

Boardroom Governance for Value Creation

Presented by Professor Graham Terry



CORPORATE COLLAPSE

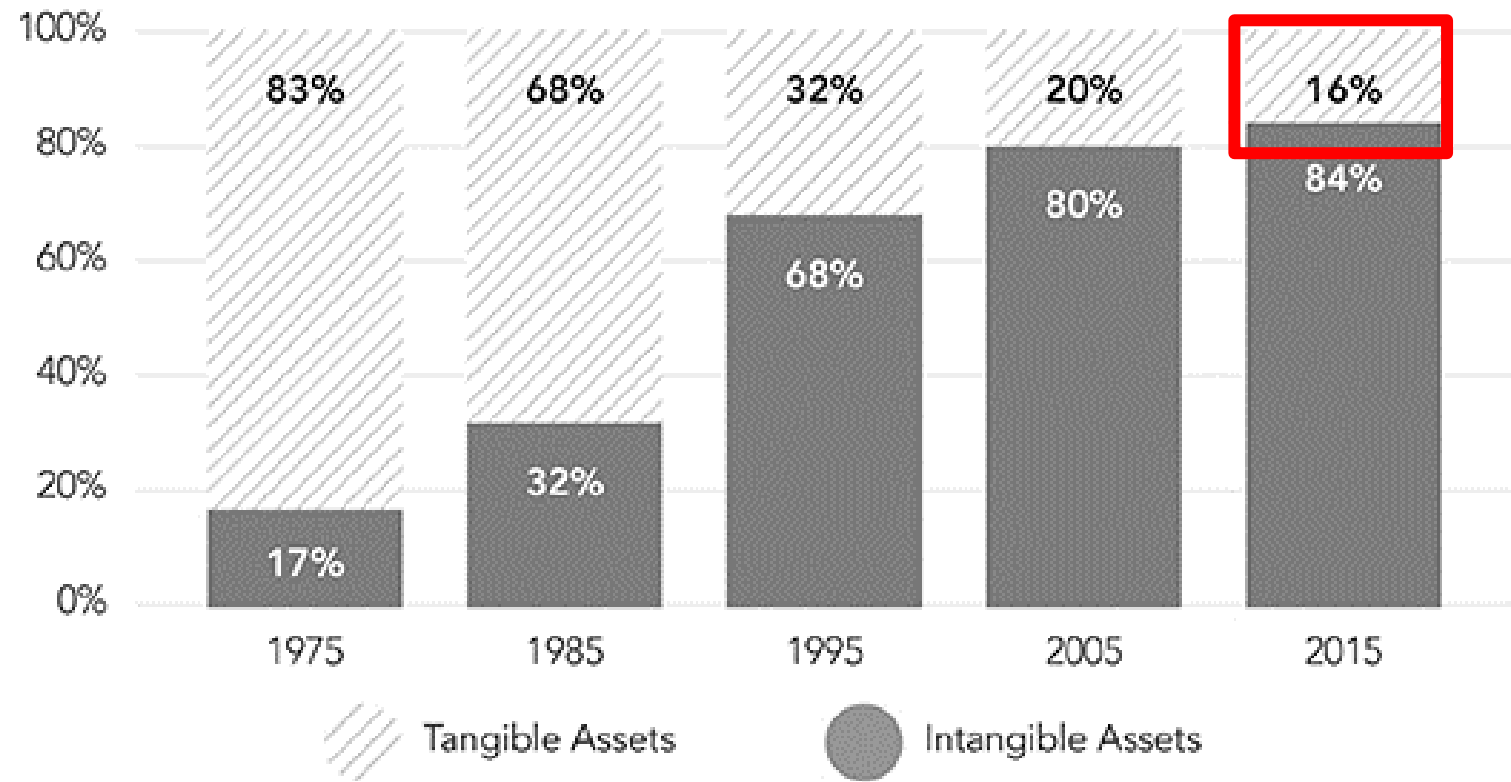
Royal Bank of Scotland
Bear Sterns
Lehman Brothers
AIG
ABN-Amro



