Corporate Governance Review
Headlines from 2022

Key highlights

84%
provide a statement on the application of the Code principles

Yet 35% state full compliance with the Code (down 23% on the last two years)

91%
state purpose (up 41% since 2019)

Yet only 21% measure on impact

99%
measure culture (up 5% since 2019)

Yet only 18% outline that they use three or more metrics to measure and monitor

62%
discuss the application of S172 (2019: 41%)

Yet only 40% provide detailed transparency on disclosures (down 16% since 2019)

59%
identify environment and climate as a risk (2021: 35%)

Yet only 48% of that population have a related KPI (2021: 40%)

46%
receive some form of external assurance on their non-financial data

Yet only 5% received assurance to a reasonable level

52%
provide only basic or general explanation of their internal control effectiveness

Interestingly, only a 4% improvement in light of the BEIS white paper focus

82%
identify employees as a risk (2021: 75%)

Yet only 24% connect it to remuneration and 51% have a related KPI (2021: 49%)

Matching words with impact

Sarah Bell
Partner
Governance and Board Advisory

Is your approach to corporate governance ready for a fundamental shift in stakeholder scrutiny? Will it provide the clarity, accountability and audit trails needed around decision making to retain and deliver value for stakeholders?

Over the past year, UK regulators have deployed their increasing powers with a focus on quality and accountability – FRC fines were up 180% year on year, and SMEs also felt the brunt of their force.

Stakeholder needs are changing. In the US, Florida State's pledge to pull $2 billion of assets from Blackrock shows an interesting backlash against ESG investing.

Meanwhile, on our side of the pond activist shareholders are suing boards for being underprepared for net zero and misrepresenting ESG claims, and social media is quick to blame companies for anything from green-to-pink-to-social washing.

Our 21st Corporate Governance Review reveals two trends potentially exposing companies to these risks.

1. Inauthenticity – bold straplines of intent that lack an audit trail
2. Failure to connect key business pillars, such as purpose, culture, risk and ESG aspects to accountability through measurement

Our research also shows how companies continue to adopt aspects of the UK Corporate Governance Code (the Code) as a blueprint in navigating uncertainty following three years of unexpected and continued macro upheaval. This is evidenced by looking into the changes, transparency and quality of adoption in certain areas, both year on year and since the introduction of the new Code post 2018.

Governance value-driving themes from 10 year study

Our 2019 Getting Smart About Governance report[1] proved the correlation between strong governance and retained value and business outperformance over a 10 year period, such as double shareholder returns. It identified six governance attributes shared among the top performers, which we monitor the adoption of in this report, namely, business model clarity, culture and value integration, risk management, internal controls, board effectiveness, and succession.

1 Getting smart about governance – Grant Thornton (2019)

Looking forward

Governance priorities which are likely to remain at the top of boards' agendas are:

1. Effectiveness of governance design in retaining and creating value
2. Talent attraction, retention and development
3. Strategic bandwidth and skills
4. Internal control and assurance landscape
5. Integrating ESG considerations with risk, strategy, culture and accountability

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The 2022 Corporate Governance Review

21 years

of unique insight

273

FTSE 350 reports analysed in 2022

263

data points captured per company

1

peerless database of corporate reporting

Compliance and connectivity

The UK Corporate Governance Code – a blueprint for navigating uncertain times

Getting into the spirit?

35%
state full compliance with the Code, down 23% on the last two years

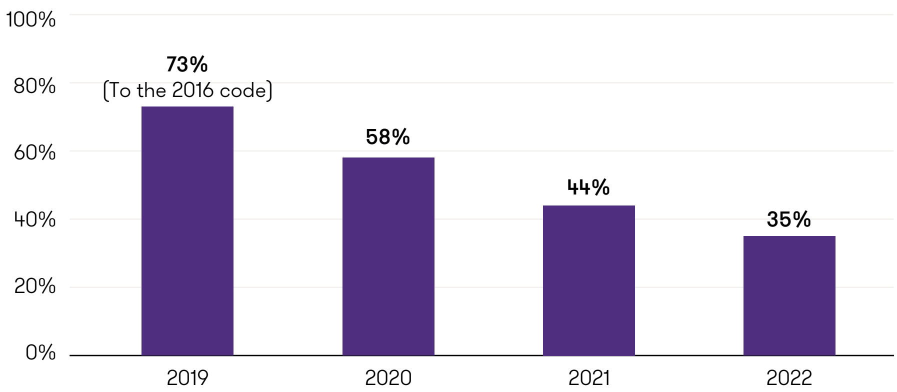
75%
of those that did not comply provided detailed explanations (2021: 70% and 2019: 63%)

84%
provided a statement on their application of Code principles (2021: 73% and 2019: 66%)

COVID-19, war, Brexit, inflation, three prime ministers in as many months…the unforeseen events of the last three years have delivered an unwanted crash course in dealing with the unexpected.

In response, companies embraced elements of the UK Corporate Governance Code (the Code) as a blueprint in navigating crises. There has been, however, a dramatic drop in annual reports that fully complied with the Code over the last two years. Is this cause for concern or a sign that companies have embraced its 'comply or explain' spirit?

The proportion of reports that provided detailed explanations for non-compliance has risen, as has the ratio that provided a statement on the application of the Code. The FRC may view this as a positive given its efforts to make it clear that the Code is not a set of rigid rules, but rather a framework from which companies can deviate with an explanation as to why, but is this approach impacted by investors marking for full compliance?



On closer inspection, the rise in non-compliance seems an issue of timing. The three most common areas of non-compliance were:

- executive pension alignment
- chair tenures
- post-employment shareholding mechanisms.

Boards typically decide these periodically, so it may be the case that they are simply waiting for the next review cycle to comply rather than actively opting out for a governance structure that better fits the needs of the organisation.

What we have seen, however, since the introduction of the new Code, is increased compliance around independence with a significant drop in the percentage that have chair tenures over nine years, a combined chair and CEO role and improved compliance around NED independence.

Leading the way on compliance

- Utilities
- Telecommunications
- Financial services

Could do better

B2B companies, such as Healthcare and Basic materials

KEY QUESTIONS

1 Is the governance structure built to drive value or comply?

2 If you're not complying with the Code, are you explaining why?

Purpose and business model

Companies are talking about purpose and culture, but few are 'walking the walk'

91%
stated a purpose (2021: 91% and 2019: 50%)

99%
state they monitor culture (up 65% since 2019)

23%
showed how they measure purpose (2021: 10%)

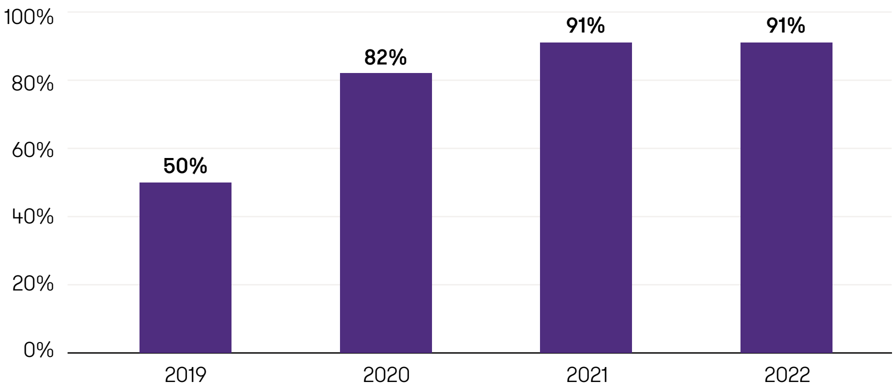
18%
disclose they use three or more metrics to measure culture

48
companies include a culture metric in remuneration measures (2021: 40 companies)

6.2
average number of KPI's reported per company - financial and non-financial

Following the pandemic, FTSE 350 companies increasingly embraced the idea of purpose in providing clarity and alignment to cut through the noise. However, only 23% indicated that they measured impact or progress against purpose (although this was a 13% increase on 2021).

