



## THE OPEN UNIVERSITY OF KENYA

Programme title	Postgraduate Diploma in Leadership and Accountability
Course title	PLA 717: Corporate Governance
Learning Module number	5 of 11
Learning module title	Models of Corporate Governance
Module Developer	Dr. Jane Chepngeno Sang
Module duration in hours	8 hours
Instructional Hour Equivalent (Divide duration by 2)	4 hours
Reviewed by	
Vision	The innovative university for inclusive prosperity
Audience description	Minimum university entrance for this course is learners possessing a bachelor's degree from an institution recognized by Senate or any other qualifications that may be determined by senate recognizing prior learning leading to equivalents of the identified criteria, experience and skills of learners. Applicants are expected to attach relevant documents as proof of their eligibility.
Instructions to learners 	<b>Welcome to module 5; models of corporate governance!</b> Join our facilitators at Open university of Kenya to unearth the Scientific definition of models of corporate governance.  This module is designed to provide you with an overview of model of corporate governance and its applicability to strategic leadership. The module contains core reading material, references and videos for your use. Read all resource materials provided within the module and undertake all activities as guided to enable mastery of the course. Feedback will reinforce good preparation from both the learner and facilitator. Keep communication active through the case studies and practical applications after a module. The preparation of the module is self-driven to help guide you in indepth understanding of the models pf corporate governance.  Conceptualize the Journey!
Learning module description	This module will cover aspects of models of Corporate governance. Corporate governance is the system of rules, practices, and processes by which a firm is directed and controlled. Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, senior management executives, customers, suppliers, financiers, the government, and the community. The key topics in the module will be; History of corporate governance, Definition of key constructs, Governance issues in management, Importance of governance and Applicability of governance.
Module objectives:	The module will enable learning about; 1. Definition of corporate governance models.

	<ol style="list-style-type: none"> <li>2. Explanation of models of corporate governance.</li> <li>3. Employment of models for success</li> <li>4. Evaluation of applicability of the models for accountability.</li> </ol>
<p>Module learning outcomes:</p>	<p>By the end of the module, the learner should be able to;</p> <ol style="list-style-type: none"> <li>1. Define models of corporate governance in leadership.</li> <li>2. Explain usefulness of models of governance in strategy.</li> <li>3. Analyze models of corporate governance for efficient organizations</li> <li>4. Evaluate applicability of models for accountable leader</li> </ol>
<p><b>Planned Learning Resources</b></p>	<p>Video lectures, online textbooks, interactive simulations, online discussion forums, practice questions, quizzes and tests, wikis, webinars, YouTube videos</p>
<p>ACTIVITY 1: INTRODUCTION VIDEO 1: Pre-recorded lecture on models of corporate governance. <b>LEARNING OUTCOME 1:</b> Applicability of models for effectiveness and efficiency in intelligence organization</p> 	<p><b>The Anglo-American Model</b> This model can take various forms, such as the Shareholder Model, the Stewardship Model, and the Political Model. However, the Shareholder Model is the principal model.</p> <p>The Shareholder Model is designed so that the board of directors and shareholders are in control. Stakeholders such as vendors and employees, though acknowledged, lack control.</p> <p>Management is tasked with running the company in a way that maximizes shareholder interest. Importantly, proper incentives should be made available to align management behavior with the goals of shareholders/owners.</p> <p>The model accounts for the fact that shareholders provide the company with funds and may withdraw that support if dissatisfied. This can keep management working efficiently and effectively.</p> <p>The board should consist of both insiders and independent members. Although traditionally, the board chairman and the CEO can be the same person, this model seeks to have two different people hold those roles.</p> <p>The success of this corporate governance model depends on ongoing communications between the board, company management, and the shareholders. Important issues are brought to shareholders' attention. Important decisions to be made are put to shareholders for a vote.</p> <p>U.S. regulatory authorities tend to support shareholders over boards and executive management.</p> <p><b>The Continental Model</b></p>

Two groups represent the controlling authority under the Continental Model. They are the supervisory board and the management board.