Enron
Worldcom
Parmalat
K-Mart
Health and Racquet



COMPONENTS *of* S&P 500 MARKET VALUE



SOURCE: INTANGIBLE ASSET MARKET VALUE STUDY, 2017

- Strategy
- Risks and opportunities
- Governance
- Sustainability
- Remuneration

Corporate Reporting

- Lengthy
- Uncoordinated
- impossible to understand



The Elephant in the Room

The International Integrated Reporting Council



Prince of Wales



St James's Palace

THE INTERNATIONAL
<IR> FRAMEWORK



INTEGRATED REPORTING <IR>

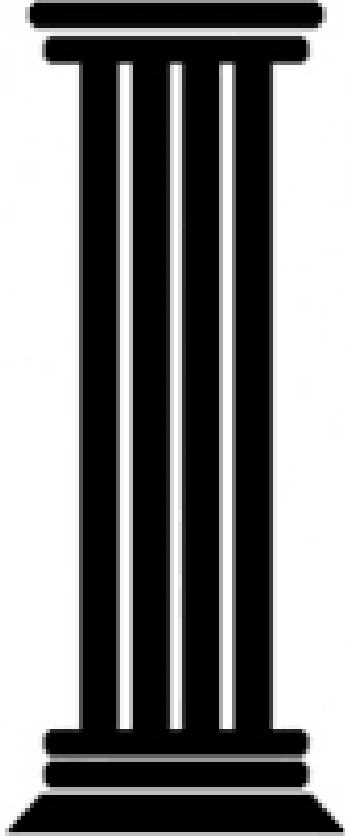
International Integrated Reporting Framework

<https://integratedreporting.org/resource/international-ir-framework/>

What is an Integrated Report?

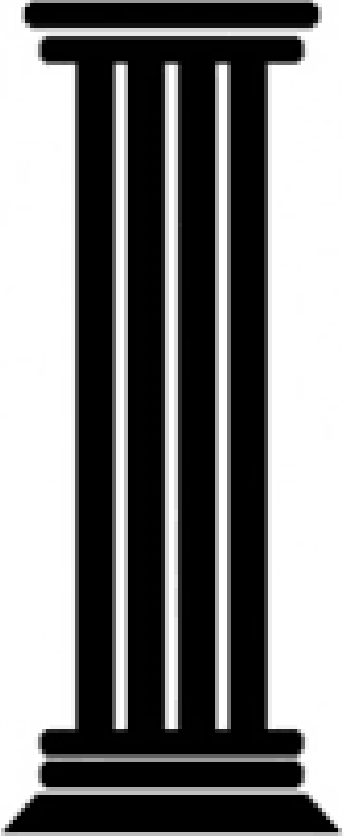
An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the **creation of value** in the short, medium and long term.

