

Corporate Governance

Session 1

Introduction

Neill McWilliams, MSc MBA FCG

- 1 Introduction
- 2 Introduction to Corporate Governance module
- 3 How to succeed in the CGI examinations
- 4 Key learning resources
- 5 How we support you



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

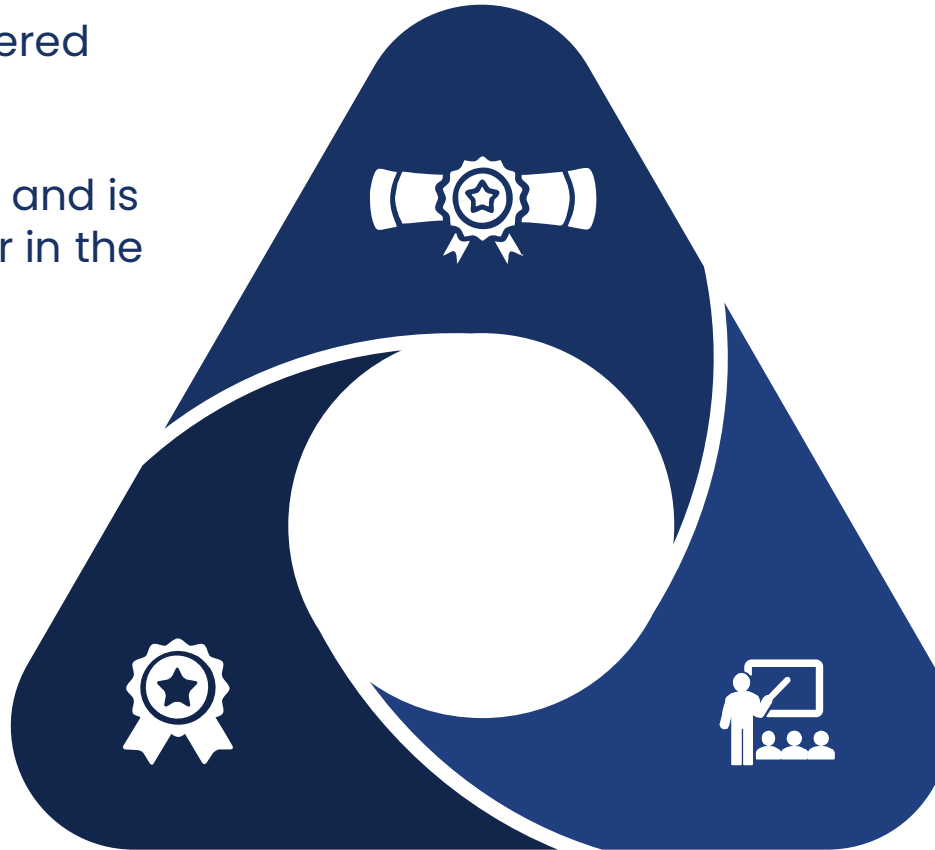
Previously
employed at CGI

07

Ex member of the CGI
Global Professional
Standards Committee

Committed to student examination success

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.



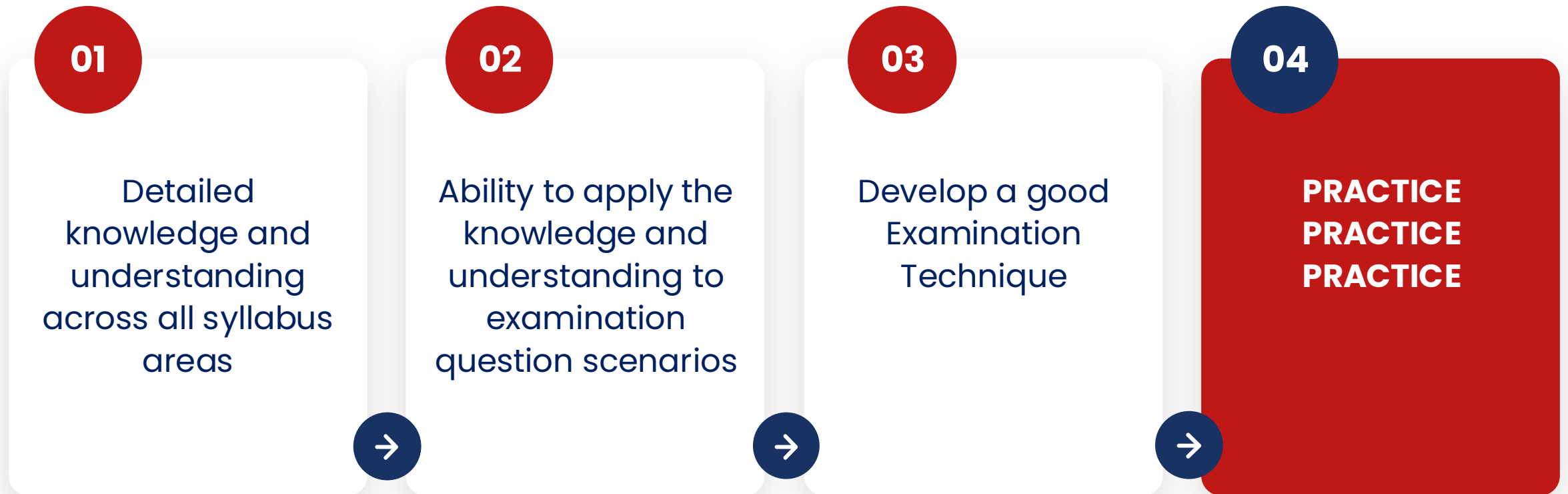
➔ Exam Format

- 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)