In this two-tiered system, the management board is comprised of company insiders, such as its executives. The supervisory board is made up of outsiders, such as shareholders and union representatives. Banks with stakes in a company also could have representatives on the supervisory board.

The two boards remain completely separate. The size of the supervisory board is determined by a country's law. It can't be changed by shareholders.

National interests have a strong influence on corporations with this model of corporate governance. Companies can be expected to align with government objectives.

This model also considers stakeholder engagement of great value, as they can support and strengthen a company's continued operations.

#### **The Japanese Model**

The key players in the Japanese Model of corporate governance are banks, affiliated entities, major shareholders called Keiretsu (who may be invested in common companies or have trading relationships), management, and the government. Smaller, independent, individual shareholders have no role or voice.

Together, these key players establish and control corporate governance.

The board of directors is usually comprised of insiders, including company executives. Keiretsu may remove directors from the board if profits wane.

The government affects the activities of corporate management via its regulations and policies.

In this model, corporate transparency is less likely due to the concentration of power and the focus on interests of those with that power.

#### **The German Model**

The German model, sometimes referred to as the continental model or European model, is carried out by two groups. The supervisory council and the executive board.

The executive board is in charge of corporate management; the supervisory council controls the executive board. The supervisory council is chosen by employees and shareholders. Government and national interest are strong influences in the continental model, and much attention is paid to the corporation's responsibility to submit to government objectives and the betterment of society. Banks also often play a large role financially and in decision making for firms.

### **How to Assess Corporate Governance**



As an investor, you want to select companies that practice good corporate governance in the hope of avoiding losses and other negative consequences such as bankruptcy.




You can research certain areas of a company to determine whether or not it's practicing good corporate governance. These areas include:



- Disclosure practices
- Executive compensation structure (whether it's tied only to performance or also to other metrics)
- Risk management (the checks and balances on decision-making)
- Policies and procedures for reconciling conflicts of interest (how the company approaches business decisions that might conflict with its mission statement)
- The members of the board of the directors (their stake in profits or conflicting interests)
- Contractual and social obligations (how a company approaches areas such as climate change)
- Relationships with vendors
- Complaints received from shareholders and how they were addressed
- Audits (the frequency of internal and external audits and how issues have been handled)

Types of bad governance practices include:

- Companies that do not cooperate sufficiently with auditors or do not select auditors with the appropriate scale, resulting in the publication of spurious or noncompliant financial documents
- Bad executive compensation packages that fail to create an optimal incentive for corporate officers

	<ul style="list-style-type: none"> <li>Poorly structured boards that make it too difficult for shareholders to oust ineffective incumbents</li> </ul> <p>Be sure to include corporate governance in your due diligence before making an investment decision.</p> <p><b>Examples of Corporate Governance</b></p> <p>Enron</p> <p>Public and government concern about corporate governance tends to wax and wane. Often, however, highly publicized revelations of corporate malfeasance revive interest in the subject.</p> <p>For example, corporate governance became a pressing issue in the United States at the turn of the 21st century, after fraudulent practices bankrupted high-profile companies such as Enron and WorldCom.</p>
<p>ACTIVITY 2: READING READING MATERIAL 1</p> 	<p>Read the following texts/ journal and attempt the questions which follow:</p> <p>1.Ooghe, H., &amp; De Langhe, T. (2002). The Anglo-American versus the Continental European corporate governance model: empirical evidence of board composition in Belgium. <i>European Business Review</i>.</p> <p>2. Arniati, T., Puspita, D. A., Amin, A., &amp; Pirzada, K. (2019). The implementation of good corporate governance model and auditor independence in earnings' quality improvement. <i>Entrepreneurship and Sustainability Issues</i>, 7(1), 188.</p>
<p>ACTIVITY 3: Comprehension questions:</p> 	<p>Questions are based on the lecture and reading material.</p> <ol style="list-style-type: none"> <li>Compare and contrast Anglo American model and continental European model.</li> <li>Discuss the usefulness of models in operations of corporation today.</li> </ol>
<p><b>LEARNING OUTCOME 2:</b> Conceptual knowledge</p> <p>ACTIVITY 4: you-tube Video.</p>	<p>Listen to the Videos to enhance conceptualization</p> <ol style="list-style-type: none"> <li><a href="https://youtu.be/9fDe5GJf01E">https://youtu.be/9fDe5GJf01E</a></li> <li><a href="https://youtu.be/zpZfby6WB0U">https://youtu.be/zpZfby6WB0U</a></li> </ol>