Companies that state purpose

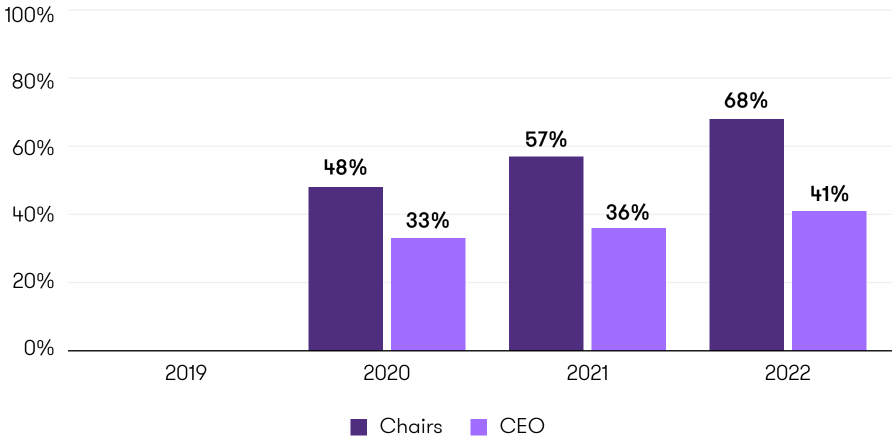


Leading the way on purpose

- Healthcare
- Utilities
- Telecommunications
- Consumer staples

Could do better
Basic materials and Technology

Chairs and CEOs that discuss purpose in their primary statement



Leading the way on linking culture and purpose

- Utilities
- Consumer staples

Could do better
Telecommunications and Technology

Companies remain strong in articulating their business model, with 78% (up 28%) demonstrating how it informs strategic priorities.

The transparency about the future impact, opportunities and challenges however, remains weak with 16% providing basic or generic reports on discussing the future (2021: 37%).

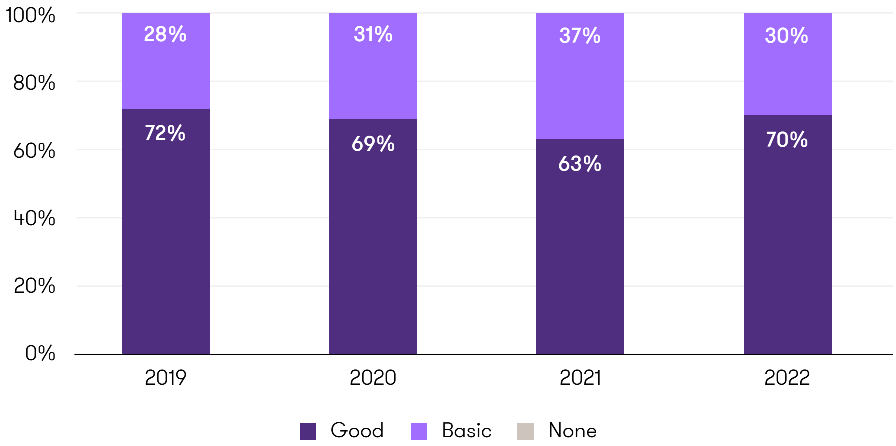
KEY QUESTIONS

Is there a clear link between purpose, strategy and values to KPI's and remuneration?

Is your purpose demonstrated by clearly defined metrics?

Does your purpose provide decision-making clarity?

Ratings each year for companies reporting on future impact and opportunities



Leading the way on reporting on future impact and opportunities

Utilities

Consumer staples

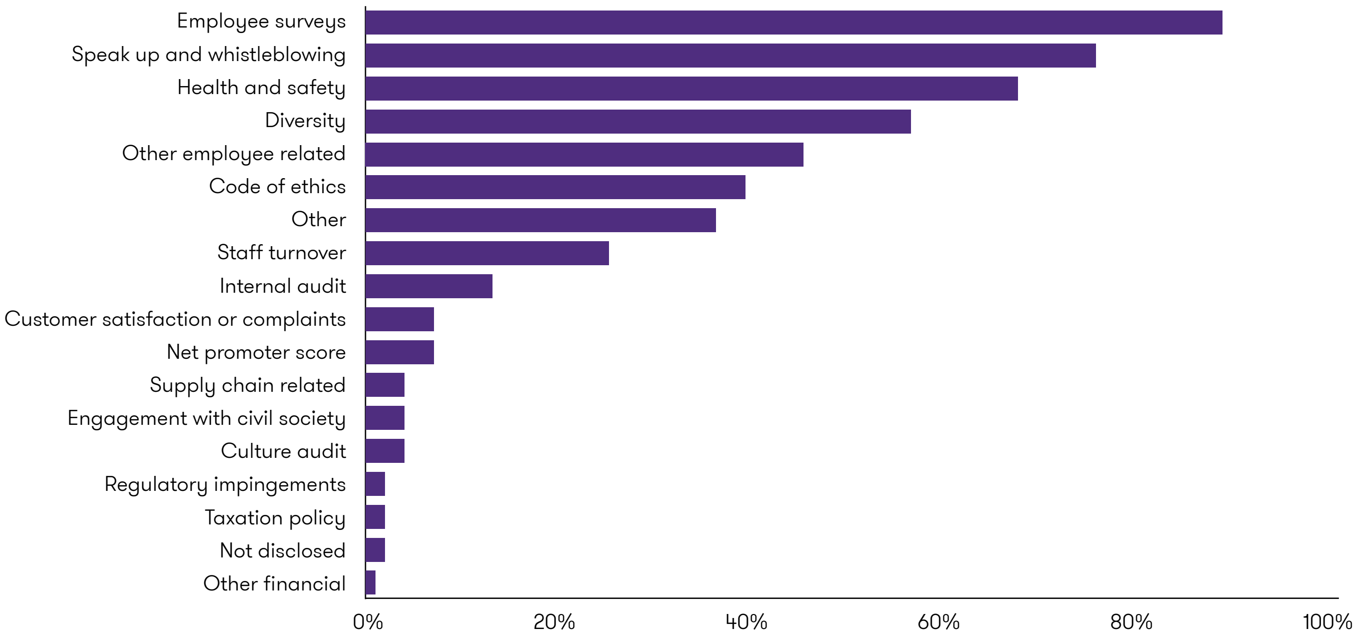
Could do better

Technology and Consumer discretionary

The pandemic seems to have had a monumental impact on employee attitudes to both work and life. As a result, almost all companies said they monitored culture, compared to 34% in 2019. However, only 18% used three or more metrics providing transparency as to how it is considered. The annual employee survey was the typical go-to in terms of measurement, while other measures, such as staff turnover, whistleblowing and health and safety, were lacking.

