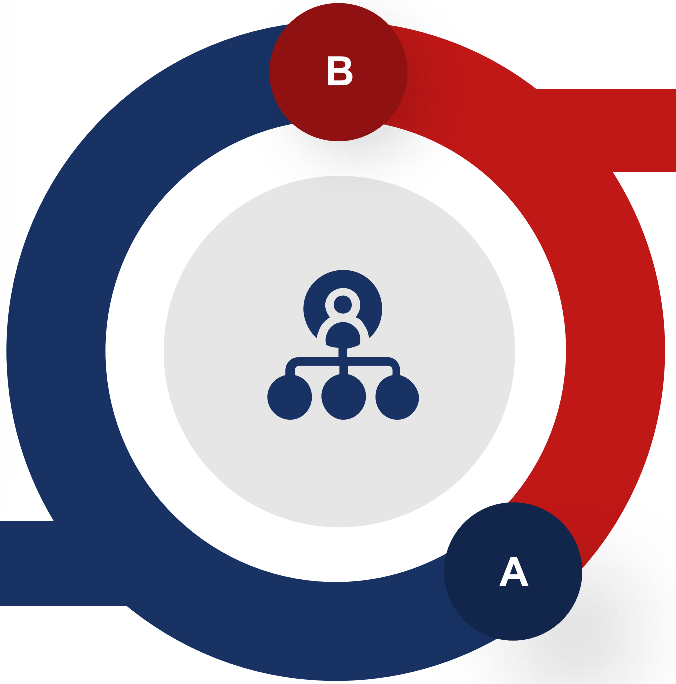
- ethical cultures
- good performance
- effective control
- legitimacy

King IV Report, 2016

KCB | Defining Governance

Governance

- The system by which a company is directed and controlled.
- Ensuring that the business of a company is conducted properly.
- Establishing its structures, policies and procedures.
- Board of directors are responsible for governance. For listed companies, a majority may be Non Executive Directors.



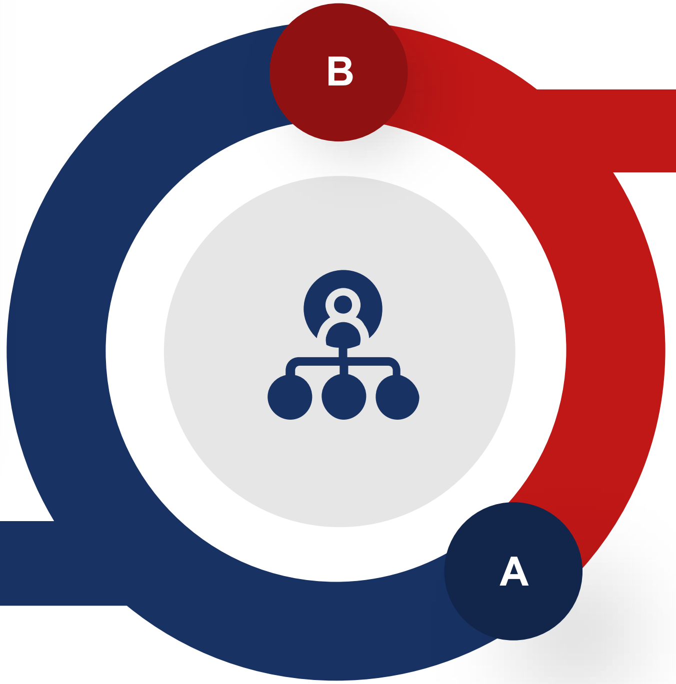
Management

- Running the business.
- Led by the executive directors with delegation to a management team.

KCB | Defining Governance

Governance

- The system by which the organization is directed and controlled.
- Setting and monitoring objectives
- Establishing its structures, policies and procedures.



Compliance

- Ensures the the necessary basic structures and procedures in place.
- Synergy between compliance and governance

Agency Theory

Separation of Ownership and Control

Agency Conflict - A manager's interest is in receiving benefits from their position, which will be higher when they have no stake in ownership.

May drive management behaviour not in the best interest of the owners.

Agency conflict

01 Moral Hazard

A manager has interest in receiving benefits from their position

02 Level of Effort

Managers may work less hard than they would if they were owners

03 Earnings retention

Remuneration of managers is often related to the size of the company, leading to managers seeking to re invest profits

04 Time horizon

Managers may be more interested in short term results

MELT

Shareholder ⟷ **Corporate Responsibility** ⟷ **Stakeholder**

Shareholder primacy theory

- “an entity's greatest responsibility lies in the satisfaction of the shareholders.”
- The business of business is business.