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

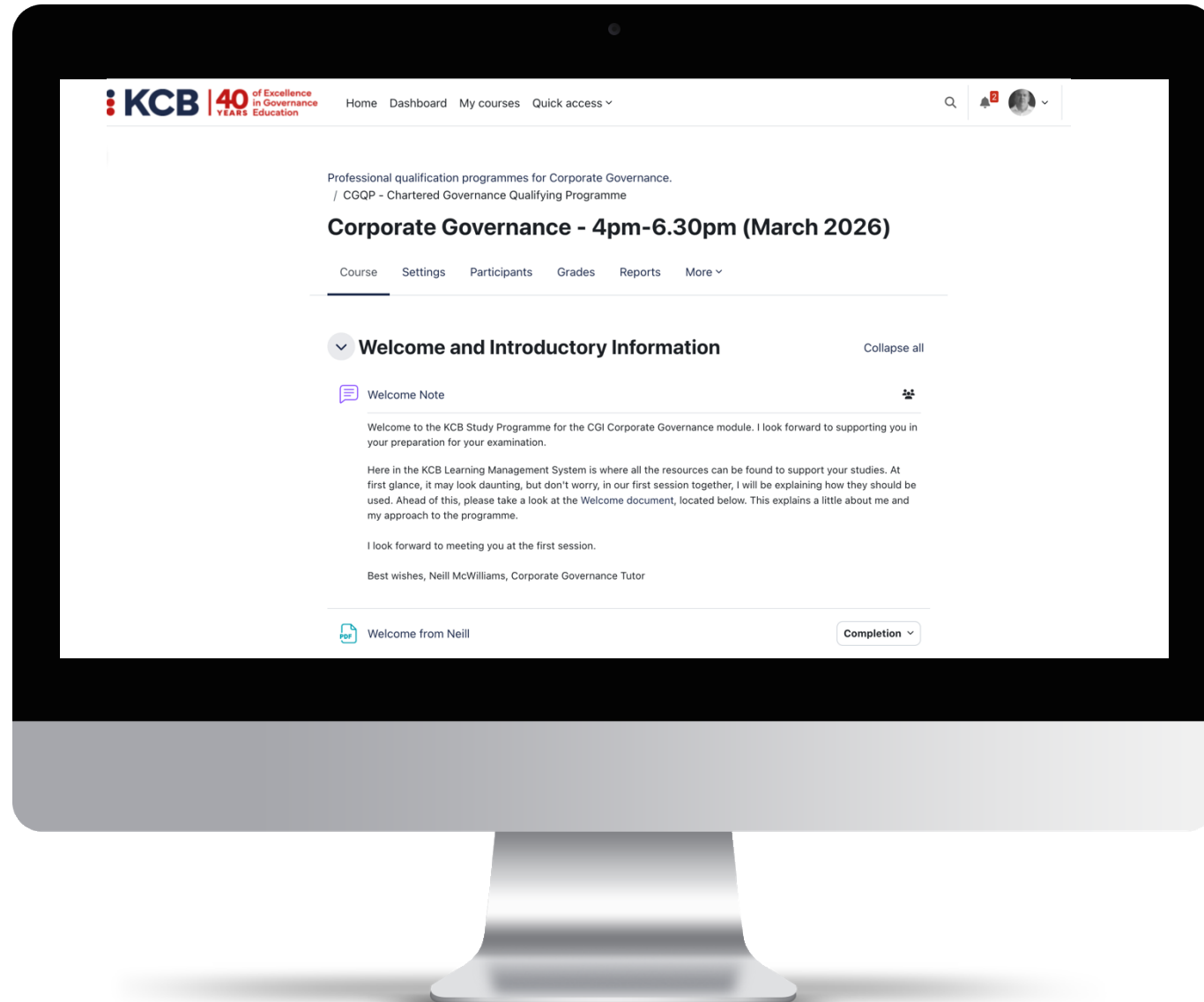
Practising examination questions

Requires 150 – 200 hours of study

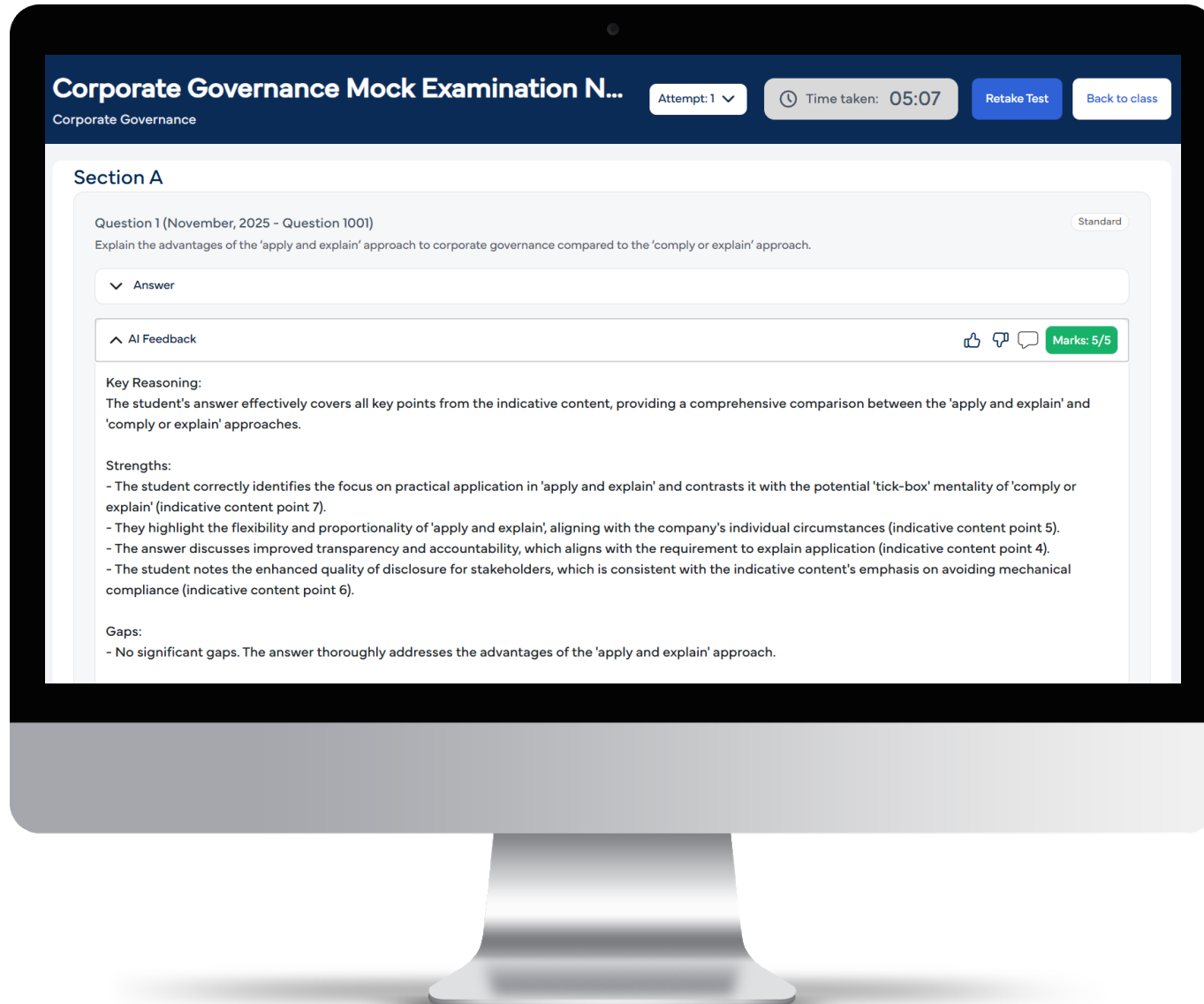