Integrated Reporting



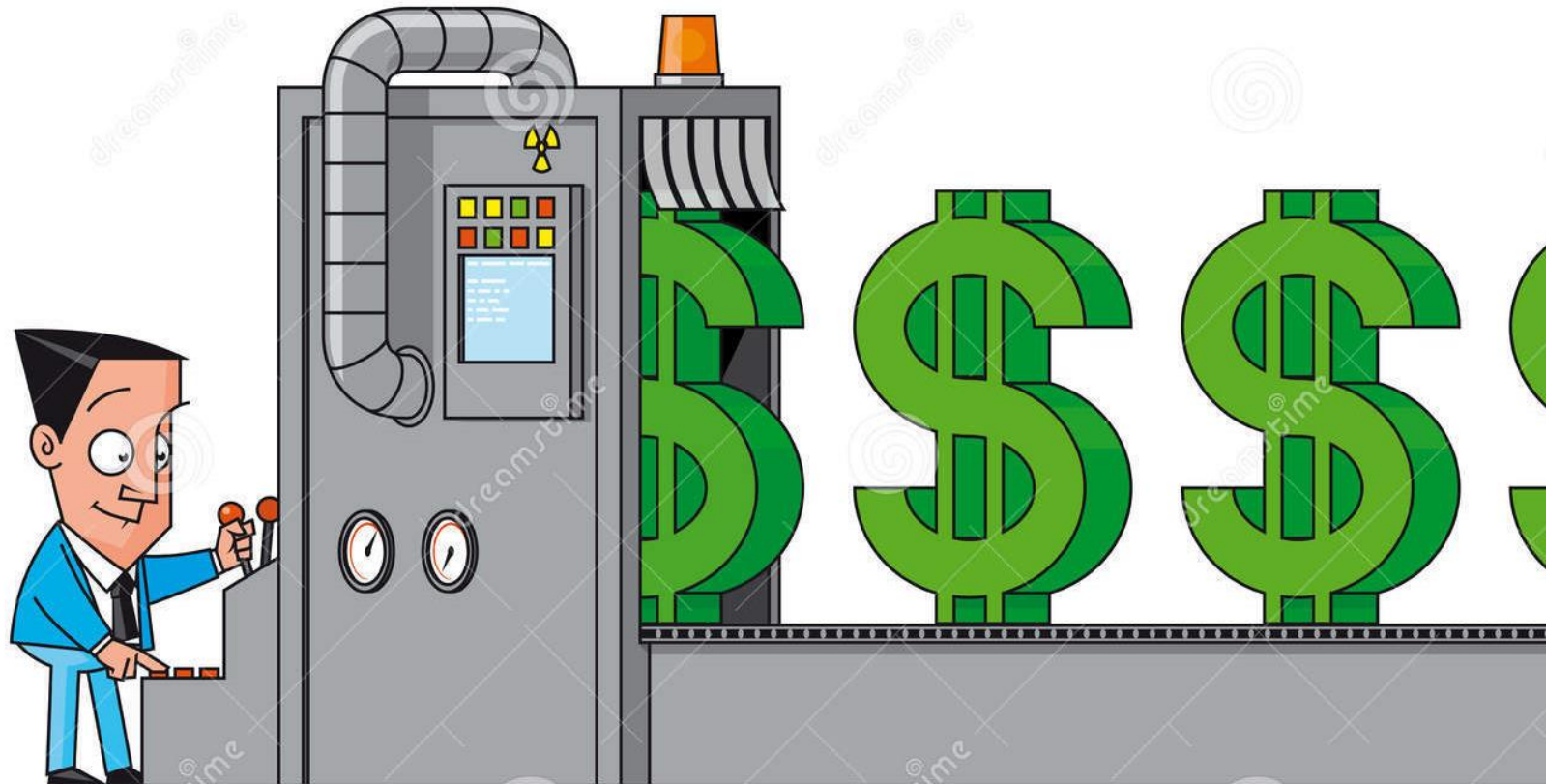
Value creation

Fundamental
Concepts



Capitals

Value creation



For
whom?



