Creating Value through Corporate Governance – Towards a new Accountability
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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*
The aim of governance is to create value sustainably.
ACCA Accountability Framework for Governance - 2

Savers
Institutional Shareholders
Boards:
Management
Is it working?

- board
- institutional shareholders
- fund managers
- savers
- staff
- Pension scheme trustees

Arrows indicate accountability and dotted arrows indicate influence. Red crosses indicate broken accountability.
The Governance Chain
(Diversified Shareholder base)

Boards
Professional fund managers
Beneficiaries
Management
Staff

Oversight
Allocation and stewardship
Control
Beneficial ownership
Precisely...
Types of income

- Rent
- Wage
- Profit
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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