40%
Knowledge

20%
Exploring

40%
Practice



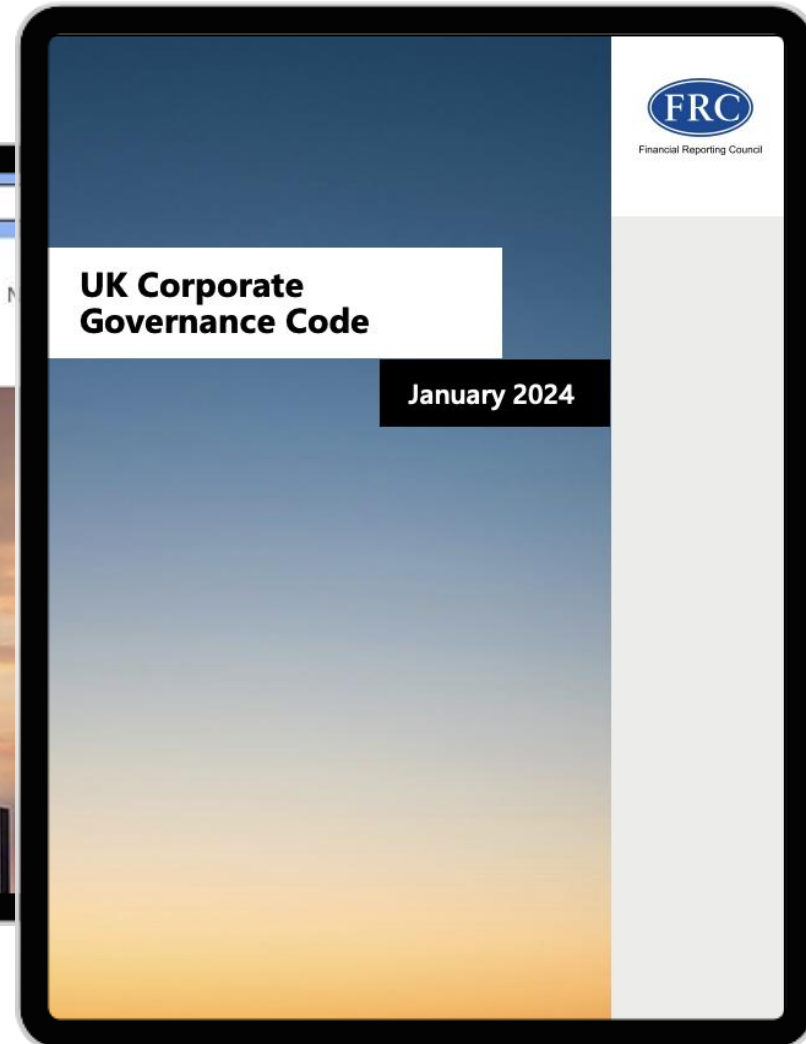
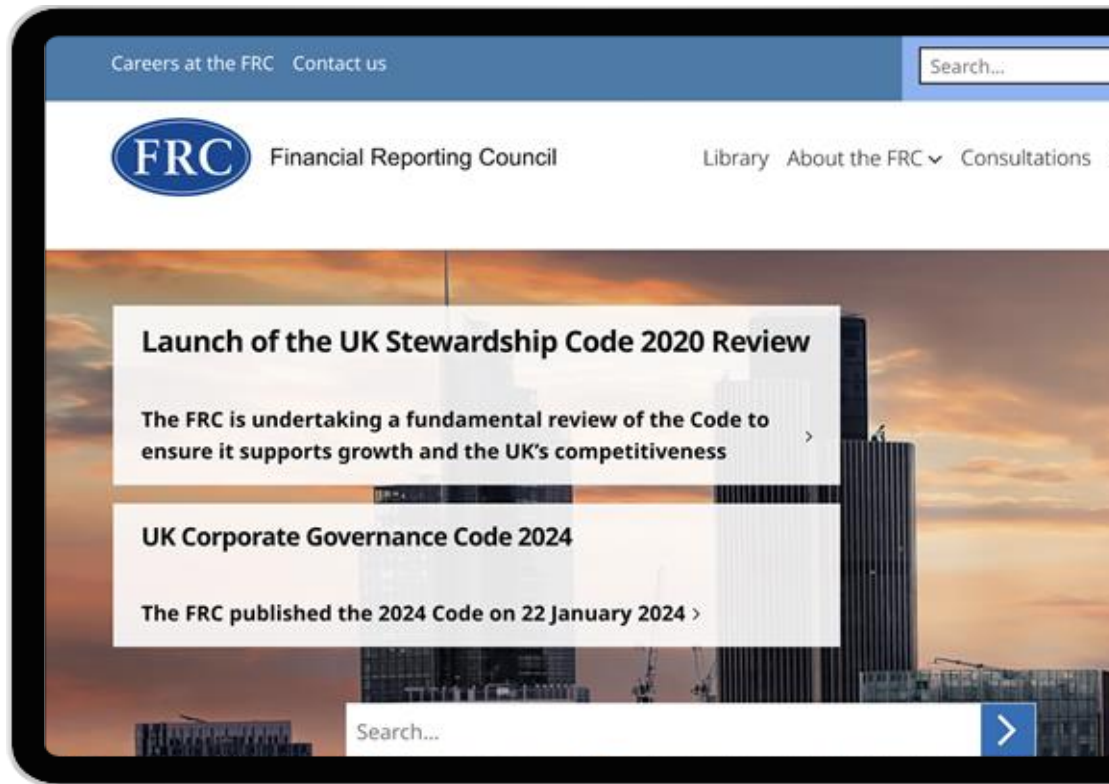
**KCB Learning
Management
System (LMS)**

