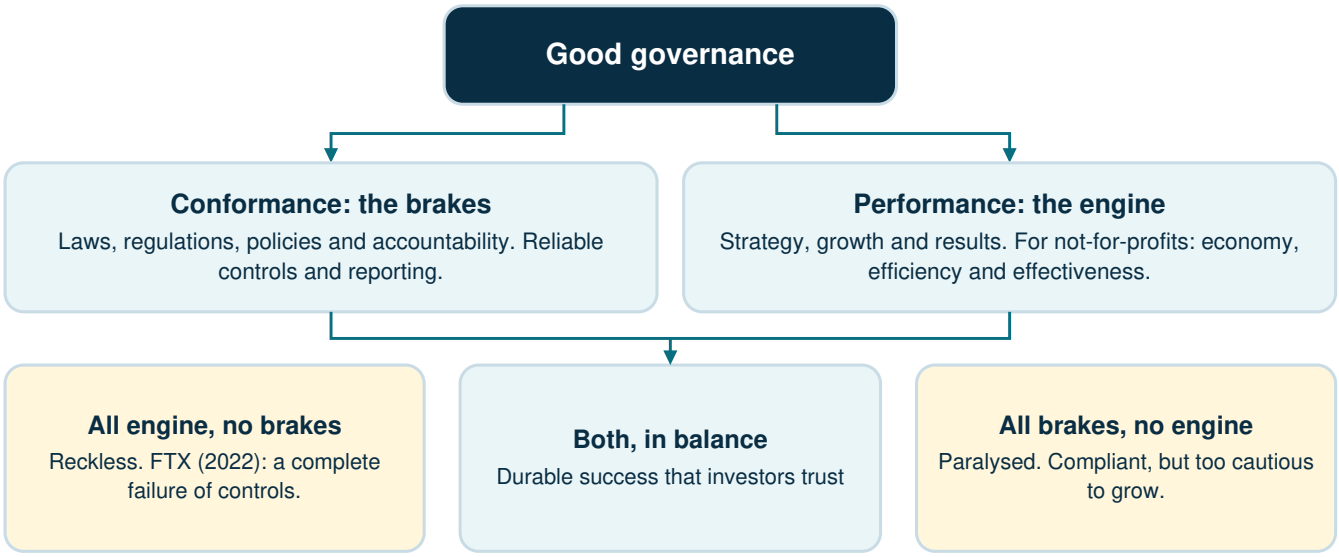
Governance in one page

MODULE 3 | PART B.1 | STUDENT COMPANION

Corporate governance is the system that directs and controls a company and keeps it accountable. It applies to any entity that acts for others: companies, charities, government bodies and community associations.

Governance: the board	Management: the chief executive and team
Sets the direction and approves the strategy	Develops strategy options for the board to approve
Approves key policies and the appetite for risk	Puts approved strategy and policies into action
Appoints, guides and, if needed, replaces the chief executive	Runs day-to-day operations, people and resources
Monitors results and holds management to account	Reports to the board on performance and key risks
Reports to shareholders and oversees compliance	Deals with customers, suppliers and staff

Managers run the business. The board makes sure it is run well, and for the right reasons.



Four roles of the board

MODULE 3 | PART B.1 | BOARD ROLES WITH ORIGINAL EXAMPLES

Board role	Looks	Time focus	Example at an imagined company	Mainly serves
Strategy formulation	Outward	Future	Deciding whether to expand into New Zealand	Performance
Policy making	Inward	Future	Approving a new code of conduct	Performance or conformance, by policy
Monitoring and supervising	Inward	Past and present	Reviewing results against the budget	Conformance
Providing accountability	Outward	Past and present	Approving the annual report; AGM questions	Conformance

All four roles are held together by the board's relationship with the chief executive, whom it appoints and works through. Forward-looking roles drive performance; backward-looking roles carry most of the conformance.

Why governance matters

- **Access to finance:** trusted companies find it easier and cheaper to raise money in capital markets.
- **Investor protection:** including ordinary households whose savings are invested in shares.
- **Sustainability and resilience:** of companies and, through them, of the wider economy.
- **Investor confidence:** listed companies compete for capital, and foreign investors weigh governance when choosing.

The trade-off. Proper governance can slow decisions, such as thorough checks before an acquisition. Growth built on solid foundations is worth more than growth grabbed in a hurry.

Real case: FTX Trading Ltd, Chapter 11 filing (11 November 2022) and the sworn declaration of its new chief executive (17 November 2022); Sam Bankman-Fried convicted 2 November 2023, sentenced 28 March 2024. Study guide reference: Module 3, Part B, sections 3.5 and 3.6.

Practice questions

MODULE 3 | PART B.1 | TRY THESE BEFORE THE WORKED ANSWERS

Question 1 - which board role, and what does it mainly serve?

For each activity, name the board role and say whether it mainly serves performance or conformance.

Board activity	Role, and performance or conformance
(a) Approving a plan to open stores overseas	
(b) Reviewing quarterly results against the budget	
(c) Approving the annual report and financial statements	
(d) Adopting a new anti-bribery policy	
(e) Assessing whether to sell a struggling division	
(f) Answering shareholders' questions at the AGM	
(g) Approving a pay policy that links bonuses to three-year growth	
(h) Reading internal audit's report on whether payroll controls work	

Question 2 - governance or management?

Mark each decision **G** (a board decision) or **M** (a management decision).

Decision	G or M	Decision	G or M
(a) Choosing a courier for office supplies		(e) Approving the annual budget	
(b) Setting the company's appetite for risk		(f) Running a social media campaign	
(c) Approving the chief executive's pay		(g) Deciding to replace the chief executive	
(d) Preparing next week's staff roster		(h) Negotiating prices with a regular supplier	

Worked answers

MODULE 3 | PART B.1 | WORKED ANSWERS - ATTEMPT THE QUESTIONS FIRST

Question 1

Activity	Board role	Mainly serves
(a) Stores overseas	Strategy formulation (outward, future)	Performance
(b) Results against budget	Monitoring and supervising (inward, past/present)	Conformance
(c) Annual report	Providing accountability (outward, past/present)	Conformance
(d) Anti-bribery policy	Policy making (inward, future)	Conformance: it sets rules for lawful behaviour
(e) Selling a division	Strategy formulation	Performance
(f) AGM questions	Providing accountability	Conformance
(g) Long-term bonus policy	Policy making	Performance: it aligns managers with long-term growth
(h) Payroll controls report	Monitoring and supervising	Conformance

Policy making can serve either side. Ask what the policy is for: rules for lawful conduct lean to conformance; incentives for growth lean to performance. A well-reasoned alternative is acceptable.

Question 2

Governance (G): (b) risk appetite, (c) chief executive's pay, (e) annual budget, (g) replacing the chief executive.
Management (M): (a) courier, (d) staff roster, (f) social media campaign, (h) supplier prices.

Test to apply: is the decision about setting direction, approving the framework or holding management to account? Then it belongs to the board. Is it about running operations within that framework? Then it belongs to management.