Friedman (1970)

Stakeholder theory

- “a company's success depends on its ability to create value for all its stakeholders, not just shareholders”

Freeman (2010)

Shareholder Value Approach

The board of directors should govern their company in the best interest of its owners.

Stakeholder Approach (pluralist approach)

The board of directors should have regard to the views of all stakeholders in making decisions.

Inclusive Stakeholder Approach

The board should consider the legitimate interests and expectations of all key stakeholders on the basis that this is in the best interests of the company.

The Enlightened Shareholder Approach

In considering actions to maximise shareholder value, the board should consider the views of and impact on other stakeholders in the company. The views of other stakeholders are, however, only considered in so far as it would be in the interests of shareholders to do so.

The Enlightened Shareholder Approach (S172 CA2006)

To promote the success of the company for the benefit of its members as a whole, and in doing so have regard to:

- the likely consequences of any decision in the long term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others; the impact of the company's operations on the community and the environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the company.

Stakeholder Capitalism

- Seeks to create shareholder returns by creating value for society as a whole, i.e. customers, employees, suppliers, communities, and the environment.
- The view that the most important assets in an organisation are not tangible but rather are intangible i.e. access to talent, intellectual property, reputation
- Larry Fink, the Chairman and CEO of Blackrock, the world's largest asset manager, in January 2019 sent a letter to the CEO's of companies in the Blackrock portfolio requesting that they focus on societal purpose alongside their visions, missions and reasons for being in business.
- In August 2019, 200 of America's most influential business leaders committed to lead their companies for the benefit of all stakeholders.
- Increasing Importance of Environment, Social and Governance (ESG)

Principles of Good Corporate Governance

01. Responsibility

Those given authorities should accept full responsibility for the powers that they have been given and the authority they exercise. They should carry them out ethically with honesty, probity and integrity.

02. Accountability

This refers to the requirement for a person or group of people in a position of responsibility to account for the exercise (or not) of the authority they have been given. They should provide 'honest' information and not manipulate facts.

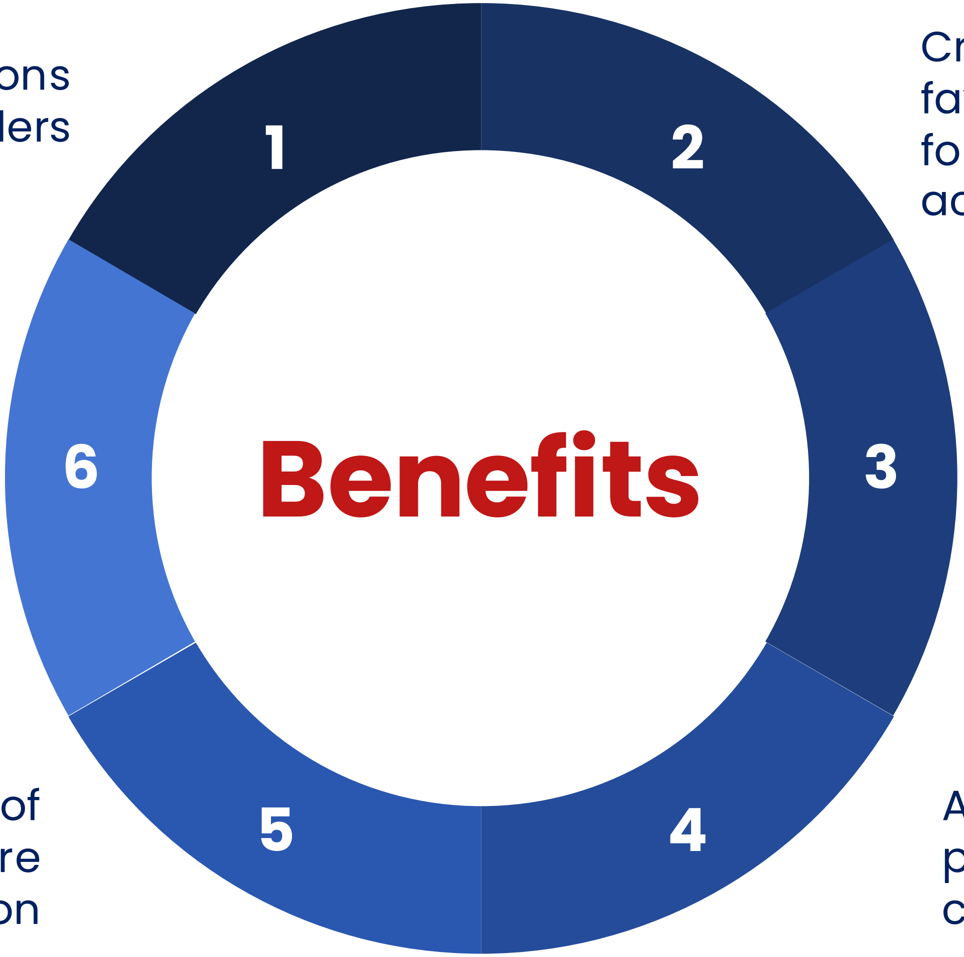
03. Transparency

This refers to the ease with which an outsider is able to make a meaningful analysis of an organisation and its actions.