Company or
organisation



Citizens



Customers



Shareholders



Government

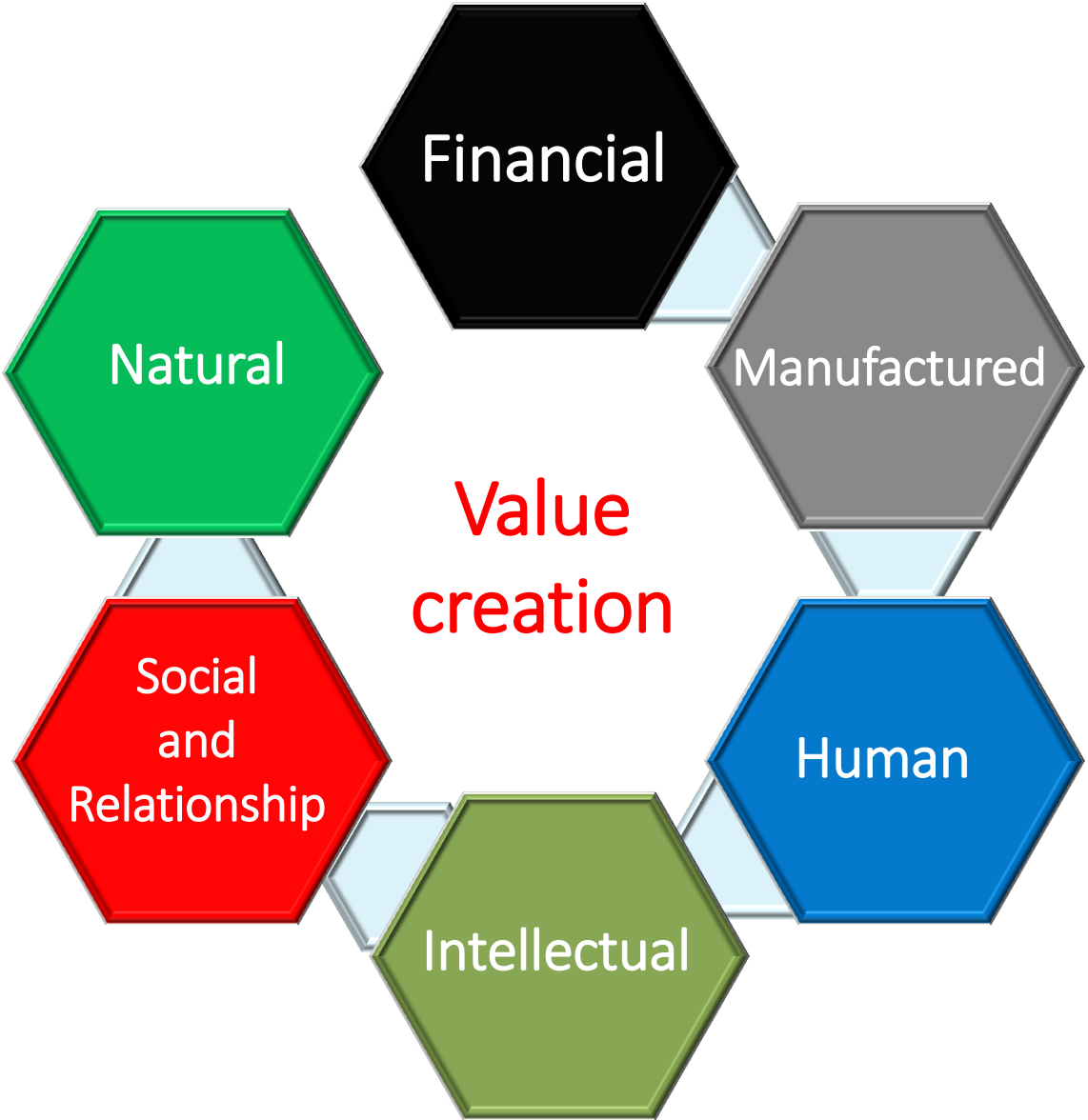


Employees



Suppliers

Capitals



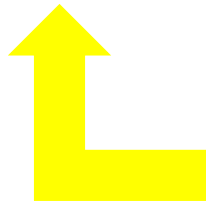
Intellectual capital
Brands
R&D
Intellectual property
Competitive processes

An integrated report explains how an organization creates value over time.

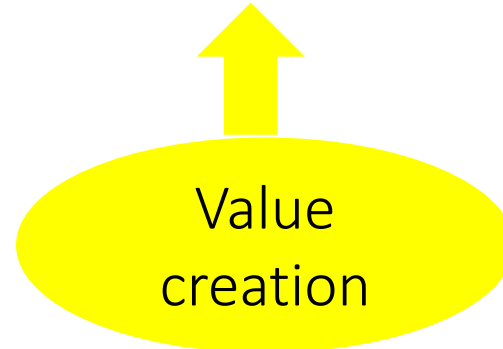
Value is not created by or within an organization alone.



