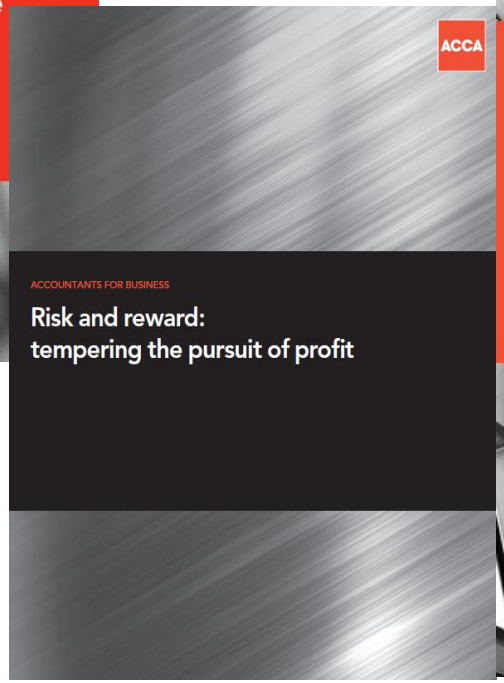
ACCA

Creating Value through Corporate Governance – Towards a new Accountability



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Adrian Berendt, chair ACCA Governance, Risk and Performance Forum

Governance, Risk and Performance Forum members:

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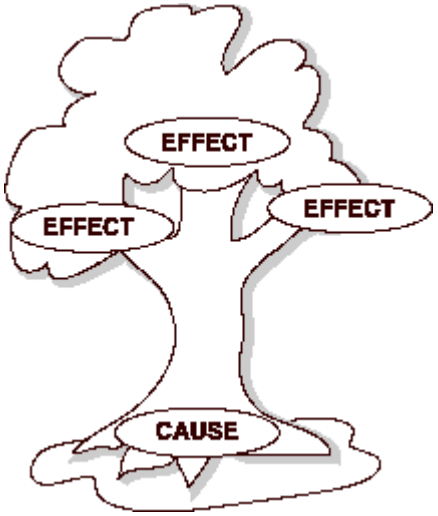
Governance since Cadbury - 1

1. Regulation has not led to a healthy corporate culture or effective boards.
2. Unreliable measures used to manage performance.
3. Boards have less control over companies than is generally recognised.

Governance since Cadbury -2

4. Governance: structure and process or complete system with purpose, inputs and outputs – and people.
5. Unaccountable boards and executives.
6. Regulators pursued simplistic incremental approach…failed to consider the broader context…unintended consequences…root causes unaddressed.



Lessons from the Crunch – 1

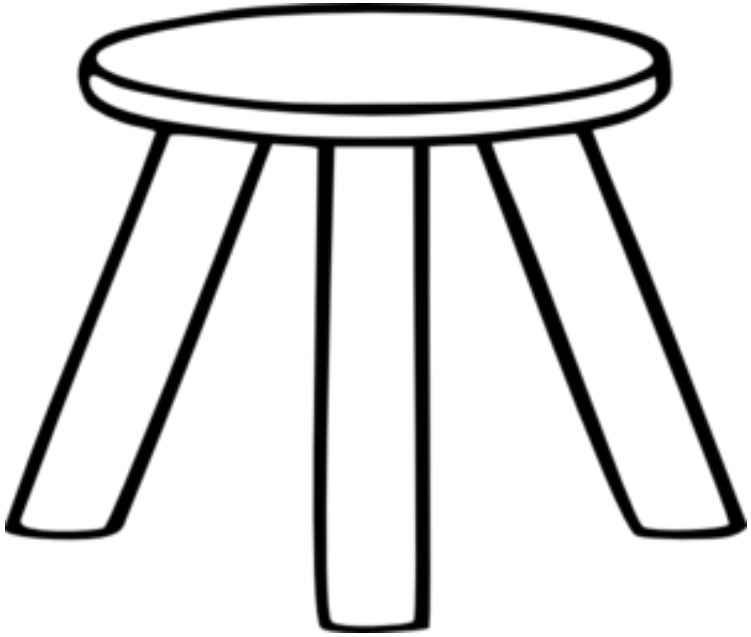
‘We are shocked and surprised that, even after the ship has run aground, so many of those who were on the bridge still seem so keen to congratulate themselves on their collective navigational skills ’