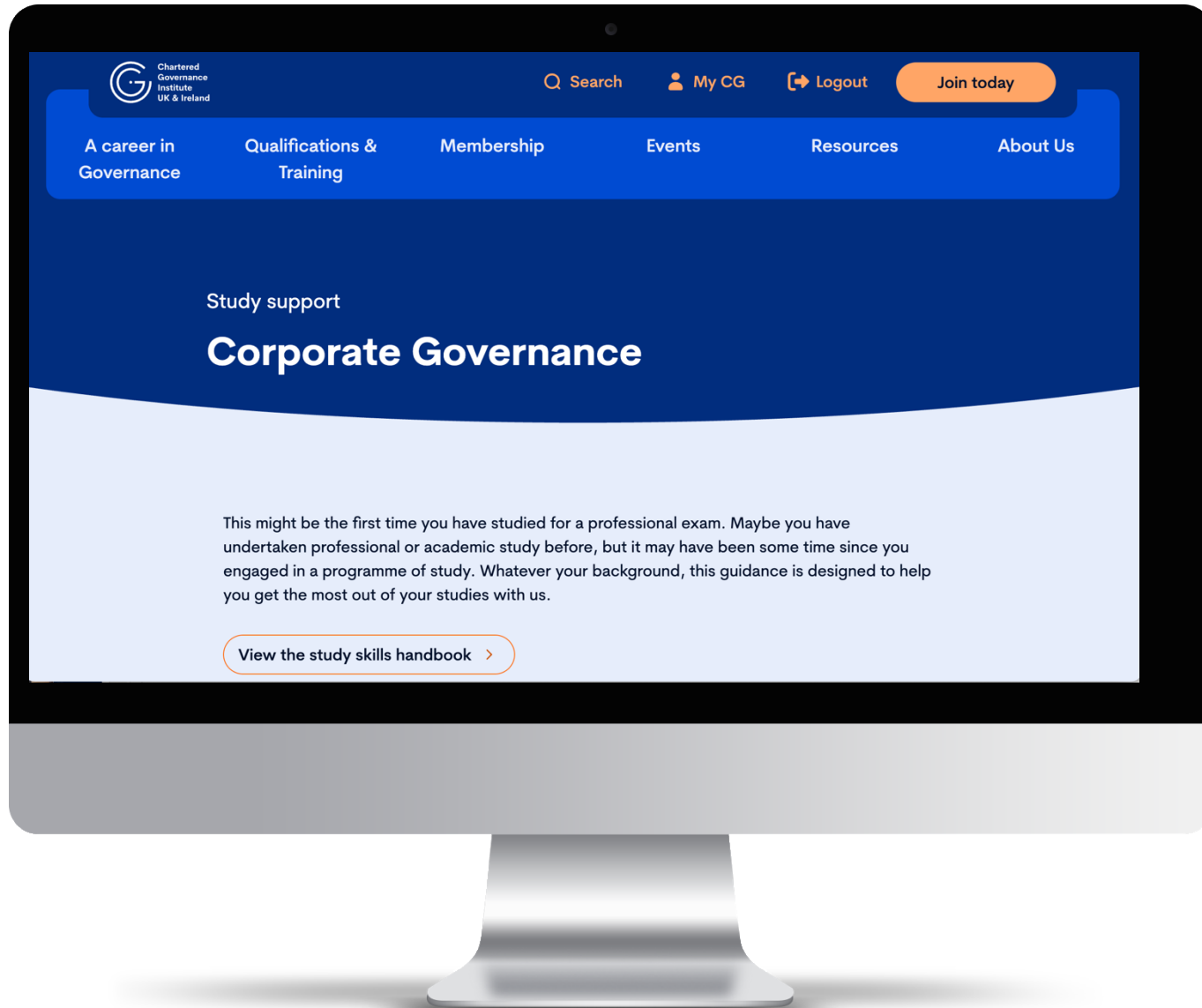


**KCB Companion
Examination
Practice Tool**

Other resources



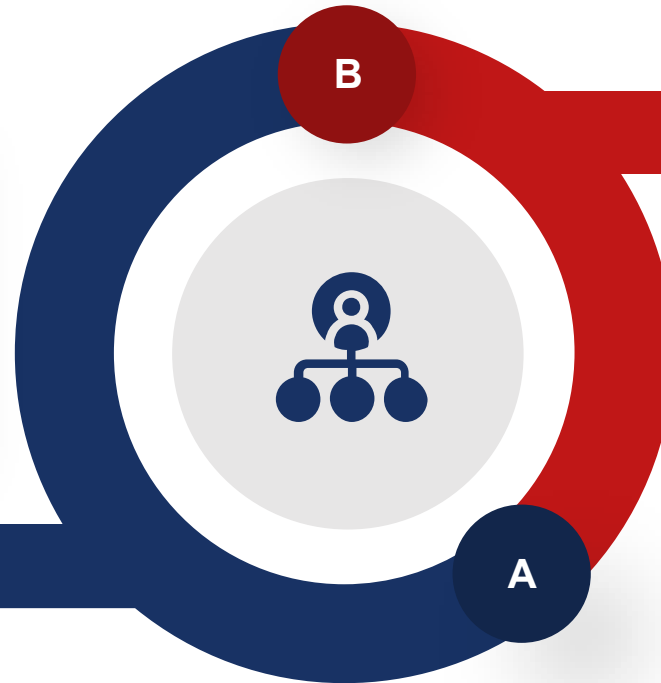




Other resources

Tutor

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



Fellow Student Network

- Whatsapp
- Class
- Study groups



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Questions

Introduction

Corporate Governance

Session 1

Definitions and Issues

Neill McWilliams MSc MBA FCG

- 1 Defining 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

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)

