

Corporate Governance definition:

Corporate Governance represents a set of principles, systems, and processes by which a company is governed. Corporate governance provides guidelines on how a company can be directed and controlled to reach its long-term goal and objectives to benefit the company, in the interest of stakeholders.

Fairness: Between shareholders, stakeholders

Responsibility: Acting with clarity and accountability

Transparency: Open information and clear direction, transparent

Q2020: In the UK companies listed on the London Stock Exchange are required to follow the UK Corporate Governance Code. Discuss Fever tree's three board committees and give a brief description of their main responsibilities and duties (60% of the marks)

Boards of directors oversee the governance of their companies. Companies' culture should promote integrity and openness, value diversity and be responsive to the views of shareholders and stakeholders. For long term success, directors and companies must build and maintain successful relationships with stakeholders promoting respect, trust, and mutual benefit

The Code outlines the principles that the board of directors should apply to promote the company's purpose, values, and future success. By applying the principles, following the Provisions, and using the guidance. Companies can demonstrate how good governance contributes to sustainable success. The Code states that "the purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the company's long-term success"

Listing Rules require companies to state how they have applied the principles, while Reporting should cover how the board sets the company's purpose and strategy to meet objectives and achieved outcomes through its decisions.

Q2020: Discuss the key principles (elaborating on their rationale) related to board leadership and company purpose and division of responsibilities at the top with reference to Fever tree's Corporate Governance Statement? (40% of the marks)

Q2021: In relation to the corporate governance principle of 'maintaining the board as a well-functioning, balanced team led by the chair', critically evaluate the board composition of Tandem Group PLC and recommend how their corporate governance function can be improved.

BOARD LEADERSHIP AND COMPANY PURPOSE

The key theme of this provision is that the board leads, guides and steers the company to create long term financial success (in accordance with Section 172 of the UK Company act). The company needs to be aware of its stakeholders and be sensitive to ethical issues while aiming for profitability

- 1. The board's role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to broader society.*
- 2. The board should aim to align the company's purpose, values, and strategy with the company culture. Directors must lead by example, act with integrity, and promote the desired culture.*
- 3. The board ensure that resources are used to meet the company's objectives and ensure prudent and effective controls, to minimise risk*
- 4. The leadership board should ensure effective engagement with and encourage the participation of shareholders and stakeholders.*
- 5. The board should guarantee that policies and work practices are consistent with the company's values to sustain success. Employees should be able to raise any matters of concern.*

DIVISION OF RESPONSIBILITIES

There are two divisions of responsibilities, The Chair (NED) and the CEO (ED). The Chairman leads the board and ensures that the director receives accurate, timely and precise information (Annual accounting report and turnover). NED should constructively challenge, strategic guidance, offer specialist advice and hold Senior Managers /ED to account

- 6. The Chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement and promote open debate. The Chair facilitates board relations and ensures all non-executive directors contribute positively by providing accurate, timely and precise information.*
- 7. The board should include a combination of ED and NED to ensure parity in decision-making. Responsibilities between the board leadership and the executive leadership should be distinguished.*
- 8. non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenges and strategic guidance, offer specialist advice and hold management accountable.*
- 9. The board should ensure that the policies, processes, information, time and resources are adequate, effective and efficiently supporting the company objectives.*

AUDIT Committee.

There are 3 Keys ideas, encompassing of external auditor checking the externally published Annual Report account, to ensure that the numbers show an accurate and fair view with a good tolerance area and a balanced and clear assessment of the company's position. Internal audits check the system and process

internal processes to remove risk and prepare a recovery plan. (Internal auditor can be independent). The auditor checks the financial and narrative statement. One of the main challenges of the auditor is to check the narrative statement balance against the financial report.

AEG is not in compliance with UKCGC as they carry their audit committee on an invitation basis, They are therefore not complying with the required 3 minimum NED. The audit committee must be composed of at least three 'independent' NEDs, with at least one of them with recent and relevant financial experience. In compliance with section 418 of the Companies Act 2006. A resolution was decided to re-appoint the auditors, Jeffreys Henry LLP.

The main roles of this committee include:

- To monitor the integrity of financial statements*
- To review the Co.'s internal controls*
- To monitor the effectiveness of the audit function*
- To manage the relationship with external auditors in terms of their appointment and independence*
- To develop and implement a policy for engagement of auditors for providing non-audit services*

However, provided the company is of a small scale and is not listed on the UK stock exchange (AEG is listed on AIM) they do comply with the "explain" element of "Comply or Explain" as the mentioned adhering to QCA Code.