04. Fairness

This refers to the principle that all key stakeholders should be treated fairly when decisions are made or actions taken by the organisation.

Reputational management

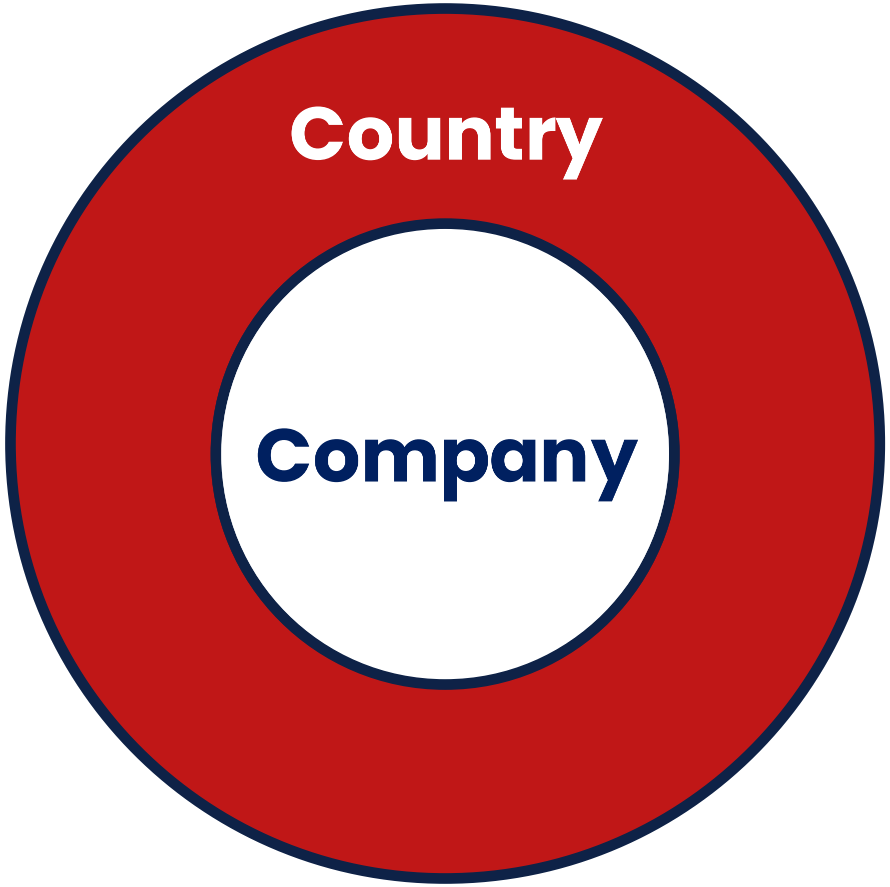


1. Improving relations with stakeholders
2. Creating a more favourable environment for investment and access to capital
3. Recruiting and retaining the best employees
4. Attracting the best business partners, suppliers and customers;
5. Minimising threats of litigation and of more stringent regulation
6. Reducing the potential for crises

01 Rules-based approach

02 Principles-based approach

03 Hybrid approach



Approach to compliance of the frameworks

01 ‘Comply or else’

Failure to comply with mandatory rules results in sanction. E.g. Sarbanes Oxley in US

02 ‘Comply or explain’ (‘Apply or explain’)

Where the company believes that it is not in its best interests to ‘comply’ with a provision of the code, it is required to ‘explain’ to shareholders why they have not complied e.g. UKCG Code

03 ‘Apply and explain’