The good news is that the proportion of companies recognising the link between culture and purpose is rising (64% compared to 37% in 2021). However, only 15% back this up by linking culture to executive remuneration in order to demonstrate the accountability and strategic importance.

How culture is monitored



Spotlight on best practice

Making the link

Packaging giant DS Smith's purpose is 'Redefining packaging for a changing world'. There is a clear link from purpose to strategic goals such as 'realising the potential of our people by creating a safe environment where colleagues can develop their skills and ideas'. It details several KPIs to measure impact such as accident frequency rate and employee enablement and engagement.

Making culture measurable

United Utilities' dashboard of cultural metrics provides a comprehensive overview to support the board with monitoring and assessing culture. The metrics are drawn from the annual employee engagement survey; HR policies covering diversity, equality and inclusion, including training; whistleblowing reporting; health, safety and wellbeing policies and practices; and other KPIs relating to their behaviour as a responsible business.

GETTING SMART ABOUT GOVERNANCE

Governance value-driving themes from 10 year study

Business model clarity and connectivity

78% achieving strong compliance

Top sectors

1 Utilities

2 Telecommunications and Healthcare (tied)

Culture and value integration

18% achieving strong compliance

Top sectors

1 Utilities

2 Basic materials

Stakeholder engagement

Companies are embracing a broader accountability to stakeholders

60%
illustrate how stakeholder considerations influenced board decisions (2021: 64% and 2019: 3%)

62%
discuss the application of Section 172 (1) (a) – (f), with 40% providing detailed disclosures (2021: 56% and 2019: 41%)

67%
detail the connectivity of their D&I policy to strategy (20% increase year on year)

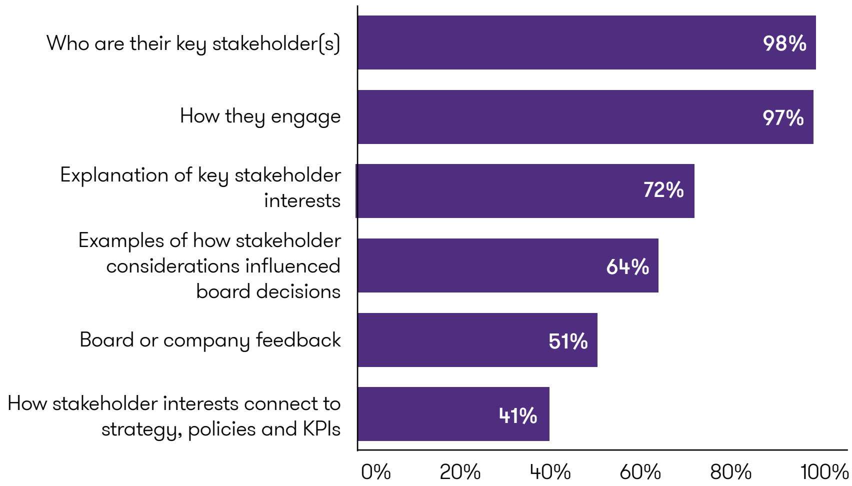
45%
of boards acted upon stakeholder feedback (2021: 3% and 2019: 11%)

Annual reports once primarily spoke to shareholders; today, they must embrace the principle of stakeholder capitalism with the emphasis changing around s172 of the Companies Act.

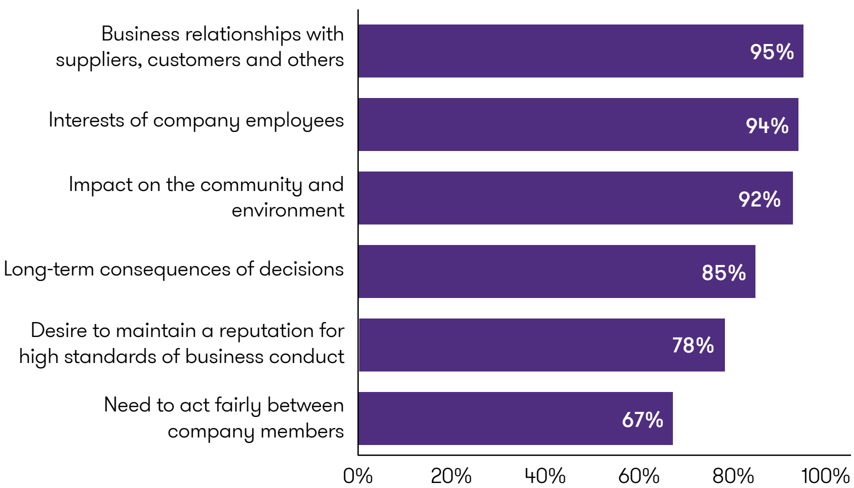
As one CEO of a major organisation put it, this is "capitalism, driven by mutually beneficial relationships between a business, the employees, customers, suppliers, and communities your company relies on to prosper."

Companies are embracing this, demonstrated by a steady increase in the number of reports that discuss the application and importantly impact on decision making related to Section 172.

What do companies disclose regarding their stakeholder engagement?



Which matters are mentioned in the S172 statement?



Leading the way in measuring stakeholder impact

- Utilities
- Energy

Could do better

Telecommunications and Basic materials

Leading the way in customer feedback

- Real estate
- Healthcare
- Telecommunications

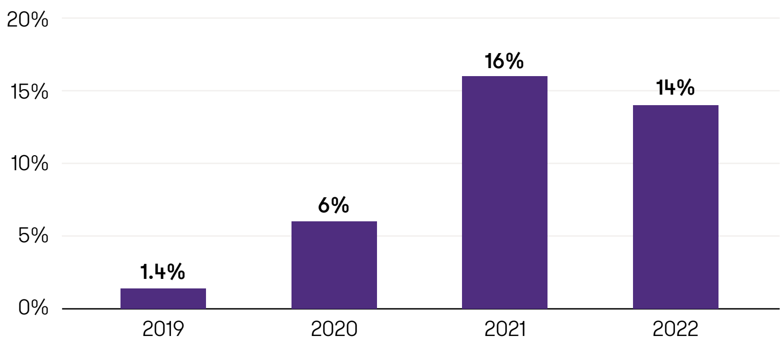
Could do better

Basic materials, Technology, Utilities, Industrials and Consumer staples

Customers

Since the introduction of the Code, we have seen a significant increase in companies reporting on customer metrics (NPS, customer satisfaction and/or complaints). In 2022, 38 companies disclosed this information, up from just four in 2019 (though a drop from 43 in 2021). Customer vulnerability will be a likely area of focus for many regulators going forward and companies should consider this approach and potential risk exposure in this area.

