The Wates Corporate Governance Principles for Large Private Companies

Review of reporting against the Wates Principles

University of Essex
Audencia Business School
University of East Anglia Norwich Business School
Aston University Birmingham UK
University of Bristol
FRC Financial Reporting Council

August 2024

Research Team

Silvia Gaia
Essex Business School, University of Essex

Diogenis Baboukardos
Audencia Business School and Athens University of Economics and Business

Francesca Cuomo
Norwich Business School, University of East Anglia

Giovanna Michelon
University of Bristol Business School and University of Padova

Teerooven Soobaroyen
Aston Business School, Aston University

The Financial Reporting Council Limited is a company limited by guarantee.
Registered in England number 2486368. Registered Office:
8th Floor, 125 London Wall, London EC2Y 5AS

Contents

1. Foreword

The Wates Principles were developed in 2018 in response to government regulation requiring large private companies to adopt a corporate governance code and report against it in their annual Directors' Reports. More than just a tool for reporting, the Principles serve essentially as a mirror for companies to hold up to themselves – to assess their own governance and to make improvements, where necessary.

Companies are free to apply a code of their choosing, so I am pleased that this research report reflects that more large private companies chose to report against the Wates Principles than any other option.

Private companies – representing a wide range of forms of ownership – are a significant contributor to the UK economy. The 547 companies applying the Wates Principles have a combined annual turnover of more than £850 billion. These businesses have a significant impact not just on the economy but on many people's lives, and it is right that we expect from them high standards of governance, with stewardship and long-term sustainability as guiding lights.

This report provides valuable insight into how companies are reporting against the Wates Principles, including some good practice emerging as companies apply the Wates Principles year after year. The research methodology is based on the guidance notes published with the Wates Principles, but a word of warning: the guidance notes were not intended to be boxes to tick. There are a very wide range of companies applying the Wates Principles, and some of the guidance notes may not apply to all of them. If a company were to score 100% on all the measurables used by the researchers, I would be very suspicious!

I am pleased that the researchers introduced a new dynamic to their research since their first report two years ago – conducting focus groups with professionals who use corporate governance reports. These focus groups were able to look beneath the surface and, as the researchers write, "get a better understanding of the company's character". The focus groups have provided valuable suggestions in this report – not just for what is good and bad in reporting today, but how reports can be improved in the future.

It's right that the researchers are critical in their analysis, and it is clear that reporting can be improved. For example, similar to challenges faced by premium listed companies reporting against the UK Corporate Governance Code, companies applying the Wates Principles struggled to report meaningfully on Purpose and Leadership. They also struggled to connect other aspects of their governance – such as Opportunity and Risk, Remuneration, and Stakeholder Engagement – to the organisation's purpose, strategy and values. Furthermore, the researchers also identify an over-reliance on boilerplate text, and a lack of detail to reflect the unique nature of the company reporting.

I would encourage companies to consider this research report carefully and consider how their reporting can be strengthened. In particular, I would recommend that reporting should focus more on outcomes – explaining how input from stakeholders affected board decisions. Similarly, companies should not just report on *what* they do, but *why* they do it. Good governance has a long-term perspective, and it's important that structures are set up to ensure that the Wates Principles are not just applied, but applied *well*, year after year. That sort of rigorous explanation of how and why governance Principles are applied – not mere box ticking – is what builds trust with stakeholders.

On behalf of the entire Coalition Group that developed the Wates Principles, I would like to thank the researchers and the corporate governance team at the FRC for delivering this extremely useful body of work, which will guide efforts going forward in further strengthening good governance among large private companies and beyond.

Sir James Wates CBE

2. Executive Summary

This report is an outcome of research commissioned by the FRC to provide an over-time comparison with, and to build upon, our previous assessment of corporate governance statements by large private companies. The previous assessment[1] looked at companies' 2019/20 statements; this update is based on 2021/22 statements and adds a 'user perspective' surveying what information users value most and for what purposes, and how such information is delivered. As with the previous assessment, the aim is to consider how companies respond to the requirement to produce a corporate governance statement and how the quality of those statements can be improved.

The 2019/20 assessment looked at the use of the Wates Principles to meet the Miscellaneous Reporting Regulations 2018, examining the quality of reporting and adherence to the 'apply and explain' approach. We were pleased that the Wates Principles were widely used in the first year of adoption. Roughly 45% of companies that provided a corporate governance statement followed the framework (348 companies with fiscal year-end between December 2019 and March 2020). The analysis showed that the disclosure practices were still in their infancy, but it was encouraging to see some good examples of reporting.

This years' research found that of the 1,815 companies in scope of the Regulations, 547 companies chose to adopt the Wates Principles. Of those that followed the Wates Principles, we found slight improvements in most of the disclosure scores for each Principle. For example, more companies reported on how their purpose aligned with their business practices and on the connection between their strategy and purpose/culture. Other specific disclosures included more information about the Chair, how the board understands the company's business needs and stakeholder interests, and rationale for its remuneration structure.

While improvements were made in some areas, our findings highlight the need for companies to reduce their use of boilerplate disclosures and foster a disclosure approach which explicitly links a company's purpose, strategy, culture, and values to its board's activities and the context in which it operates. Going forward it is recommended the companies provide context-relevant and time-specific disclosures.