UK Parliamentary Commission on Banking Standards (2013) into the failure of HBOS

ACCA Accountability Framework for Governance - 1

The aim of governance is to create value sustainably

Informing



Holding to account

Performing - creating value

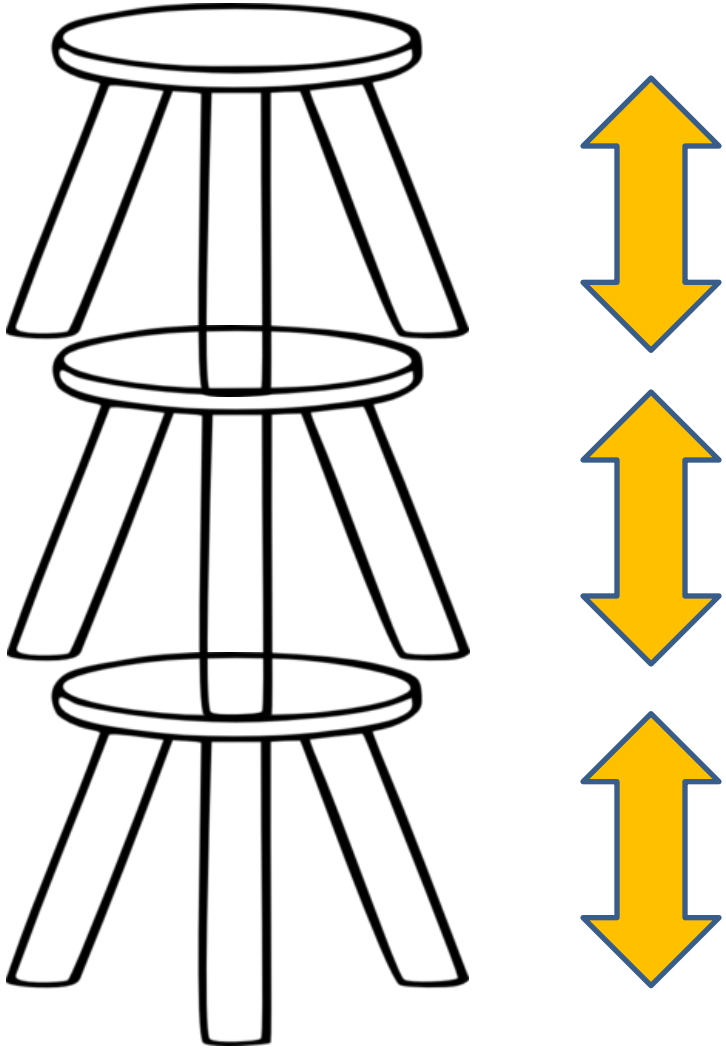
ACCA Accountability Framework for Governance - 2