Companies measuring engagement with customers

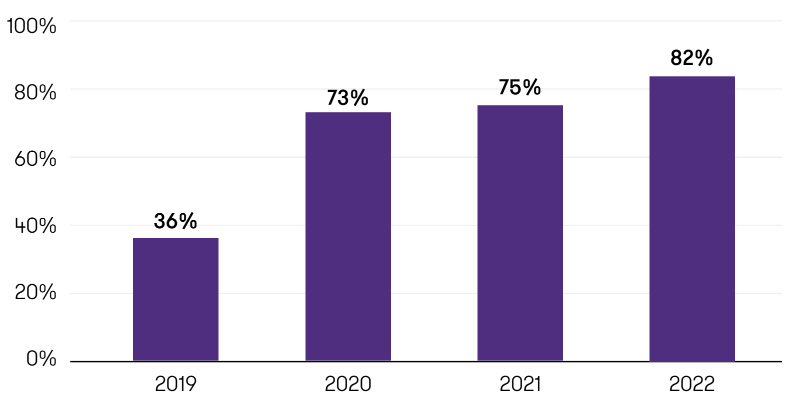


Employees

In 2022, 82% of companies engaged with employees using one of the Code's three approaches. This proportion has been growing since the Code's 2018 revision and has been accelerated by the pandemic. Companies that proved themselves to be fully transparent held themselves accountable through feedback loops, such as workforce advisory panels and employee questionnaires.

Methods of engagement	2022 (%)	2019 (%)
Designated NED	62	25
Formal workforce advisory pane	33	13
Employee director	4	1
Employee representative attending board meetings	11	1
Surveys/questionnairs at least annually	87	63
Formal meet the board/NED event	49	13
Other	46	44

Companies using at least one of the Code's employee engagement methods



46%
increase from 2019

Diversity and inclusion

After years of paying lip service to diversity and inclusion (D&I), companies are providing more transparency on their procedures and policies and the embeddedness of their approach. Some 67% of companies detailed their D&I policy, its objectives and linkage to strategy, implementation, and progress (a 20% increase on the previous year).

The number of companies that offered no detail around their D&I policy shrank to 26% in 2022 from 38% in 2021. Only 7% did not reference a policy (2021: 15%). Reporting on ethnicity and other broader D&I indicators also shifted in 2022 (see diagram), with 78% mentioning three or more broader indicators concurrently, indicating that work taking place in the pandemic is beginning to take hold.

Diversity characteristics	2022 (%)	2019 (%)
Nationality	30	23
Culture	23	42
Ethnicity	86	79
Race	31	37
Skills and experience	76	82
Social mobility	48	42
Age	37	37
Cognitive and personal strengths	28	36
Disability	25	0.4
LGBTQ+ (sexual orientation and gender identity)	26	0.4
Religion or belief	16	0.4
Other	13	16

Leading the way in diversity and inclusion

Utilities

Energy

Could do better

Financial services and Basic materials

Shareholders

Shareholders are becoming more engaged, and boards are responding.

In 2022, 45% of boards said they acted upon shareholder feedback (2021: 30% and 2019: 11%). A further 54% said they collected feedback but did not disclose how they acted on it. The remaining 1% were silent on shareholder engagement.

The main reported themes of shareholder active engagement focused on:

- dis-applying pre-emption rights
- authority to allot or purchase shares
- overboarding of directors
- re-election of directors in non-independent circumstances
- failure of companies to deliver board commitments (eg on ESG, governance and diversity)
- director authority to approve pay increases outside of the remuneration committee.

Companies still have work to do on reacting to shareholder opinion, but they are moving in the right direction. Work in this area will no doubt be accelerated by the review of the Stewardship Code by The Pensions Regulator, planned for 2023.

Environmental, Social, and Governance (ESG)

Focus on the environment is overshadowing social action

28%
have a separate board led ESG committee (2021: 34%)

15%
have stated a social KPI (2021: 19% and 2019: 18%)

26%
failed to meet all of the TCFD requirements

82%
identified employees as a risk, reducing to 59% for environmental and climate, and 21% for social

ESG reporting in 2022 indicated that boards perceive environmental risk as a higher priority than social and not something which is systemic to the whole business model.

Despite 59% of companies identifying the environment and climate as risks, only 48% of that population had related KPIs (2021: 40% and 2019: 31%). Just 45% of the population connected it to executive pay although this is a significant increase from the prior year (2021: 14%).

Seemingly boards are moving in the right direction in addressing this disconnect with many citing the need for more time in ensuring the reliability of data when looking at ESG impact. Still, they may need to move faster or provide more transparency on the journey, given the potential cost of ESG litigation and reputational damage. It seems with ESG the focus is ensuring the basics are met with limited companies fully integrating and assessing the potential strategic opportunity and risk ESG presents.

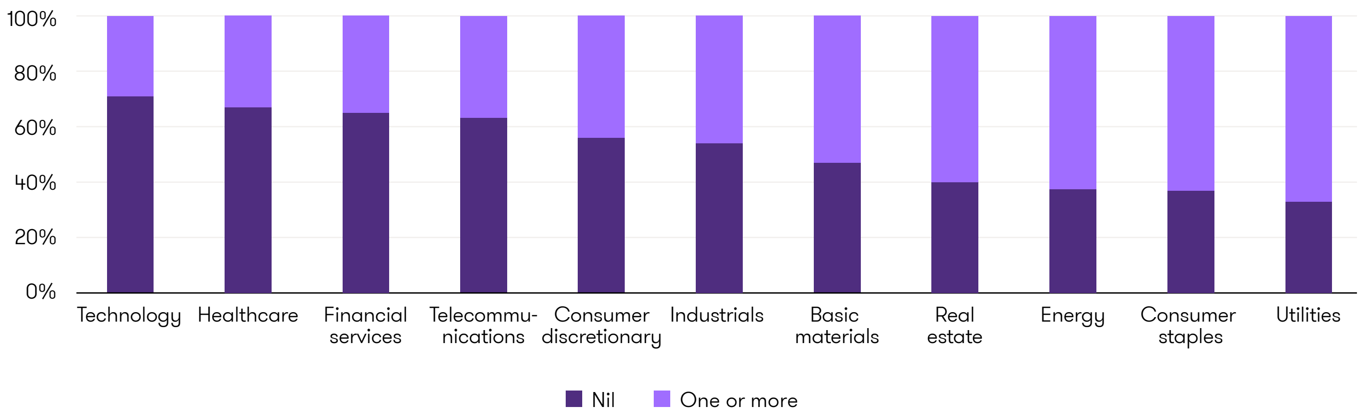
Integrating ESG into the business model

	Environmental and climate	Employees	Social
Risks	**59% 2022** 35% 2021	**82% 2022** 75% 2021	**21% 2022** 23% 2021
KPIs	**48% 2022** 40% 2021	**51% 2022** 49% 2021	**15% 2022** 19% 2021
Remuneration	**45% 2022** 14% 2021	**24% 2022** 17% 2021	**19% 2022** 14% 2021