“

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



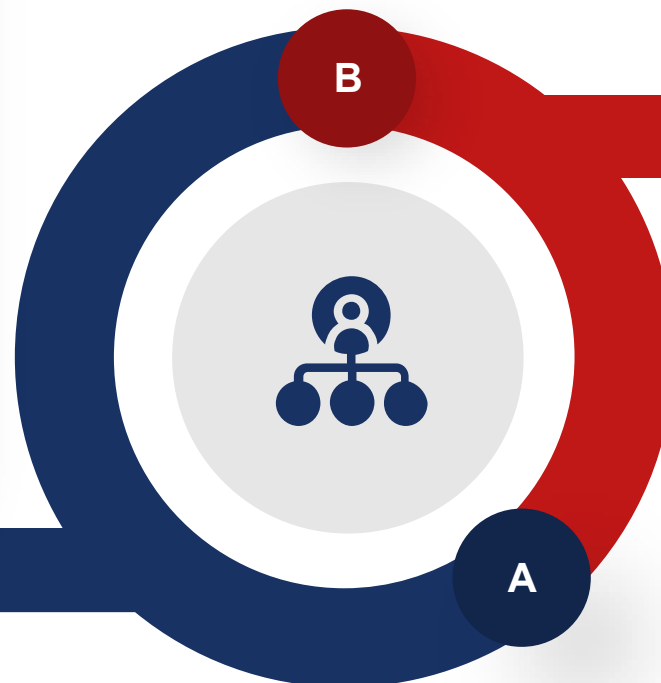
The exercise of ethical and effective leadership by the governing body towards achievement of the following governance outcomes:

- **ethical cultures**
- **good performance**
- **effective control**
- **legitimacy**

King IV Report, 2016

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.

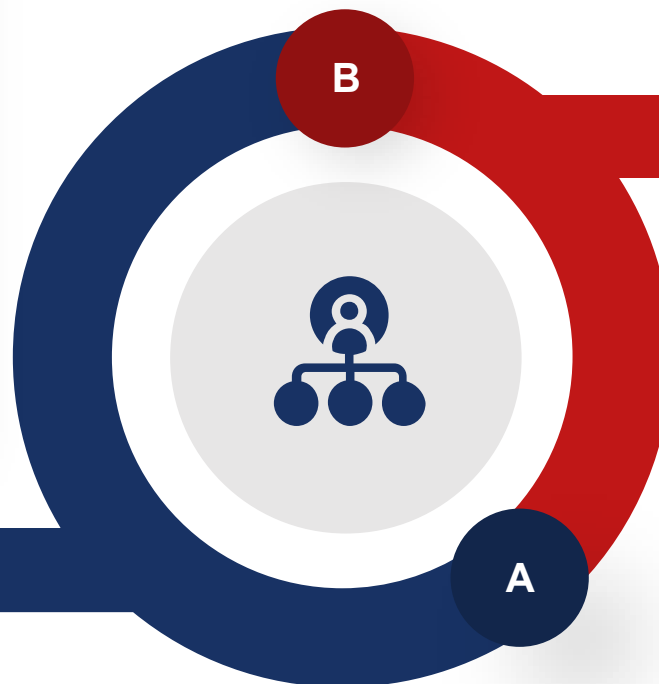


Management

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

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.





