



THE BOARD MASTERCLASS

FOUNDATION AND CORPORATE GOVERNANCE

*Governance principles, Board and Management,
stakeholder management*

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Uphold public interest

PRESENTATION OUTLINE



Corporate governance: general concepts and definition



Board and management: how relate, who deals with what, challenges



Core principles of good governance



Stakeholder management: thoughts, discussion

Let's start with defining corporate governance...



The system by which companies are directed and controlled... ICAEW

Facilitates effective, entrepreneurial and prudent management that delivers long-term success of the company.

Concept of divorce between BoD (who control the Co.) and Shareholders (who own it)

Aligns shareholders objectives with those of other stakeholders.

Raises question of balancing short-term value vs long-term value.

Board versus shareholders...



It is the BoD that is legally responsible for the governance of the company... Jim Riley

Shareholders role in CG is to appoint the directors – and satisfy themselves that there's an appropriate structure in the Co

Corporate Governance in Kenya



- Companies' Act Kenya (2015)
- ICPSK Code of Corporate Governance for Private Organizations.
- CMA Code of Corporate Governance for Listed Companies
- Mwongozo Code of Governance for Government Owned Entities.
- CBK Prudential Guidelines.
- IRA Code of Corporate Governance
- Code of Governance for NGOs

There are stiff penalties for not adhering to guidelines – to deter culprits. Remember ignorance is no defense!

The world is not what it used to be....



The environment in which companies operate has become increasingly complex

Shareholders' activism is at record highs

- imposing significant pressure on boards/management*
- some want a bigger role in Cos strategic decisions, capital allocation, CSR activities etc*
- not a problem if they then bear more responsibility!*

Governance developments worldwide



Board Composition

INFORMATION

Compliance

Risk Technology

Auditors

Assurance

Reporting

Shareholder activism

Remuneration

Tax

ETHICS

Social media

Relationship between Board and Management...



The way in which two or more people or groups regard and behave towards each other

Who do you think is responsible for what?



Ideal roles for BoD & Management



Board

- Approves corporate strategies and provides leadership
- Monitors progress against strategy
 - Probes, questions
- Appoints the CEO
 - evaluates the CEO performance in an honest manner
 - Succession planning
 - May oversee some senior managers

CEO/Senior Management

- Develops and implements corporate strategy
 - Avoids undue emphasis on short-term metrics
- Operates the Co under board oversight (but not interference)
- Produces financial statements
 - That present fairly financial condition
- Reports/informs regularly board and shareholders about progress

Roles continued...



Board

- Sets “tone at the top” – org culture
- Via audit committee, appoints and relates with external auditor
 - As well as internal auditor
- Oversees financial reporting
 - To shareholders and other stakeholders (e.g. investors)
- Sets company’s risk appetite and oversees internal controls

CEO/Senior Management

- Implements and “lives” the organisational culture
- Manages, constantly evaluates and reports on Co risks
- Seeks council from boards experience
- Deliver on approved strategy and budgets
- Applies set internal controls

In summary...



- *Productive and harmonious relationship is recommended for good CG & org effectiveness*
- *Both are on same team – not boss and subordinate*
- *Board guided by board charter – board chair is crucial*
- *Bod expects management to accept its role of “monitoring, questioning, probing”. Should offer insights, share knowledge and experience*
- *Management expect BoD to trust them to implement strategy and deliver results without undue interference*
 - *Clear performance objectives, defined boundaries of authority*
 - *Regular honest feedback, recognition for achievement*

Board Chairman and CEO...



- *Should be engaged in a strong **business relationship***
 - *i.e. professional and personal trust and respect*
 - *Chair should be a mentor and sounding board to CEO*
- *Primary source of communication between Board and Management (in between boards)*
 - *Chair and CEO should schedule regular meetings – helps set board agenda, debrief, exchange updates on matters impacting business*
- *Should have candour and frankness (**behind the scenes**) and unity and mutual support (**in public**)*
- *Ideally, enquiries by board members of management (and of management of individual board members) should primarily be channeled via the Chair and CEO*

Core principles of good corporate governance



A Co which applies the core principles of good corporate governance will usually outperform other Cos and will be able to attract investors, whose support can help finance further growth!

Cadbury Report (UK 1991)

□ Fairness

ALL stakeholders should be treated equally, fairly and with honesty

- Majority vs minority shareholders (Cos Act + SHA)
- Employees
- Customers
- Government
- community

The fairer the entity appears to stakeholders, the more likely it is that it can survive the pressure of interested parties.

□ **Accountability**

The obligation and responsibility to give an explanation or reason for the Cos actions and conduct.

Essentially, the board should:

- Present a balanced and clear assessment of the Cos prospects
- Maintain sound risk management and internal control systems
- Establish formal and transparent arrangements for corporate reporting, and determining nature and extent of significant risk willing to take
- Maintain an appropriate relationship with the Cos auditor
- Communicate with stakeholders at regular intervals

□ **Responsibility** (mainly to shareholders)

Board given authority to act on behalf of the Co. Should therefore accept full responsibility for the powers!

Should act in best interest of the Co (fiduciary duty) while:

- Overseeing management
- Appointing and evaluating CEO
- Monitoring performance

Accountability goes hand in hand with responsibility

□ Transparency

Stakeholders should be informed about the Cos activities:

- *What it plans to do in the future (e.g. Safaricom to Ethiopia)*
- *Risks involved*

Openness and willingness to disclose clear info

- *Financial performance – truthful and accurate*
- *Material matters – timely and accurate*
- *Disclose publicly roles and responsibilities of Board and Management*
- *Decision taken from any activism*

Gives stakeholders confidence in the decision making and management processes of the Co

**Have you seen corporate
governance statements in annual
financial statements?**

Benefits of good corporate governance



To the business

- Creates transparency
- Incorporates needs of all stakeholders
 - Hence good corporate image
- Business activities are ethical

To stakeholders

- Timely relevant information
- Fair employment policies and procedures
- Customers get high quality service and products
- Investors returns are maximised

To organisation

- Govt extends goodwill/exemptions
- Employees are committed
- Good reputation in society
- Repeat business from customers
- Conflicts and fraud are significantly reduced

In your experience, what does this entail?

Definition...



Person or group whose interests may be impacted by (**or who can impact**) the activities of our organisation

Shareholders

Customers

Suppliers

Investors

Community

Government

1st step of stakeholder management



Identify and acknowledge them...

There are four broad categories

Powerful + keenly
interested

Powerful + not really
interested

Not powerful + keenly
interested

Not powerful + not
interested

2nd step – how do you communicate to them
... tool and frequency...



Powerful + keenly
interested



- Keep happy
- Regularly engage
- Keep satisfied

Powerful + not
interested



- Keep happy
- Engage once in a while
- Don't bore/irritate them

*3rd step: Approach each of the category differently
... create a plan of action – and activate it...*



Not powerful +
keenly interested



- Keep informed
- Keep talking, ensure no issue cropping up
- Good source of feedback

Not powerful +
not interested



- Monitor to ensure no issues
- Engage infrequently
- Easy to bore/irritate them

4th step: Monitor stakeholder plan re: progress and any need for change

The End



Thank you
very much ladies and
gentlemen!