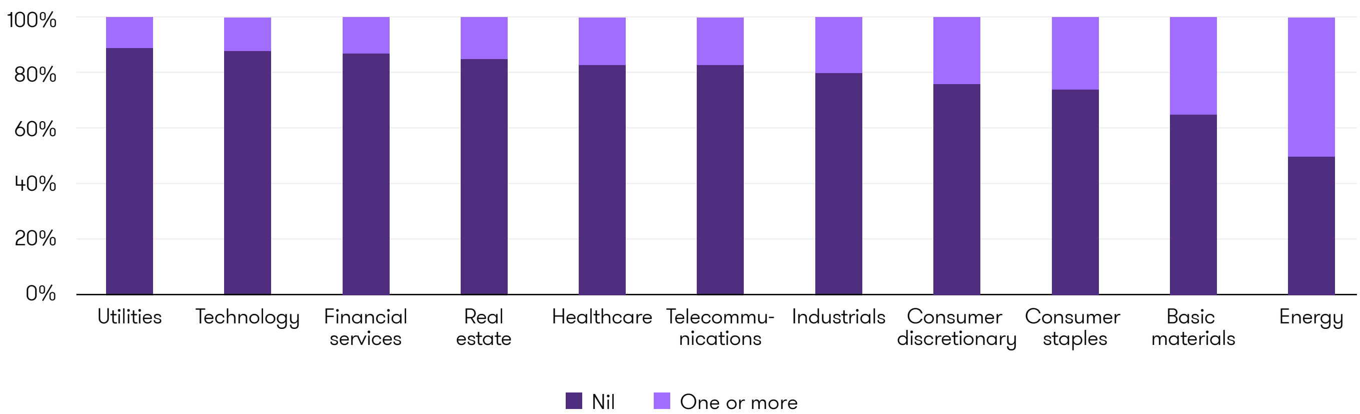
Financial and healthcare sectors not considering climate risk

Attitudes to climate in 2022 differed by sector. Around 65% of companies in the Healthcare and Financial services sectors respectively did not mention it as a risk. Unsurprisingly this compares to roughly a third of Utilities and Energy companies. However, that climate risk is being mentioned (by any sector) indicates an upward trend compared to previous years.

Climate risk by sector



Social and community risk by sector



Is Social the new Culture?

Ten years ago, annual reports rarely mentioned culture as companies struggled to measure this qualitative topic. However, new FRC guidance combined with COVID-19 has changed this: in 2022, 99% of companies disclosed how they monitor culture (2019: 34%).

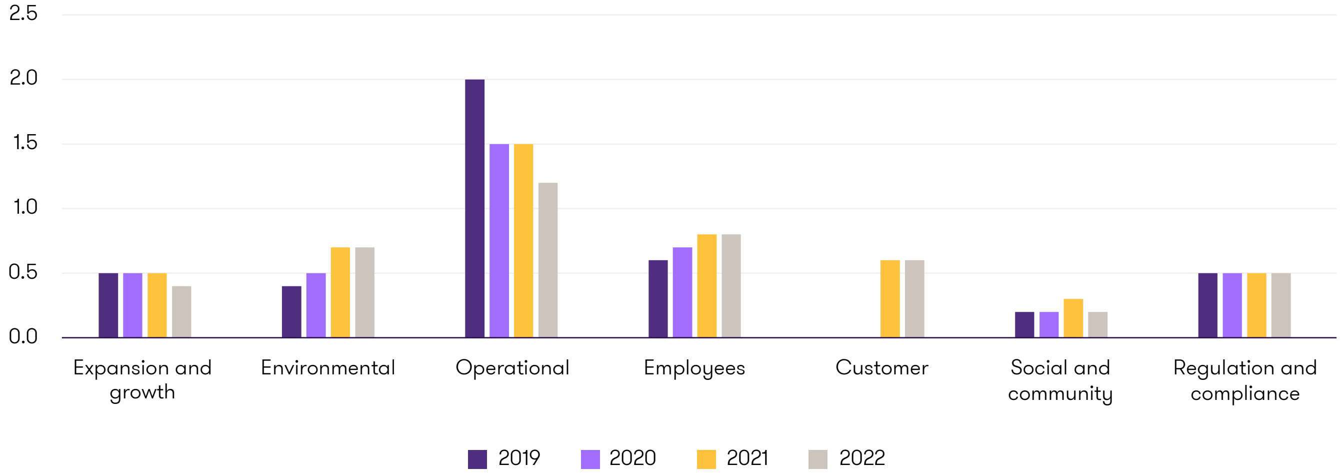
What will give ESG, particularly the S and G, the same leg up? Will it be regulation, litigation, innovation, human capital issues, supply chain resilience, or the cost-of-living crisis?

Whatever its form, there will undoubtedly be a catalyst for more thought on Social and Governance impact, and companies should consider how this will translate into their business models and what assurance will be needed for stakeholders based on impact.

What will push Social to the top of the agenda?

During the on/off lockdowns of 2021, 19% of companies mentioned social and community focused KPIs, dropping by four percentage points in 2022.

Average number of non-financial KPIs disclosed

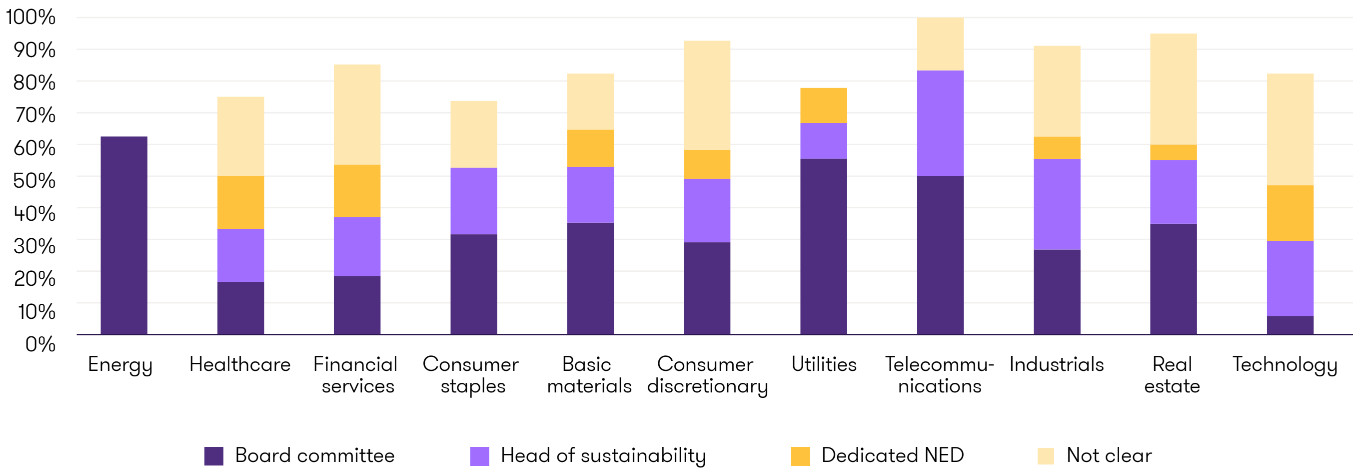


Emerging ESG trends

Companies are tackling ESG at board-level

Such is the importance of ESG, more than half of companies in every sector demonstrate a board-down approach to sustainability governance.

2022 ESG governance across industry



Companies are still getting to grips with TCFD

TCFD (Task Force on Climate-Related Financial Disclosures) reporting has become mandatory for most premium listed companies[2]. However, 26% of companies in our review failed to disclose all its required elements. This indicates that some companies are still getting to grips with its framework and metrics. The TCFD has recognised this and identified areas for improvement, including (among others) the provision of more granular information and linking climate-related disclosures to other risk management and governance processes.

KEY QUESTIONS

Do you understand the strategic opportunities and risks of social issues?

Are you horizon scanning to proactively address social issues?

Have you considered whether you will integrate aspects of your people strategy into social reporting?

Do you have a roadmap as to how you will move from limited to reasonable assurance on non-financial data?