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)

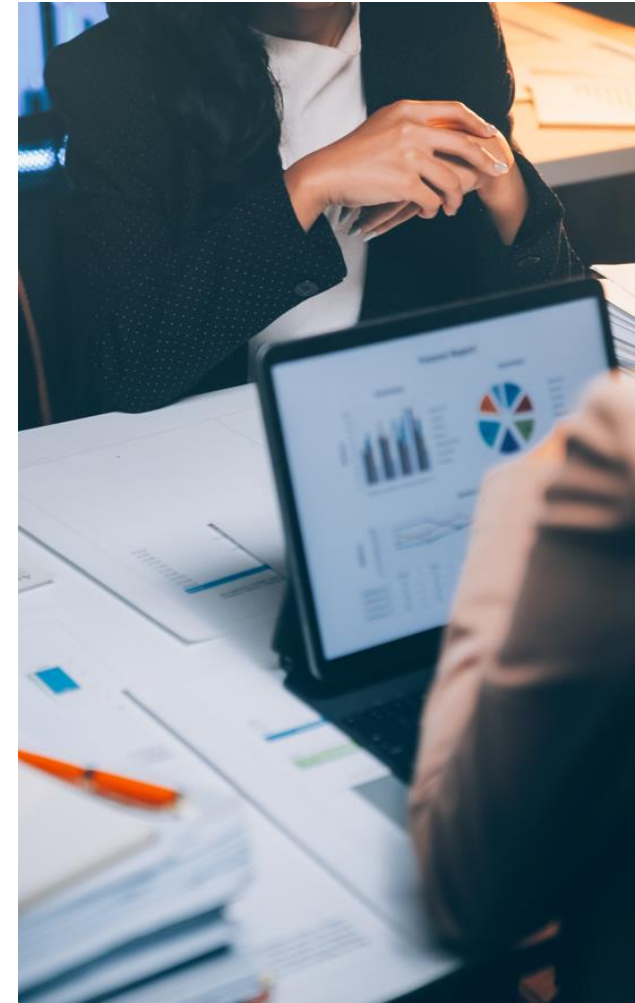
To promote the success of the company for the benefit of its members as a whole, and in doing so have regard to:

- 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)**





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

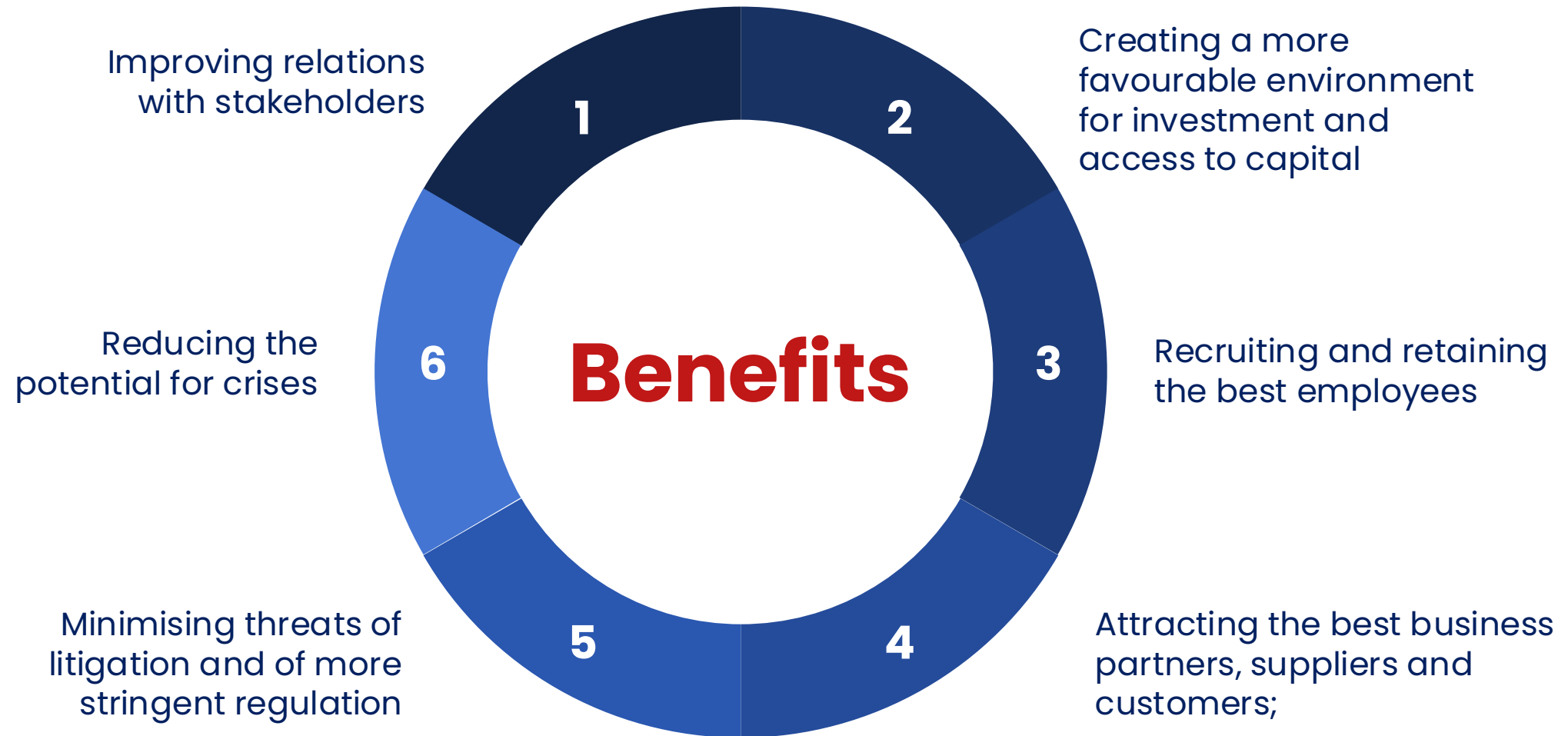
This refers to the requirement for a person or group of people in a position of responsibility to account for the exercise (or not) of the authority they have been given. They should provide 'honest' information and not manipulate facts.

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.