<p>CASE 1:</p> 	<p>Volkswagen AG</p> <p>Bad corporate governance can cast doubt on a company's reliability, integrity, or obligation to shareholders. All can have implications for the firm's financial health. Tolerance or support of illegal activities can create scandals like the one that rocked Volkswagen AG starting in September 2015.</p> <p>The details of "Dieselgate" (as the affair came to be known) revealed that for years, the automaker had deliberately and systematically rigged engine emission equipment in its cars in order to manipulate pollution test results in America and Europe.</p> <p>Volkswagen saw its stock shed nearly half of its value in the days following the start of the scandal. Its global sales in the first full month following the news fell 4.5%.</p> <p>VW's board structure facilitated the emissions rigging and was a reason it wasn't caught earlier. In contrast to a one-tier board system that is common in most companies, VW has a two-tier board system, which consists of a management board and a supervisory board.</p> <p>The supervisory board was meant to monitor management and approve corporate decisions. However, it lacked the independence and authority to carry out these roles appropriately.</p> <p>The supervisory board included a large portion of shareholders. Ninety percent of shareholder voting rights were controlled by members of the board. There was no real independent supervisor. As a result, shareholders were in control and negated the purpose of the supervisory board, which was to oversee management and employees, and how they operated. This allowed the rigged emissions to occur</p>
<p>ACTIVITY 5: READING MATERIAL</p> 	<ol style="list-style-type: none"> <li>Ahmad, S., &amp; Omar, R. (2016). Basic corporate governance models: A systematic review. <i>International Journal of Law and Management</i>, 58(1), 73-107.</li> <li>Arniati, T., Puspita, D. A., Amin, A., &amp; Pirzada, K. (2019). The implementation of good corporate governance model and auditor independence in earnings' quality improvement. <i>Entrepreneurship and Sustainability Issues</i>, 7(1), 188.</li> </ol>
<p>ACTIVITY 6: ONLINE DISCUSSION</p> 	<p>Critic the two journals on available online forum noting to comment on one colleagues contribution to award you 10 marks</p>