Savers

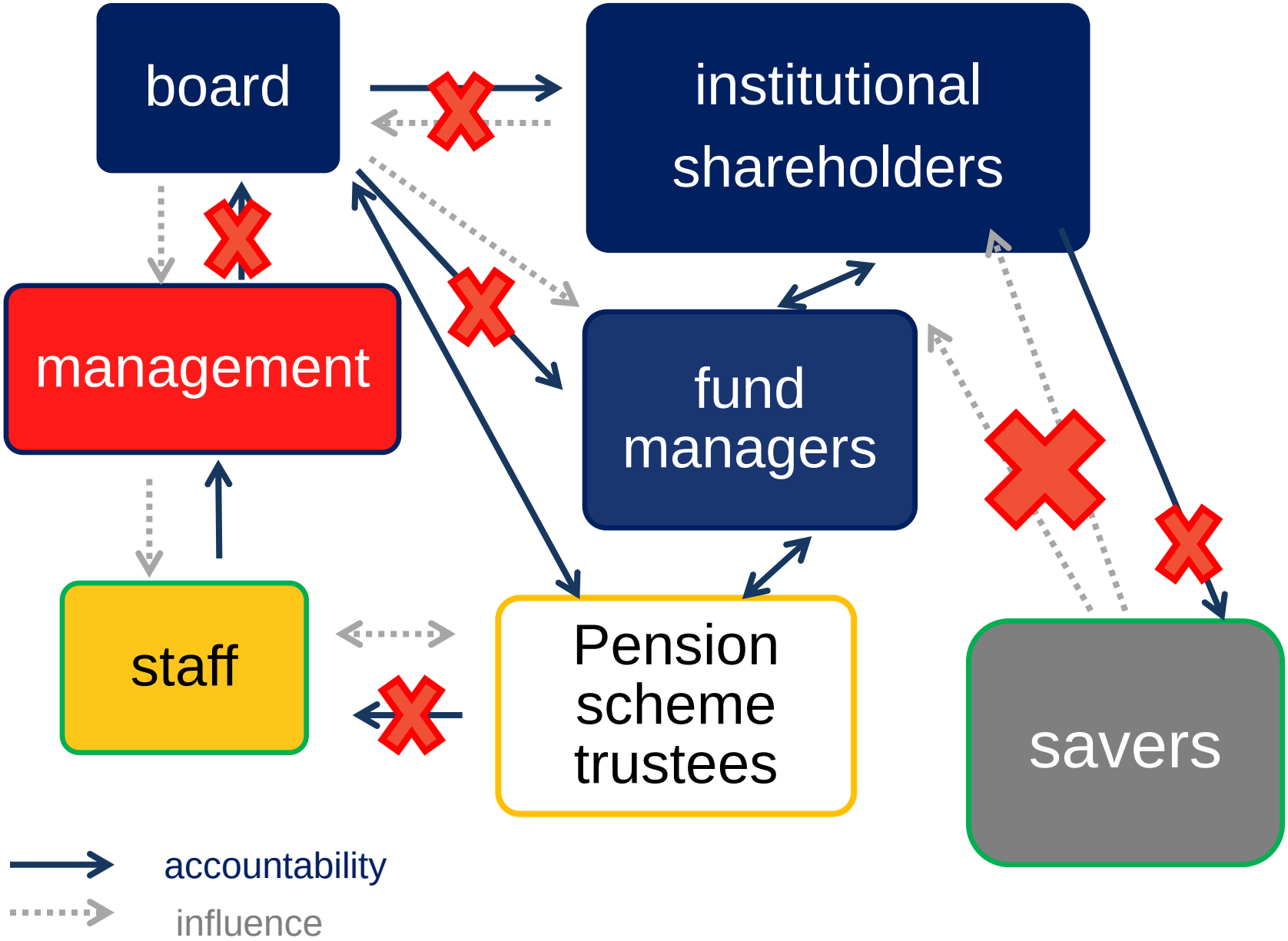
Institutional