13. The board should establish formal and transparent policies to ensure the independence and effectiveness of internal and external audits and the integrity of financial and narrative statements.

14. The board should present a fair, balanced and understandable assessment of the company's position and prospects.

15. The board should ensure risks are minimised, oversee the internal monitoring framework, and determine the level of risks the company is willing to take to achieve its long-term objectives.

REMUNERATION Committee.

This is a formal and transparent procedure where decisions are taken on how much and why are ED/NED remunerated. Executive Remuneration set the salary, bonus, and the option to get a share based on performance (LTI pays). The Chair cannot chair the remuneration committee. A NED (of at least 12 months) must chair the committee and be composed of a majority of NED (min 3). To ensure remuneration policies positively influence the strategy and that the ED supports the long-term success of the company.

AEG Committee is chaired by Leahy (which is in contradiction with UKCGC) and the salaries of directors are determined as below.

Rowan	CEO	£349161
Esposito	Director	£203203
Leahy	Chairman	£32101
Aitken	NED	£36669
Zimmermann	NED	£39812

Additionally, there is some concern about the salary of Rowan, the previous Chairman of the remuneration committee (For 3 years) who has recently been increased (To retained skills). This demonstrates some irregularities with the Code that were not clearly explained by the board.

16. Remuneration policies and practices should support strategy and promote long-term sustainable success.

17. A formal and transparent procedure for developing policy on executive Remuneration should be established. Directors should not be involved in their remuneration decision outcome.

18. Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of the company and individual performance, and broader circumstances

Summary

- *Based on NED*
- *Set remuneration for ED*
- *Market driven*
- *Major part of remuneration should be performance-based*
- *Less fixed part of salary*
- *Performance is evaluated on a yearly basis*
- *Salary should be enough to motivate.*

Nomination Committee.

The nomination chooses the ED and NED. The committee should ensure that shareholders understand the appointment of ED based on merit and objective criteria. There should be an open policy and promote diversity while keeping a sustained number of skills. NED must have an objective view of the company.

AEG does not have a nomination committee as the board does not consider such a committee at this stage of development. The board should explain why they opted to ignore some objectives such as Marketing and plant operation while nominating the board. The board should also explain the failure to comply with the diversity requirements.

- *ED and NED*
- *Nominated ED for AGM, succession planning*
- *Evaluate past performance by NED*
- *Ensure diversity and the right mix of BOD*

10. Selection of Directors should be formal, rigorous, and transparent, and an effective succession plan should be maintained for the board and senior management based on merit and objective criteria, promoting diversity and equality

11. The board and its committees should have the right number of skills, experience, and knowledge.

12. The board's annual evaluation should evaluate how effectively members work together to achieve strategic objectives.

Q2018: Compliance with the board related recommendations of the UK Code of Corporate Governance is expected to help 1) reduce agency problems within firms and 2) enhance firms' performance/value. Required Using the relevant theoretical and empirical evidence on the board-related recommendations of the Code, discuss whether the Code has been effective in achieving the above two objectives.

There are two main theories that influence corporate governance, namely. Agency Theory is a group of concepts concerned with resolving the problem caused by the separation of ownership and control between principles (Shareholders) and Agents (Directors). E.g executive spending too much. While according to the stakeholder theory. Stakeholder Theory, Companies are accountable to not only shareholders but to stakeholders as well (employees, Community, etc)

Board if not properly selected can be agent incentive focus rather than shareholder focus. Corporate Governance has become a contentious discussion post-scandal, such as the Enron, Maxwell and Ghosn and other major global financial crises, shone a light on corporate lapses and failures of the most incredible proportions. These scandals have been attributed to the collapse of the board of directors to display fidelity to the company they lead. UKCGC provides guidelines on how a company can be directed and controlled to reach its goal and objectives to benefit the company and in the interest of stakeholders.