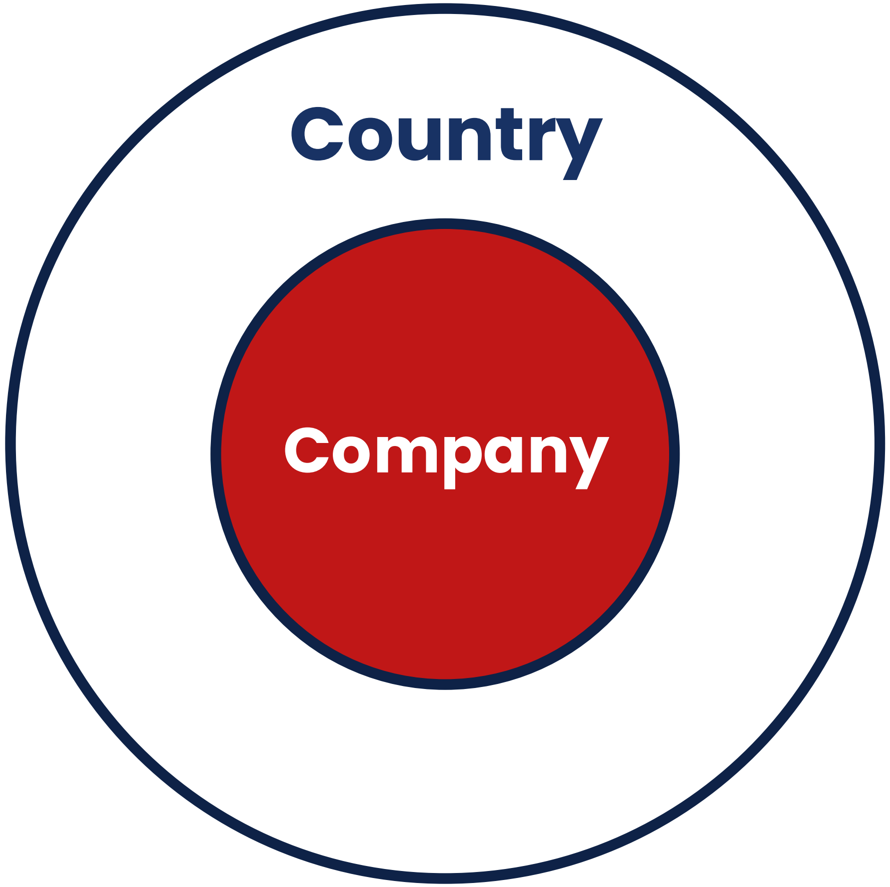
Avoids ‘tick box’ mentality and focusses organization to apply principle and explain how. e.g. King IV, Wates

01 Organisation's constitution

02 Structures

03 Policies

04 Procedures



- The reason that it is in business
- Everything a company does should stem from its purpose
- Gives clarity of purpose for the Board, management, employees and investors.
- Helps the Board to make decisions about its strategic goals and its consideration of risk.
- Set the organisation's governance framework of policies and procedures.

Importance of adopting good CG

Long-term sustainability

Improved access to external financing

Reduced risk of corporate crisis and scandals

Effective decision making

Improved oversight, monitoring and evaluation

Consequences of weak governance practices

Corporate failure

- Accounting fraud (e.g Patisserie Valerie)
- Lack of knowledge skills and experience on the board, (e.g. Barings Bank)
- Dominant personalities, (e.g. Maxwell)
- Failure to understand and manage risk, (e.g. global financial crisis, Carillion)

Reputational problems

- Unethical business practices, (e.g. Volkswagen 'Dieselgate)
- Lack of transparency and disclosure, (e.g. Olympus)
- Poor relationship between the board and shareholders, (e.g. Sports Direct)
- Inappropriate remuneration and reward systems for directors and senior executive, (e.g. Enron, Carillion)

Consequences of weak governance practices

- Excessive regulation
- Lack of investment in capital markets
- The development of shareholder representative bodies
- A focus on regulating and disclosing senior executive pay.
- The establishment of powerful regulators

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Summary

Session 1

- The definition of Corporate Governance is ‘The system by which companies are directed and controlled.’
- The Agency theory concerns the separation of ownership and control
  - Moral Hazard
  - Earnings Retention
  - Level of Effort
  - Time Horizon
- There are four approaches to Shareholder/Stakeholder Theory
  - Shareholder Value Approach
  - Stakeholder Approach
  - Inclusive Stakeholder Approach
  - Enlightened shareholder Approach

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Summary

Session 1

- Principles of good governance (RAFT)
- Benefits of good reputation include Improving relations with stakeholders and creating a more favourable environment for investment and access to capital
- The three types of approaches to Governance frameworks are rules-based, principle based and hybrid.
- The approaches to compliance with the frameworks are comply or else, comply or explain and apply and explain
- The company purpose is the reason it is in business
- It is important to adopt good Corporate Governances to ensure the long term sustainable success of the company.