Shareholders

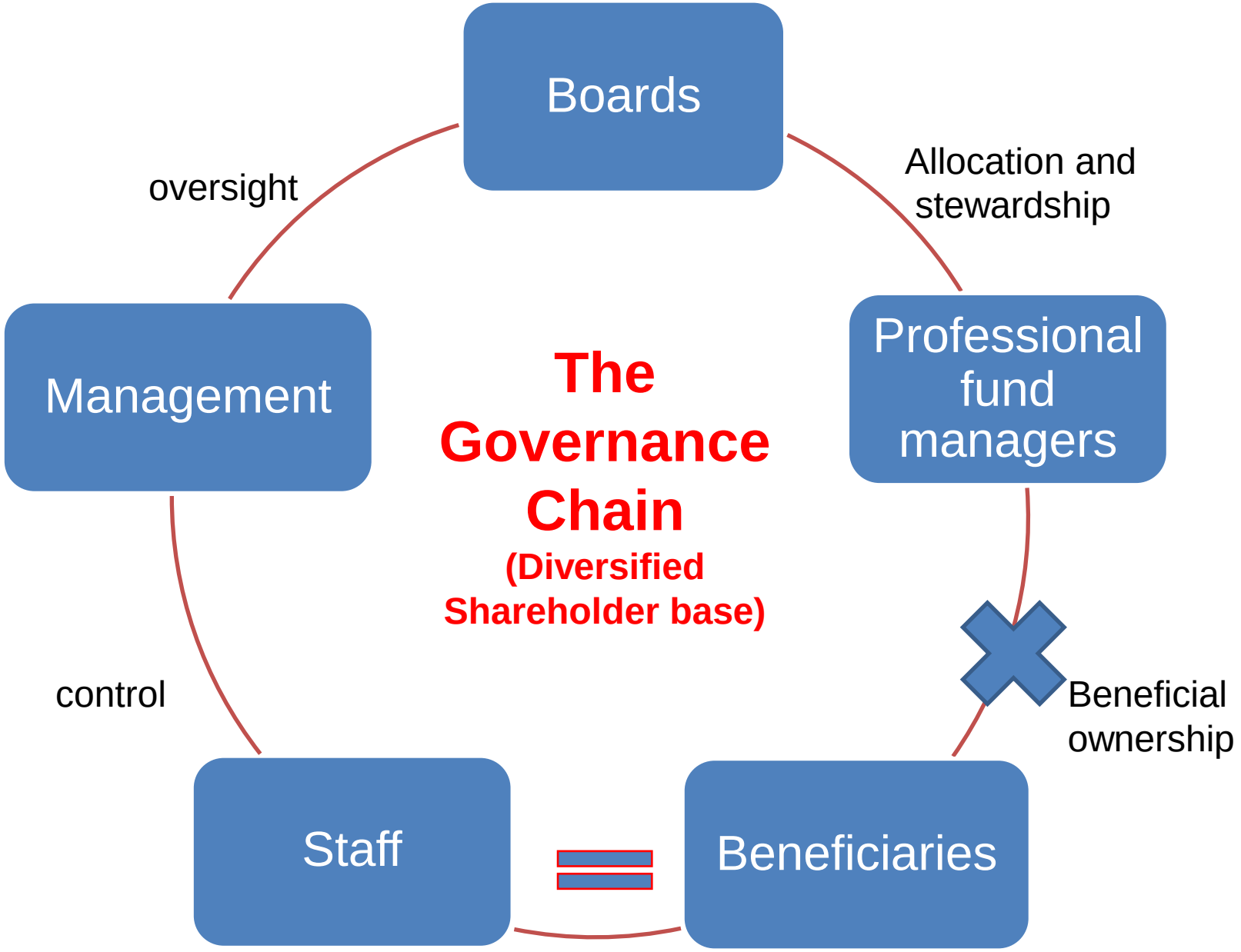
Boards :