Leading the way in TCFD reporting

- Utilities
- Energy
- Financial services

Could do better

Telecommunications, Technology, Basic materials and Consumer discretionary

FIND OUT MORE

Our ESG services can help you navigate the ESG agenda:
grantthornton.co.uk/en/services/environmental-social-and-governance-esg/

2 See criteria - Mandatory climate-related financial disclosures by publicly quoted companies, large private companies and LLPs - BEIS February 2022

Ready for risk

Companies are not linking emerging risks to metrics and boardroom transparency (or development areas)

93%
outlined principal risks (2021: 99% and 2019: 99%)

80%
linked principal risks to strategy (2021: 71% and 2019: 78%)

84%
provided detailed insight into forward-looking business plans (2021: 63% and 2019: 72%)

82%
stated employees as a top risk; however, only 51% had associated KPIs and only 24% linked to it remuneration

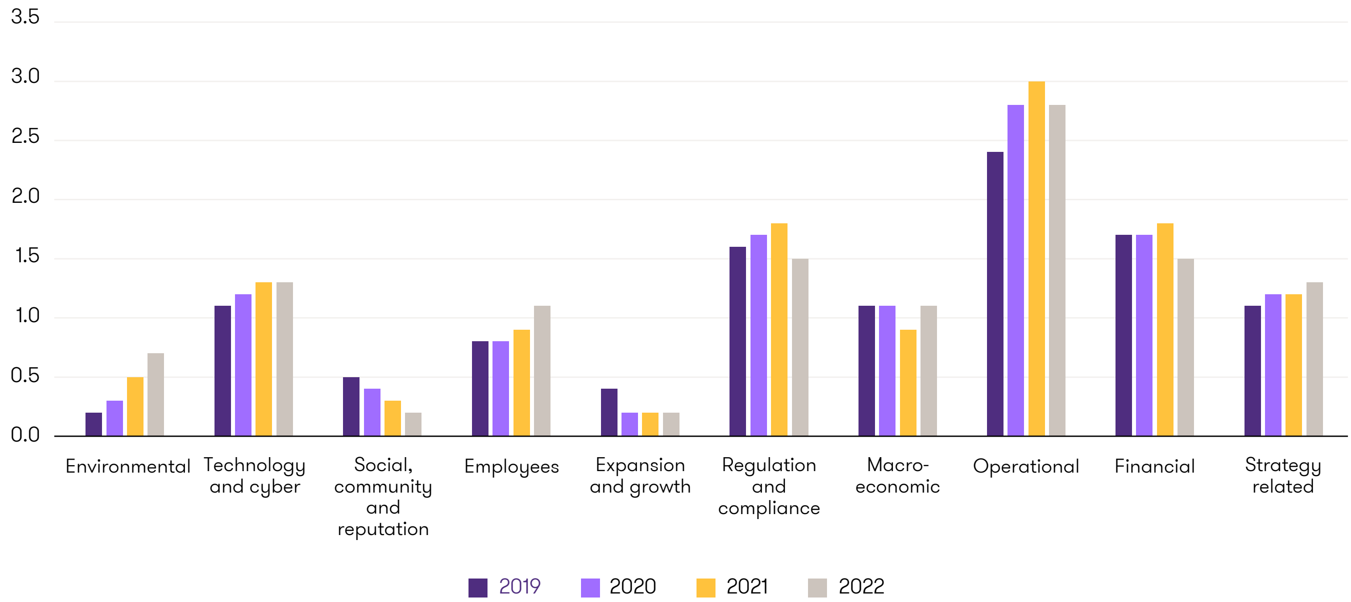
In 2022, companies were sure-footed about the future, with most detailing forward-looking plans and business developments. This included reflection on successes and challenges and mapping the year's performance against 3 to 5-year plans.

Companies also thought more about risk, with 93% of companies defining potential threats to business, and 80% linking principal risks to strategy. However, is there sufficient focus on managing newer risk areas? Potentially not, given 66% (2021: 67%) of companies do not outline mitigating actions for emerging and newer risk areas.

Companies will be forced to evolve risk reporting if regulators adopt BEIS white paper recommendations to introduce an Audit and Assurance Policy and Resilience Statement in addition to more granular disclosures around the internal control environment.

Risky business – changes over the last half decade

Principal risks trend analysis



Number of principal risks	5-8	9-12	12+
Companies	42	152	74

Focus on human capital

Employee risk lacks boardroom backup

An ageing population, post-Brexit labour shortages, The Big Quit, a skills crisis, and seismic changes in social mobility, office working and D&I – increasingly, companies recognise that human capital may present more risk than financial capital.

Some 82% of reports cited employees as a strategic risk area (2021: 75% and 2019: 73%). However, only 51% had associated KPIs (2021: 49% and 2019: 41%), and 24% tied it to remuneration (2021: 17%).

The disconnect between threat level and governance

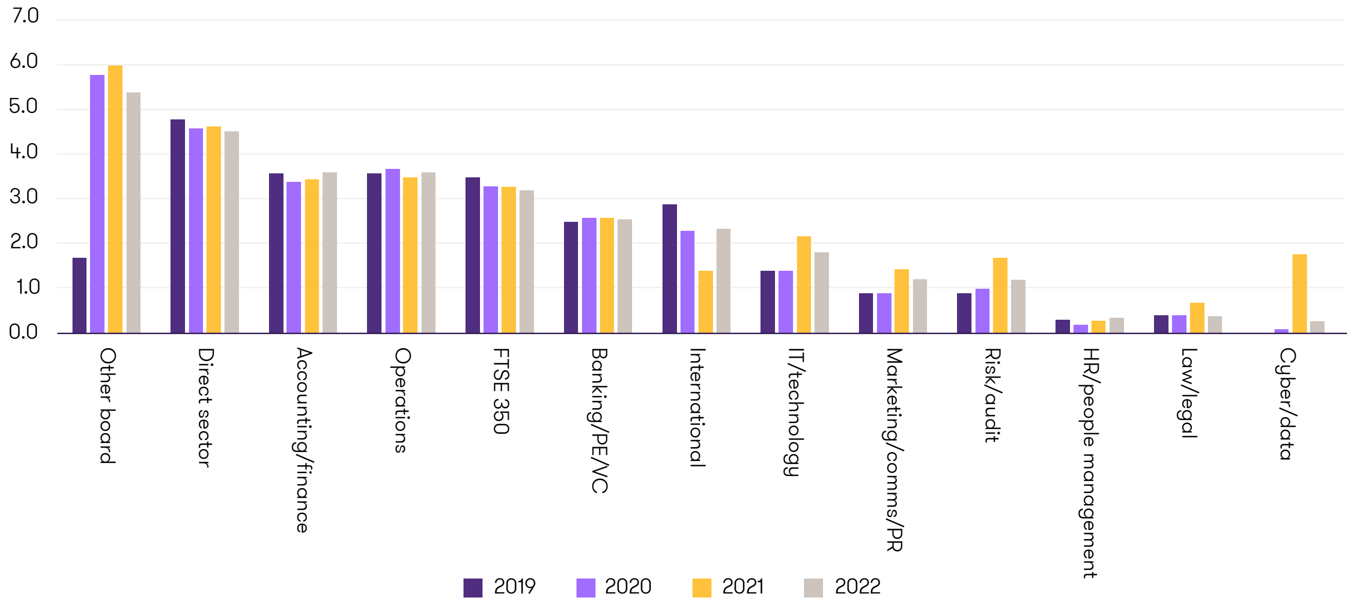
Employees	Risks	KPIs	Remuneration
2022	82%	51%	24%
2021	75%	49%	17%

Boards lack people-specific technical skills

In 2022, 91% of companies shared the findings of a board effectiveness review (2021: 94%, 2019: 92%). However, only 38% and 25% cited board and senior management succession planning as a high priority (2021: 35% and 28%).