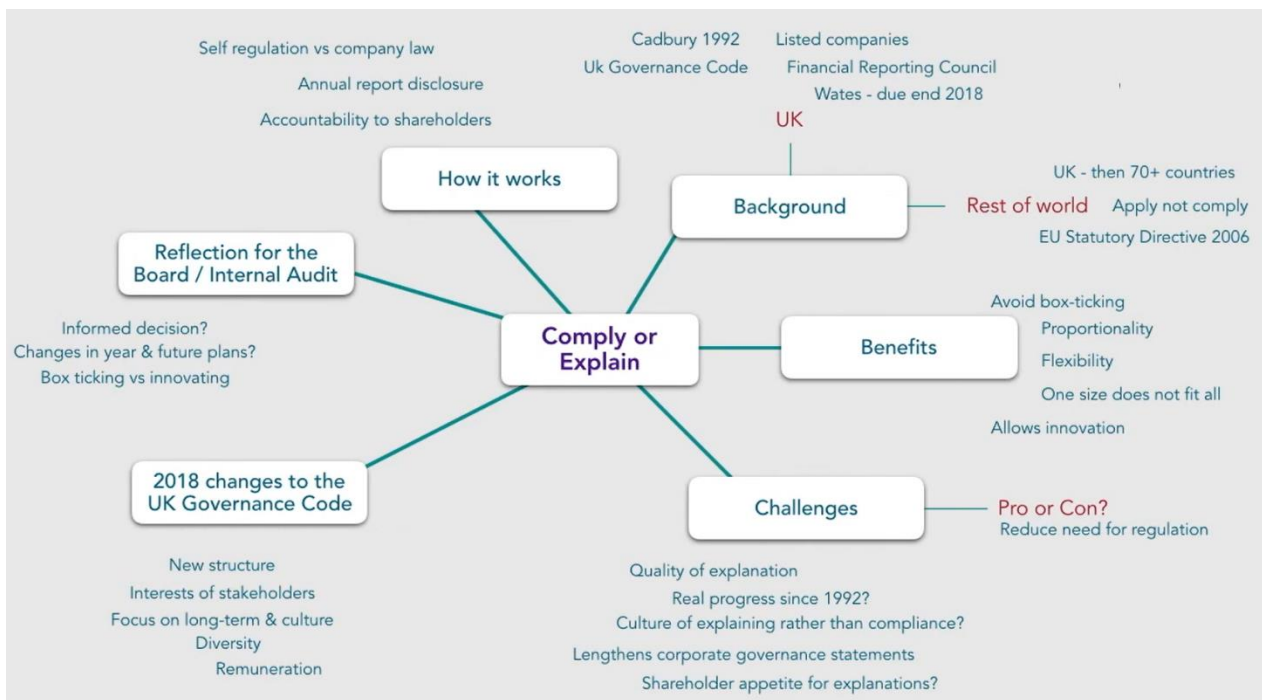
In 2021 AEG board issued 86M shares to Rowan (58M), Diamond (13), Aitken (4), Zimmermann (4) as an incentive to the directors. According to the Director remuneration report, Active Energy is not obliged to implement the remuneration reporting requirement for premium listed companies set out in The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013

Strengths and weaknesses in the UKCGC.

The UK code aligns with international best practices; however, compliance is still a problem. One of the significant challenges with Corporate Governance is that it is not a 'shoe size that fits all companies, firms are big or small, and others are socially responsible. One of the notable strengths is the 'voluntary compliance' through 'soft laws' This strength is often seen as a weakness for high levels of the non-compliant firm because companies don't feel bound with little, or no consequences attached to voluntary compliance. One of the most significant criticisms of CG theories is that their focus is mainly on public corporations, especially those listed on the London stock exchange and thus, leave behind small and medium enterprises. Cultural diversity is also a cause for concern as the UK has people from minority groups that aren't well represented in other sectors.

Q2019: Advanced Medical Solutions Group PLC is a quoted company on the Alternative Investment Market (AIM). The company is a leading developer and manufacturer of innovative and of technologically advanced products for global surgery and wound care markets. Based on the Company's Statement of Compliance with the UK Corporate Governance Code 2017 (provided) assess the potential advantages and disadvantages of the company's non-compliance with respect to the independence of non-executive directors on the AMS board, drawing your own conclusions about whether non-compliance in the case of AMS appears justified.

How does comply or explain work?



Three areas:

- *Balance of Regulation, Self-regulation vs company law.*
- *It's a mechanism. Where the board of directors discloses how it complies with a regulation or expectation. the reasons for no compliance could include alternative ways of operating*
- *The fundamental principle is that the board is accountable to its stakeholders, especially for listed companies, and responsible to its shareholders.*

The background to comply or explain.

Core to UK Corporate governance since the Cadbury Report 1992 and has since become part of how listed companies are regulated. Comply or explain is an integral part of the financial reporting council which applies to companies with a premium listing.