01

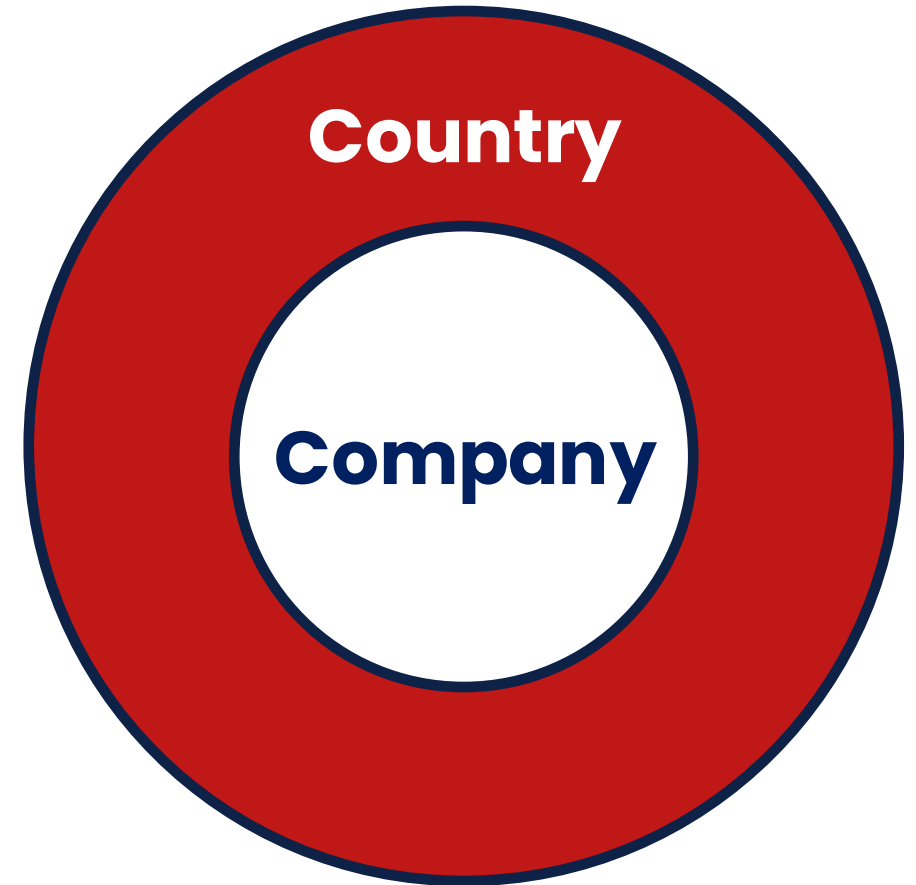
Rules-based approach

02

Principles-based approach

03

Hybrid approach



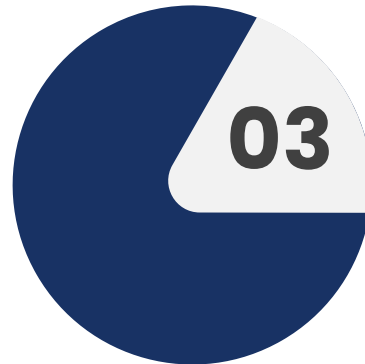
'Comply or else'

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

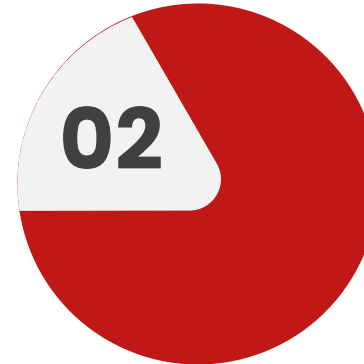


'Apply and explain'

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



02



'Comply or explain'
('Apply or explain')

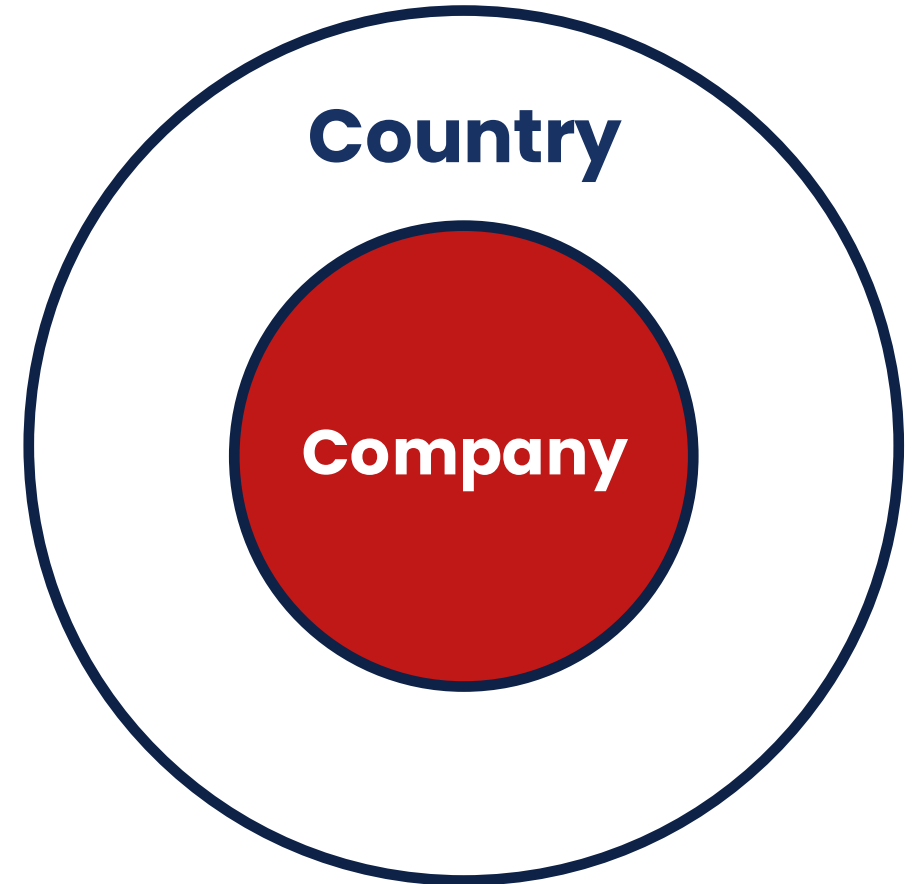
Where the company believes that it is not in its best interests to 'comply' with a provision of the code, it is required to 'explain' to shareholders why they have not complied e.g. UKCG Code

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.