<p><b>LEARNING OUTCOME 3:</b> PRACTICAL SKILLS VIDEO 3:</p> 	<p>Show video which displays practical use of knowledge acquired.</p> <ol style="list-style-type: none"> <li>1. <a href="https://youtu.be/zn_DZNNKvj4">https://youtu.be/zn_DZNNKvj4</a></li> <li>2. <a href="https://youtu.be/1TQKiO0D0v0">https://youtu.be/1TQKiO0D0v0</a></li> <li>3. <a href="https://youtu.be/1kNSoNrthKg">https://youtu.be/1kNSoNrthKg</a></li> </ol>
<p>ACTIVITY 7: Learner practice sessions,</p> <p>Learner practices the learnt skills. Learner to be given task to demonstrate mastery of the skill.</p>	<p>Apply the model of governance in UK to frequent changes of Prime minister in UK.</p>
<p>ASSESSMENT OF PRACTICAL SKILL:</p>	<p>Learner records practiced skill and uploads video on E-Portfolio OR Learner engages in original creative /design activity to demonstrate practical application of knowledge. Assessment of tasks described.</p>
<p><b>LEARNING OUTCOME 4:</b> KEY/TRANSFERABLE SKILLS</p>	<p>Provide reading material which emphasizes reinforcement of topic learnt. How to communicate or share acquired knowledge</p> <p>Which model is being used in your country?</p>
<p>ACTIVITY 8 Learner to engage in communication, collaboration, problem solving, research, leadership activities. Examples, preparation of a poster to communicate new knowledge acquired, written essay, debate, audio recording ...etc.</p>	<p>Board dynamics quadrant of the 11Cs model states corporate governance as; Configuration and compliance (board structures), Capacity, capability and connections (demographics). Competence, commitment, and character (attributes) Cohesion, challenge and culture (dynamics).</p> <p>Learner to connect the above three models to speak to the 11 C models for ease of comprehension and development of policies, rules, procedure and rules.</p>
<p>QUIZZ:</p>  <p>Short questions to put knowledge to the test. Make it game like Challenge learners Questions of MCQ, T/F, short answer questions etc</p>	<ol style="list-style-type: none"> <li>1. Which of the following statements is correct in relation to corporate governance systems?       <ol style="list-style-type: none"> <li>a) the Anglo-American system is an example of a stakeholder-agency hybrid system;</li> <li>b) the German system is an example of an agency dominated system;</li> <li>c) the Australian system follows the Anglo-American agency approach;</li> <li>d) the Australian system is an example of a stakeholder dominated system</li> </ol> </li> <li>2. Which of the following statements is correct in relation to Australia's corporate governance system?</li> </ol>

	<ul style="list-style-type: none"> <li>a) the Australian system is an example of a hybrid system;</li> <li>b) the Australian system is an example of an agency dominated system;</li> <li>c) the Australian system follows the German approach;</li> <li>d) the Australian system is an example of a stakeholder dominated system.</li> </ul>
TAKE HOME MESSAGE	Learner to state the take home message from their learning experience.
Reference list	<ol style="list-style-type: none"> <li>1. Solomon, J. (2020). <i>Corporate governance and accountability</i>. John Wiley &amp; Sons.</li> <li>2. Leblanc, R. (2020). The Handbook of Board Governance: An Introduction and Overview. <i>The Handbook of Board Governance: A Comprehensive Guide for Public, Private and Not-for-Profit Board Members</i>, 1-25.</li> <li>3. Bloomfield, S. (2020). <i>Absolute Essentials of Corporate Governance</i>. Routledge.</li> <li>4. Mastrodascio, M. (2021). <i>Corporate Governance Models: A Critical Assessment</i>. Routledge.</li> <li>5. OECD (2015), G20/OECD Principles of Corporate Governance, OECD Publishing, Paris.</li> <li>6. Cheema, M. U., Munir, R., &amp; Su, S. (2021). <i>Corporate governance and whistleblowing: corporate culture and employee behaviour</i>. Routledge.</li> <li>7. Verbin, I. (2020). <i>Corporate responsibility in the digital age</i>. Routledge.</li> <li>8. Joecks, J., Pull, K., &amp; Scharfenkamp, K. (2023). Women directors, board attendance, and corporate financial performance. <i>Corporate Governance: An International Review</i>.</li> <li>9. Larcker, David F and Brian Tayan (2016). <i>Corporate Governance Matters: A Closer Look at Organisational Choices and Their Consequences</i>, Second Edition, New Jersey: Pearson Education.</li> <li>10. Leblanc, R. (2016). Director independence, competency, and behavior. <i>The Handbook of Board Governance: A Comprehensive Guide for Public, Private and Not-for-Profit Board Members</i>, 159-192.</li> <li>11. Tabassum, N., &amp; Singh, S. (2020). <i>Corporate Governance and Organisational Performance: The Impact of Board Structure</i>. Springer Nature.</li> <li>12. Zhao, A. T., &amp; Xiao, S.(2023). A matter of time: The influence of underperformance duration on corporate misconduct. <i>Corporate Governance: An International Review</i>.</li> </ol>