Given the increased employee risk disclosure, it was surprising that people-specific expertise was the least mentioned board skill in company reports.

Board skills trend analysis – average frequency of skills on board



KEY QUESTIONS

Do you have KPIs to measure progress against your most critical risk?

Do you have effective HR representation on your board?

Is there a mechanism in place to review board training plans and/or composition in line with changing principal risks?

Spotlight on Audit and Assurance Policy

One of the potential changes from the BEIS white paper3 is the introduction of a three-year Audit and Assurance Policy (AAP) in annual reports. The AAP disclosure will apply to Public Interest Entities (PIEs) with 750 employees or more and an annual turnover of at least £750 million. It aims to clarify for stakeholders how directors ensure the management, integrity and reporting of assurance and risk.

The AAP is intended to cover internal and external sources of assurance and should encompass assurance beyond that required for the financial statements (for example, ESG).

Also included is the potential requirement for PIE (Public Interest Entities) directors to report steps taken to prevent and detect material fraud.

The paper also recommends that a new Resilience Statement replaces Going Concern and Viability Statements. This should include a clear link to the risk report, with considerations outlined over the short, medium, and long term.

How to prepare for the AAP

Governance – Consider the governance for establishing then updating the policy. The audit committee (working with the executive) should oversee the AAP, for ultimate approval by the board. In addition, someone, such as the audit committee chair should be responsible for communicating the AAP, periodically reviewing and updating.

Identify the current landscape and improvement areas – Consider how the policy will support evolution around the more immature areas of your assurance landscape.

Engage stakeholders – Consider how you will identify which stakeholders to engage with (internal and external auditors, shareholders etc). Establish how you will consider their views in the development of the AAP.

Reporting strategy – Understand how the AAP will fit into your current reporting structure. Establish areas of misalignment.

Plan for the future – Be clear on how you will update the policy to reflect operational/strategic/ market changes and/or internal learnings and engage stakeholders in developments.

FIND OUT MORE

Grant Thornton can benchmark your risk and assurance practices against market averages and your peers to identify areas of strength and improvement and provide considerations in how you may frame your audit and assurance policy.

https://www.grantthornton.co.uk/services/risk/controls-advisory/

3 Restoring Trust in Governance – Department for Business, Energy & Industrial Strategy (May 2022)

GETTING SMART ABOUT GOVERNANCE

Governance value-driving themes from 10 year study

Risk management

83% achieving strong compliance

Top sectors

1 Financial services

2 Real estate and Basic materials (tied)

Assurance

Across the market there remains, each year, limited transparency on how the conclusion of the effectiveness of internal control environments is reached

48%
provide a 'compliant' review of internal control effectiveness with limited transparency on the how

46%
obtained some form of external assurance assurance of their non-financial data (2021: 15%)

5%
obtained reasonable external assurance on non-financial data

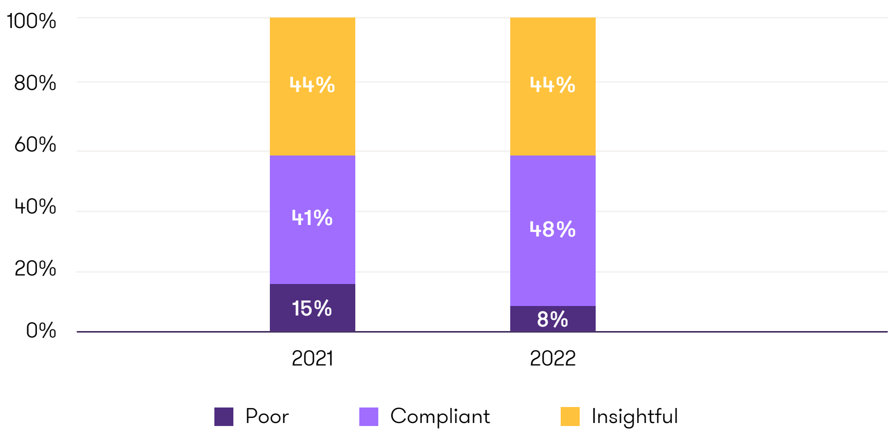
Following the Brydon review[4] and the BEIS white paper, the government/FRC intends to introduce a number of assurance measures.

Internal controls effectiveness disclosures

As a consequence, companies are taking internal controls seriously, with just 8% providing poor information in 2022, compared to 15% in 2021. That said, 48% of companies only provided 'compliant' reviews of internal control systems, containing limited insight into internal control evaluation (2021: 44% and 2019: 49%).

Limited insight

Level of information provided on internal control process review

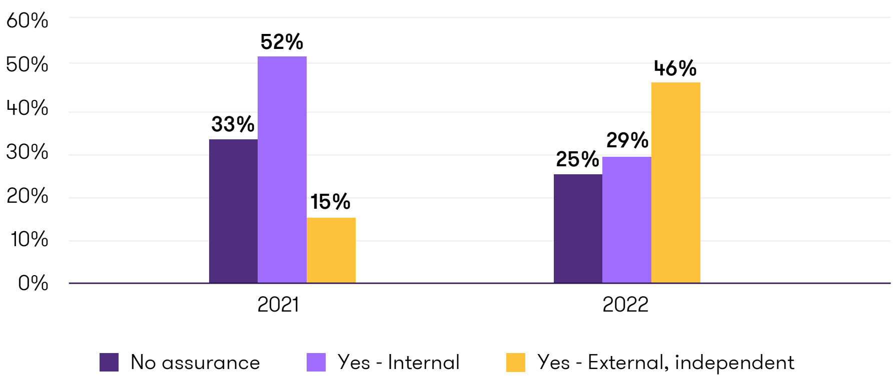


Whereas companies tend to have assurance covered for financial matters, only 7% of reports in 2022 featured external assurance on non-financial data, such as ESG metrics to a reasonable standard. This is despite a 31% jump in companies appointing external assurers.

This could suggest that companies are exposing themselves to risk of stakeholders assuming that external assurance on just one or two areas, such as carbon credits and TCFD, ticks the entire ESG box.

4 Assess, Assure and Inform – Improving audit quality and effectiveness – Sir Donald Brydon (December 2019)

Assurance over ESG and non-financial reporting



	Limited	Reasonable	Not clear
Level of independent assurance sought on ESG and other non-financial information	68%	7%	25%

KEY QUESTIONS

Do your internal controls sufficiently validate your ESG claims?

Have you undertaken an assurance mapping exercise to understand the types of assurance received against the variety of corporate information?

Do you understand in which areas you intend to move from limited to reasonable?