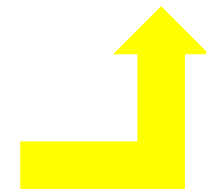
Influenced by

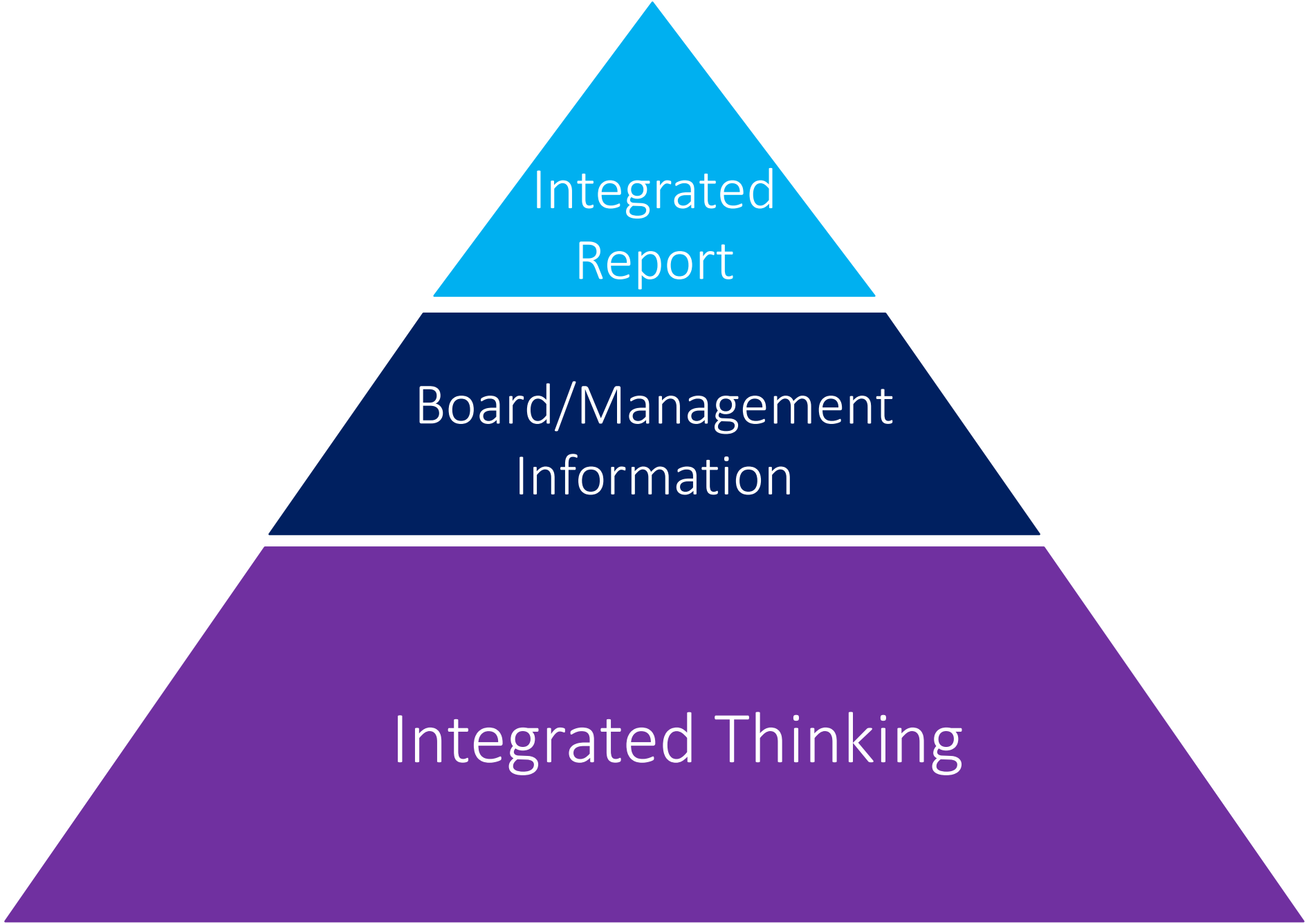


Created through relationships
with stakeholders



Dependent on resources





Integrated
Report

Board/Management
Information

Integrated Thinking

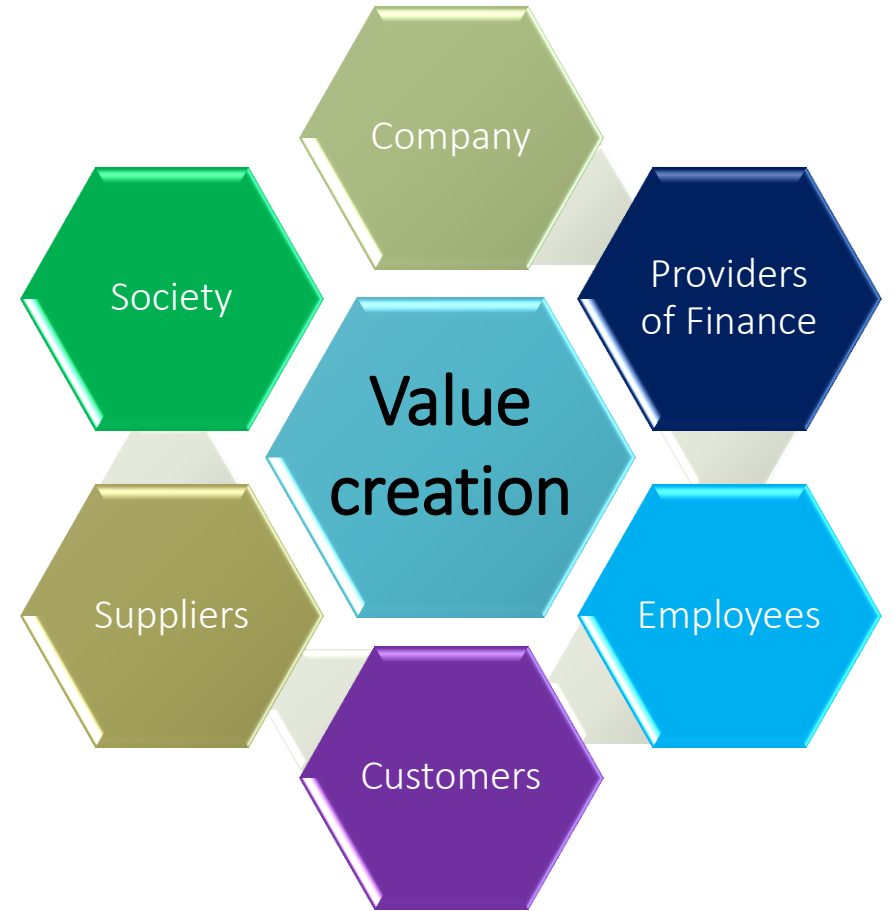
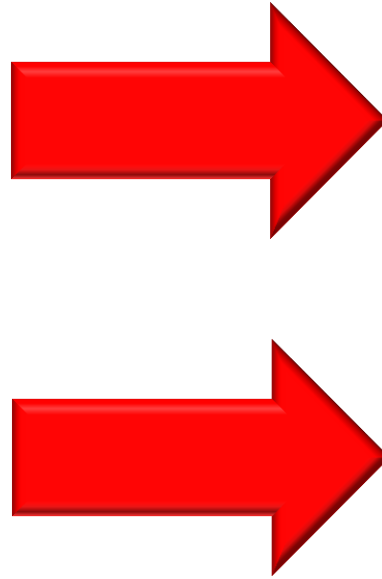
Integrated Thinking

“The active consideration by an organization of the relationships between its various operating and functional units and the **capitals** that the organization uses or affects.

Integrated thinking leads to integrated decision-making and actions that consider the **creation of value** over the short, medium and long-term.”



The Age of Profit



How should the Board
support and govern value
creation?