Pros and cons of complying or explaining.

Pros: When it works, the 'complies with or explains principles, and allows companies to be flexible while still operating within a government's regulatory framework. It must be recognised that one size does not fit all. It should enable Innovation and provide room for companies to explain all of this without focusing on solely ticking a regulatory box.

Cons:

Challenges from the perspective both of boards and the company's shareholders, for example, while the framework allows a business to be Innovative, the institutional investors have an appetite for explanations rather than compliance with the governance code.

Potential for compiler explained to reduce that level or need for regulation.

What does that mean for the board, and what should an internal audit be thinking about in this area. For a business to comply or explain? Is about balance and making informed decisions and public disclosures. It really should not be a surprise at year-end. What is put into the annual report or the director statement?

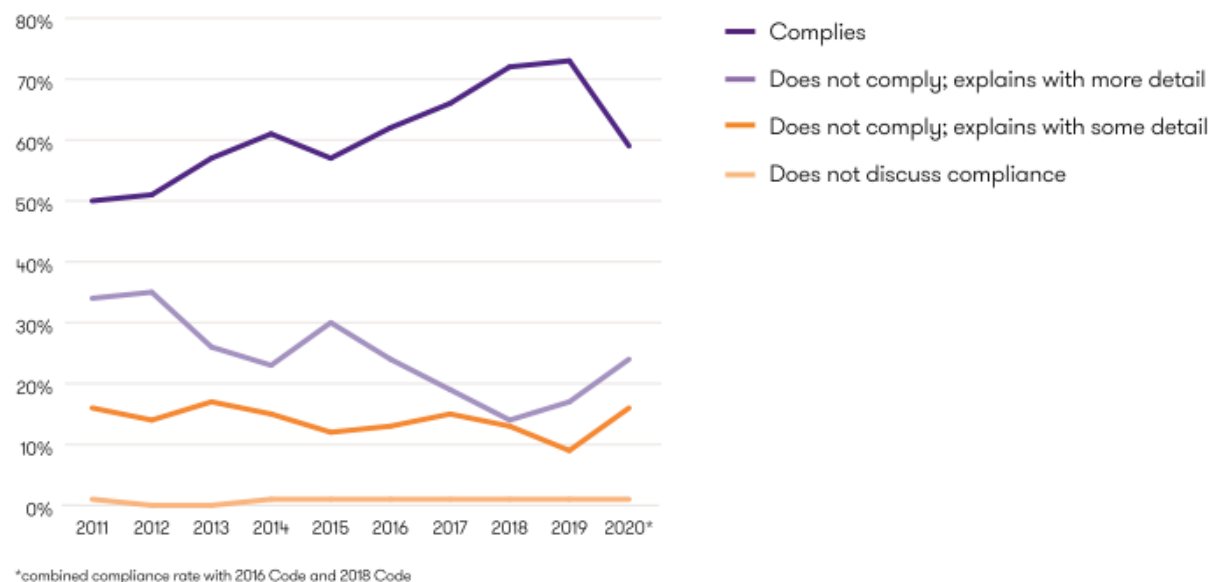
Conclusion

Although success is hard to measure, corporate governance remains essential for a company's success and the efficient use of resources. Recent corporate scandals and recessions have adversely contributed to the development of critical principles. Good corporate governance is an essential tool in curbing poor execution and limiting corporate frauds. However, the real significance of good governance may well lie with the interrogation surrounding its enforceability. Therefore, in the words of Upjohn LJ, a company is entitled 'to the undivided loyalty of its directors'.

Do companies claim full compliance with the UK Corporate Governance Code? (%)

	2014	2015	2016	2017	2018	2019	2020 (2016 Code)	2020 (2018 Code)
FTSE 350	60.6	57.1	62.0	66.2	72.0	72.9	61.1	59.4
FTSE 100	74.0	64.0	72.0	77.8	74.7	71.0	70.6	60
FTSE 250	54.1	53.8	57.2	60.7	70.7	73.9	58.1	59.1

Do companies claim full compliance with the UK Corporate Governance Code? (%)



Grant Thornton (2020) . Corporate governance review 2020. [Website]

<https://www.grantthornton.co.uk/insights/corporate-governance-review-2020/#:~:text=This%20year's%20Corporate%20Governance%20Review,what%20really%20matters%20to%20all>. (Accessed 17 May 2022).