Management

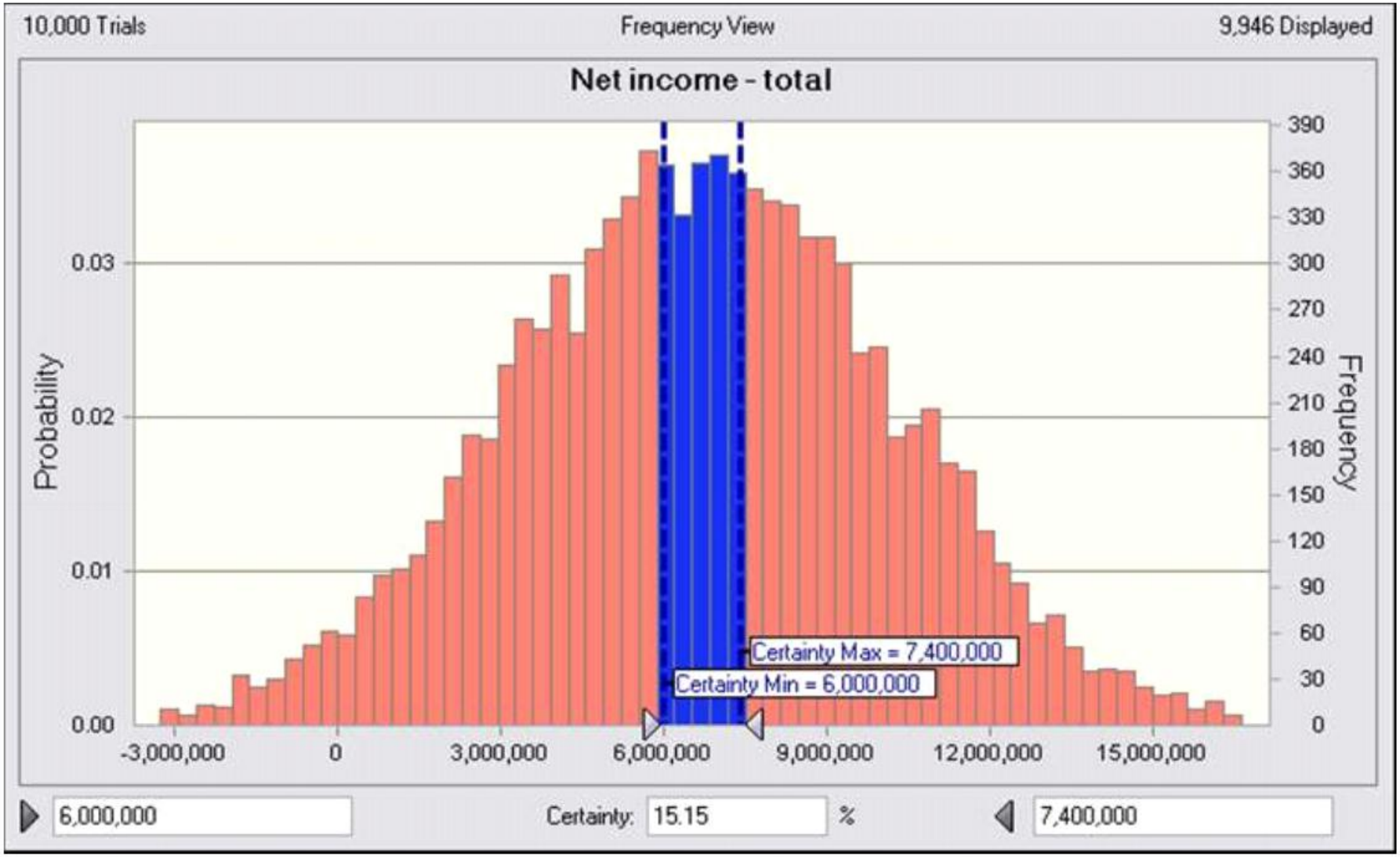


Is it working?

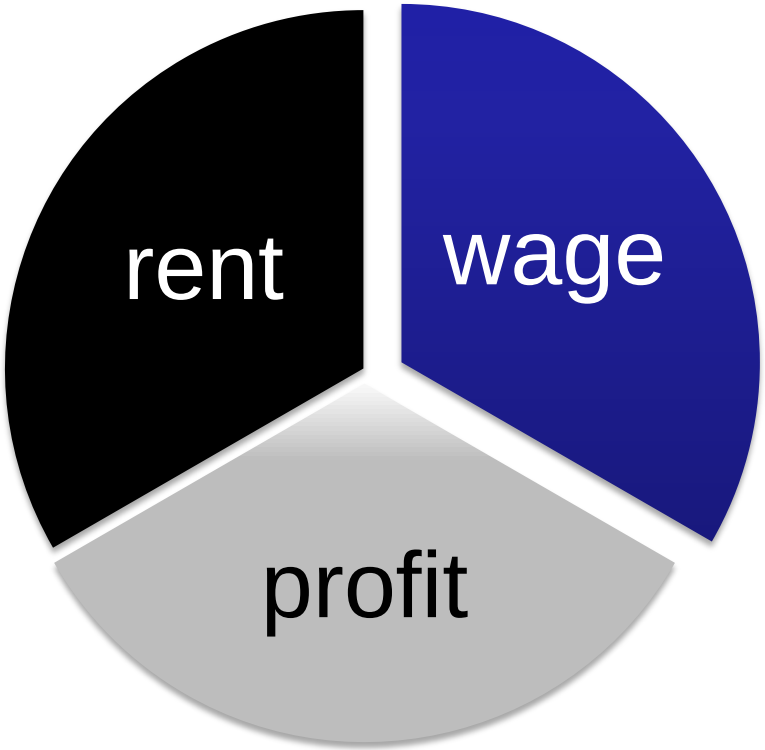



Boards
Allocation and stewardship
Professional fund managers
Beneficial ownership
Beneficiaries
Staff
control
Management
oversight
The Governance Chain
(Diversified Shareholder base)

Precisely…


10,000 Trials
Frequency View
9,946 Displayed
Net income - total
Probability
Frequency
0.03
0.02
0.01
0.00
390
360
330
300
270
240
210
180
150
120
90
60
30
0
-3,000,000
0
3,000,000
6,000,000
9,000,000
12,000,000
15,000,000
Certainty Max = 7,400,000
Certainty Min = 6,000,000
6,000,000
Certainty:
15.15
%
7,400,000

Types of income



Recommendations - 1

1. Establish purpose of governance as **‘sustainable value creation’**.
2. Assess Governance codes and policies against the accountability framework. ‘Apply **and** explain’ rather than ‘comply **or** explain’.
3. Use more suitable measures of performance, including:
   - How and to what extent companies create sustainable value and contribute to public good
   - Boards, management and staff contribution to value created
   - Estimate of confidence and uncertainty
   - ethical health of the organisation, and how assessed and assured

Recommendations - 2

4. Address the risk : reward asymmetry between management, shareholders and other stakeholders and enable savers to hold institutional investors to account.

5. Give investors incentive to favour companies that create long-term value for themselves and for society.

CONTACT

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