KING IV



Issued by the King
Committee:
Institute of Directors
in South Africa



Chair Professor Mervyn King

<https://www.iodsa.co.za/page/DownloadKingIVapp>

"The overarching objective of King IV™ is ... to be the catalyst for a shift from a compliance-based mindset to one that sees corporate governance as a lever for value creation"

**Prof Mervyn King in a PWC publication
'Steering Point'**



Fundamental concepts



SUSTAINABLE DEVELOPMENT GOALS



We live in a world
that is running
out of resources



Boards need to understand
the importance of the SDGs
in the achievement of Value
creation

Leadership by the governing body	Principles		Governance outcomes
These are the governing body's primary governance role and responsibilities	<p>Principles embody the aspirations of the journey towards good corporate governance</p> <p>They guide organisations on what they should strive to achieve by the application of governance practices</p>	Practices support and give effect to the principles	These are the benefits that organisations could realise through good governance
Steers and sets strategic direction	<p>Principle 1 The governing body should lead ethically and effectively.</p> <p>Principle 2 The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.</p> <p>Principle 3 The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.</p> <p>Principle 4 The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.</p> <p>Principle 5 The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance and its short, medium and long-term prospects.</p> <p>Principle 6 The governing body should serve as the focal point and custodian of corporate governance in the organisation.</p> <p>Principle 7 The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.</p>	Practices	Ethical Culture
Approves policy and planning	<p>Principle 8 The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.</p> <p>Principle 9 The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.</p> <p>Principle 10 The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.</p>		Good performance
Oversees and monitors	<p>Principle 11 The governing body should govern risk in a way that supports the organisation in setting and achieving strategic objectives.</p> <p>Principle 12 The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.</p> <p>Principle 13 The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.</p> <p>Principle 14 The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.</p>		Effective control
Ensures accountability	<p>Principle 15 The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports.</p> <p>Principle 16 In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.</p> <p>Principle 17 The governing body of an institutional investor organisation should ensure that responsible investment is practiced by the organisation to promote good governance and the creation of value by the companies in which it invests.</p>		Legitimacy

To achieve sustainable Value creation

King IV on a Page



Composition of the Board

“The Board should be comprised of the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role.”



The members of the Board need to understand the concept of **Value Creation** and its relationship with the **Capitals**



Ethical Leadership and Culture

Board should:

- Lead ethically and effectively
- Set the direction for ethics in the organisation
- Establish an ethical culture
- Monitor application of ethical codes and culture



Moral compass



Responsible Corporate Citizen

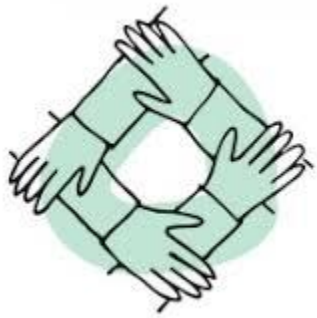
The Board should:

- Ensure that the organisation is and is seen to be a responsible corporate citizen
- Ensure organization's culture, ethics and values are reflected in its **use of and effects on the capitals.**



Stakeholders

“The Board should adopt a **stakeholder-inclusive** approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.”



Value Creation Process

“The Board should appreciate that:

- the organisation’s core purpose
- its risks and opportunities,
- strategy,
- business model,
- performance, and

- **sustainable development**

are all inseparable elements of the value creation process.”



Strategy and Risks



The Board should:

- Actively influence and monitor strategic direction for the short, medium and long-term
- Ensure adequate resources are accumulated to implement strategy in short, medium and long-term
- Oversee the risk management and ensure risk assessments include risks arising out of the external environment (such as from the supply chain)





2001 Scandal
employing under age
children in
sweatshops

Technology and information

The Board should

- Govern technology and information in a way that supports the organisation in setting and achieving its strategic objectives.
- Promote and support innovation



Remuneration and incentives

- The organisation should remunerate fairly, responsibly and transparently so as to promote the achievement of strategic objectives.
- Remuneration and incentives should be linked to **value creation** in the short, medium and long term, including the organization's use of and effects on the capitals.



Reporting to Stakeholders

“The Board should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation’s performance, and its short, medium and long-term prospects”

Issue an annual integrated report





Boards need to shift from a compliance-based mindset to one that sees corporate governance as a lever for value creation



Thank
you