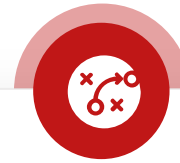
**Long-term
sustainability**



**Improved
access to
external
financing**



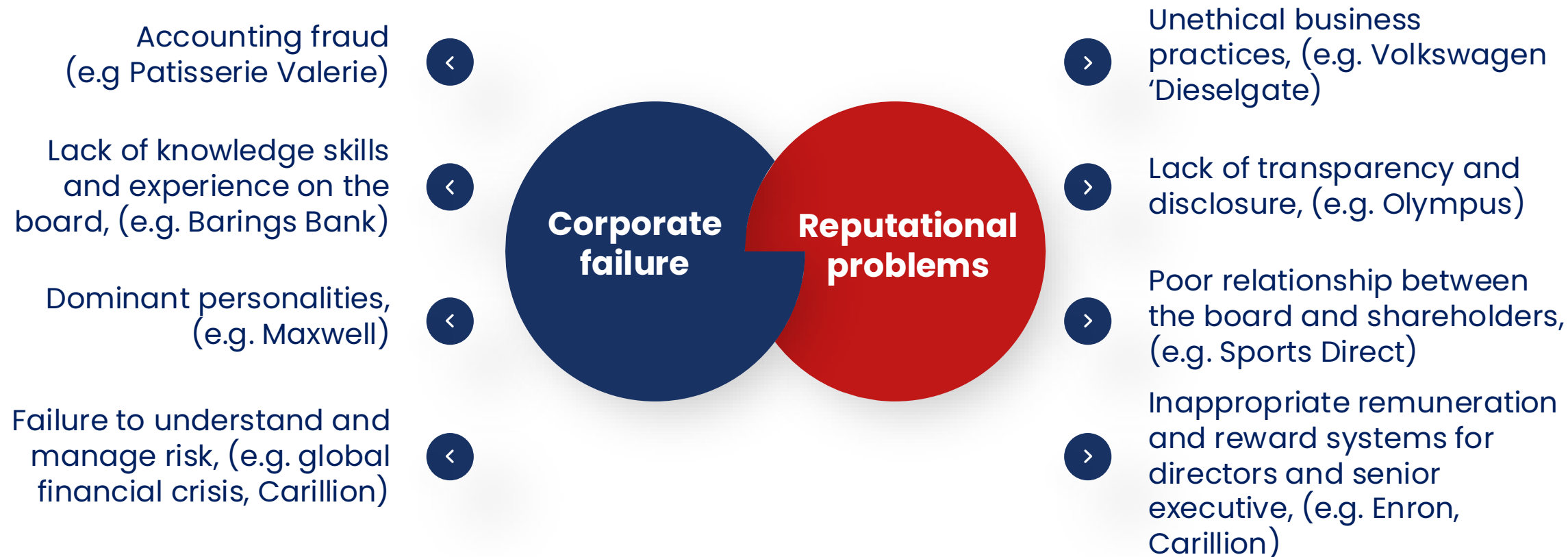
**Reduced risk
of corporate
crisis and
scandals**

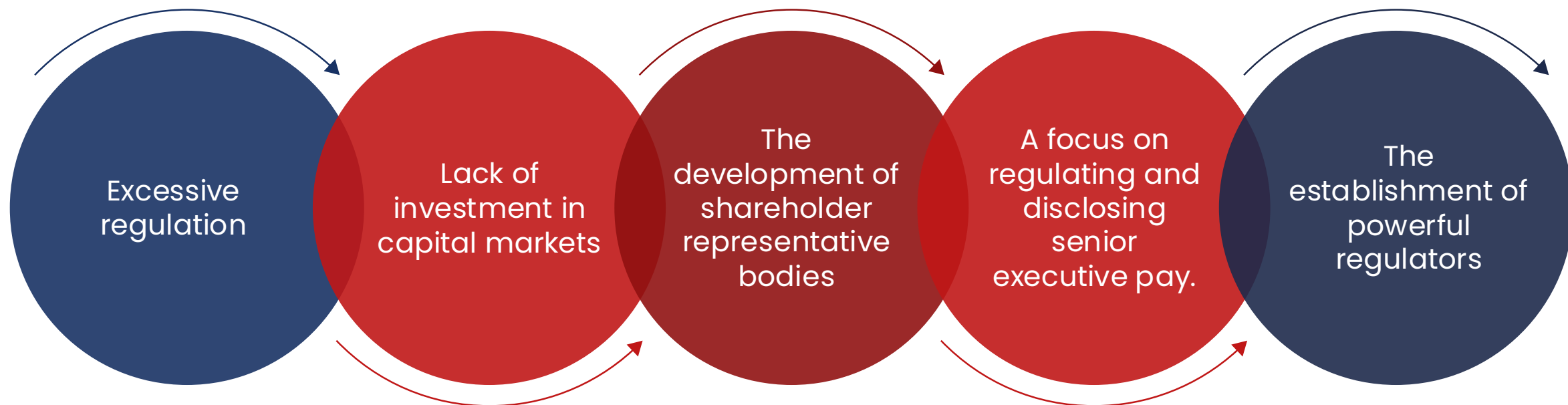


**Effective
decision
making**



**Improved
oversight,
monitoring
and
evaluation**





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

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.