Leading the way on assurance over ESG and non-financial reporting

Utilities

Consumer staples

Could do better

Technology and Financial services

Governance value-driving themes from 10 year study

Internal controls

63%
achieving strong compliance

Top sectors

1 Healthcare
2 Utilities

Board effectiveness and development

81%
provide good or detailed explanations of board evaluation with 8% providing detailed outcomes

68%
provide more detail on the skills and experiences of their board (2021: 60% and 2019: 37%)

6%
explain the relevance of directors' skills in the context of strategic risk, regulation changes and market shifts (2021: 10% and 2019: 2%)

7%
of FTSE 350 chairs were held by women (2021: 9% and 2019: 6%)

15%
of FTSE executive positions were held by women (2021: 23% and 2019: 17%)

34%
have had their chair for more than nine years (2021: 43% and 2019: 63%)

Companies took assurance seriously in 2022, with 81% of companies detailing board evaluations.

Fifty-four percent earmarked strategic focus and future planning as a top-five area for development.

Interestingly, only 6% of companies explain how director skills are relevant in the context of a company's strategic priorities.

As we enter a period of inflation, energy transition, environmental change, and technological advances, this may expose companies and boards (both Executives and NEDs).

Board evaluations have identified these top five areas for development

1 **58%** Strategic focus and future planning (2021: 52%)

2 **38%** Succession planning – board (2021: 35%)

3 **25%** Succession planning – senior management (2021: 28%)

4 **19%** Wider stakeholder engagement (2021: 27%)

5 **24%** Employee related (2021: 18%)

Equally whilst succession planning is the second highest area of focus in teams of boards and directors, 42% provide little explanation for succession planning below Board.

KEY QUESTIONS

Does your board composition reflect your strategic objectives?

Does your board have the delegation structures to focus on future market opportunities and challenges?

Does the board have a learning and development plan?

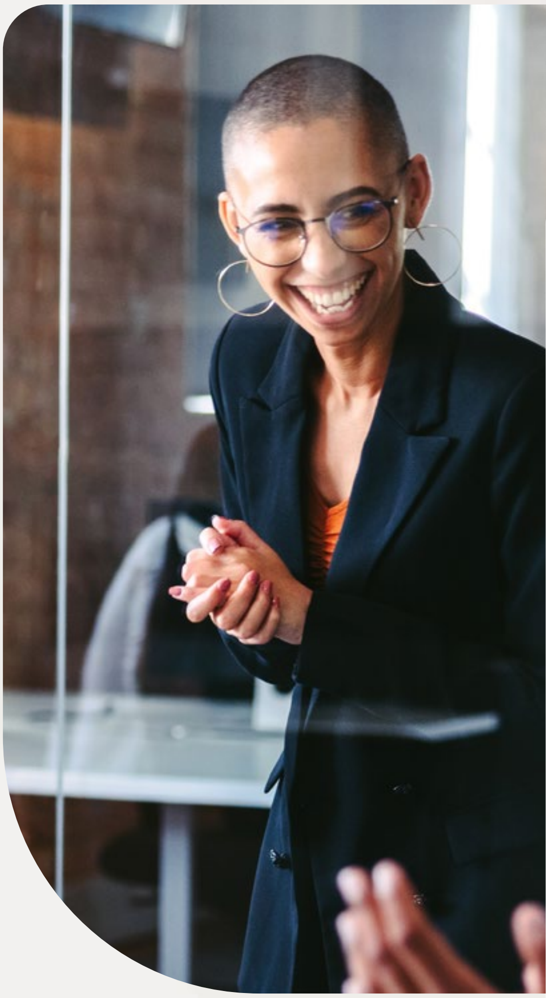
Are board skills and learning and development reviewed in line with strategy and risk updates, or tenure?

FIND OUT MORE

Our evidence-based board evaluations can help support boards in ensuring they are ready to meet future challenges and add value.

Read more about our approach and our digital tools: grantthornton.co.uk/insights/board-dynamics-a-guide-to-evaluating-effectiveness/

Governance value-driving themes from 10 year study



Board effectiveness evaluation

42% achieving strong compliance (2019: 38%)

Top sectors

1 Healthcare
2 Basic materials

Succession planning

13% achieving strong compliance

Top sectors

1 Utilities
2 Real estate

5 trends to watch in 2023

Regulatory focus

Regulators are gaining more teeth and biting hard. Bodies such as the Serious Fraud Office, Financial Conduct Authority, Information Commissioners Office, and Competition and Markets Authority are keen to issue penalties rather than a slap on the wrist. In addition, the FRC's transition to the ARGA (Audit, Reporting and Governance Authority) will give it more power. To prepare for this, boards must ensure that governance is impactful, authentic, and quantifiable in providing an audit trail around decisions.

BEIS reforms

An intensified focus on strengthening trust and control frameworks for corporates has led to the UK government confirming SOX-style reforms through the recent BEIS white paper. With work looking to start in 2023, BEIS, in partnership with the FRC (soon to be ARGA), is focusing on integrating most of their proposed changes. These include the focus on the effectiveness of the process and control environment (SOX-lite) and the addition of a Resilience Statement, Public Interest Statement, and an Audit and Assurance Policy into a revised version of the Code, effective from 2024. UK boards, Audit and Risk Committees, and Internal Auditors should engage now.

International Sustainability Standards Board (ISSB) standards

The UK government has said it intends to mandate ISSB standards, developed by IFRS (International Financial Reporting Standards) but has not given a timeline. To prepare, boards must comply with the frameworks based on ISSB. These include TCFD, which – as noted earlier – 26% of companies fail to report comprehensively.

EU Corporate Sustainability Reporting Directive (CSRD)

From reporting periods starting 2024 onwards, the CSRD will require all large companies to report on sustainability policy and performance. Companies must start now (if they have not already) to ensure readiness. Tasks include gap analysis, the creation of a compliance roadmap and developing a relevant reporting framework.

A growing focus on 'other' capitals

External events are shifting corporate governance focus from financial capital to the other capitals such as social, human, natural and manufactured. Post-COVID-19, for example, industrial businesses have been halted by supply chain issues rather than funding (manufactured capital). Also, as detailed in this report, people and skills shortages will become more prevalent as our population ages (human capital).

How we can help

If you are concerned about any area of corporate governance or would like to speak to one of our specialists, please get in touch.

Governance and board advisory services

Our governance and board advisory team brings its board governance and shareholder relations team together with business psychologists, executive coaches and leadership development specialists.

We support organisations in shaping fit-for-purpose governance structures that build trust and integrity with stakeholders; ensure dynamic performance through leadership for the future; and create environments in which their people and operations can thrive.

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Methodology

Our Corporate Governance Review has analysed, tracked, and captured best practice and emerging governance trends for over two decades. We use data extracted from the front end of annual reports from FTSE 350 companies, who are required to apply the UK Corporate Governance Code 2018. This data is a distillation of governance best practice.

The review assesses compliance with:

- UK Corporate Governance Code 2018 (the Code) disclosure requirements, and
- S414c of the Companies Act 2006 narrative reporting requirements, as amended

This year's review covers 273 FTSE 350 companies (as of March 2022): 96 from the FTSE 100 and 177 from the FTSE 250, with years ending between April 2021 and June 2022.

Our analysis excludes investment trusts which follow the AIC Code of Corporate Governance.

Further detail on our approach is available on request from Alex Worters.

With thanks to Gabriella Demetriou, Yenona Han, Olu Olurinde, Jas Tawana, Aleksandra Todorova, Erin Causley, and Alex Worters.

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