This report aims to demonstrate where some companies may be able to improve reporting to offer additional insight or clarity on their governance procedures. These suggestions are not intended to be prescriptive but relate directly to the Wates Principles guidance, and if applied, are likely to improve companies' governance frameworks and the value of their corporate governance reporting.

[1] Gaia et al. (2022)

3. Introduction and background

The Wates Principles were published by the Wates Coalition Group, chaired by Sir James Wates CBE in 2018, to support companies reporting on their corporate governance arrangements. The Miscellaneous Reporting Regulations 2018 (the Regulations), require large private companies that satisfy one or both of the following criteria to report on their corporate governance arrangements:

- More than 2,000 employees; and/or
- A turnover of more than £200 million and a balance sheet of more than £2 billion.

The Wates Principles provide a corporate governance framework that offers sufficient flexibility for a diverse range of companies to explain the application and relevance of their corporate governance arrangements, without being prescriptive.

The 2019/20 assessment focused on the quality of Wates reporting and adherence to the 'apply and explain' approach. The assessment showed that disclosure practices were still in their infancy, but it was encouraging to see some good examples of reporting.

This report presents the results of the current research project, which builds on the 2019/20 assessment. Compared to the 2019/20 findings, we found that the number of companies providing explanations of how the six Wates Principles were applied had increased for most of the principles. We also found an increase in reporting against some of the more specific disclosures.

This research looks further into the quality of corporate governance statements by considering the views of different stakeholder groups. This research sets out to gain a user perspective of what information different stakeholders value and how the disclosure of this information can be improved. Insights from interviews with a range of stakeholders provided insights over the value and usefulness of corporate governance statements.

4. Methodology

This research comprised three steps that replicated the previous work on 2019/20 reporting:

a) Of the 1,815 companies that were in scope of the Regulations in the financial year 2021/22, we identified those which included in their annual report a statement (or section) on their corporate governance arrangements. Of the companies that published a corporate governance statement we then identified how many companies adopted a formal corporate governance code and which one(s).

b) Among the companies we originally analysed in our first assessment, for the financial year 2019/20:

   I. We identified how many of them continued to apply the Wates Principles in their 2021/22 reports.

   II. Of these companies, we assessed how the extent of disclosure compares between the two reporting years. A principle-by-principle assessment was made by applying the same coding scheme developed for the initial 2019/20 exercise.

c) In addition to the companies identified in point (b) above, we identified how many companies were found to be relying on the Wates Principles in their 2021/22 reports, but they were not analysed in the initial assessment for the 2019/20 reports. 20% of these companies were selected and assessed using this coding scheme.

d) The corporate governance statements (or equivalent) of the 547 companies that applied the Wates Principles in 2021/22 were analysed to evaluate the degree of 'boilerplate' content.

In addition to replicating the previous research method for an over-time comparison, the research team also convened a series of focus groups to understand users' views of corporate governance disclosures that follow the Wates Principles. The focus groups comprised four types of stakeholders:

- Investors.
- Regulators.
- Governance professionals[2].
- Civil society[3].

[2] Governance professionals refer to professionals who provide support and advice to companies and boards on governance practices.
[3] Civil society refers to a wide array of organisations, such as non-governmental organisations, labour unions, and professional associations, which serve shared interests, purposes and values.

Focus group participants were prompted to discuss:

- How they use corporate governance information in their decision-making process.
- How they evaluate the disclosures provided against the six Wates Principles.
- Suggestions for further improvements of corporate governance statements.
- Before the focus groups took place, participants were provided with extracts of the corporate governance statements of ten companies that apply the Wates Principles. The extracts showed a variety of disclosures from companies in a range of industries, and with differing ownership structures.
- Please see Appendix A for more details of the methodology used.

5. Findings

5.1 Information on corporate governance arrangements disclosed by UK large private companies

Of the 1,815 companies in scope of the Regulations, 1,250 (69%) disclosed information about their corporate governance arrangements. The Wates Principles continue to be the most widely adopted corporate governance code with 547 companies choosing to adopt them in 2021/2022. The UK Corporate Governance Code continues to be the second most used code for large private companies (134 companies).

Out of the 348 companies that adopted the Wates Principles in 2019/2020, 72 were no longer within the scope of the regulations in 2021/2022. It is encouraging to see that 41 of those continued to adopt the Wates Principles. While most did not explain their reasons for continuing to apply the framework, one highlighted their commitment to good corporate governance by choosing to continue to apply the Wates Principles.

It is also encouraging to note that of the remaining 276 companies that adopted the Wates Principles in 2019/2020 and were within the scope of the Regulations in 2021/2022, the majority, 268 (97%), continued to adopt the Wates Principles to report their corporate governance arrangements in 2021/22.

5.2 The value of corporate governance disclosure

Focus group participants agreed that corporate governance disclosures are valuable in helping the various users of the reports assess the quality of governance practices and thereby inform business decisions (e.g., in choosing potential business partners or starting a merger and acquisition). On this point, the regulator focus group stressed that corporate governance disclosures in listed companies are aimed mostly at shareholders who are trying to form an investment view of that company. Whereas, in private companies, disclosures should be aimed more at the various stakeholders who are involved with the company and who want to know that it is being managed, governed and operating effectively. They felt this difference in purpose must be recognised when reading corporate governance disclosures provided by large private companies that adopt and apply the Wates Principles. According to the governance professionals focus group, the value of corporate governance disclosures differs among stakeholders and depends on companies' and stakeholders' characteristics. They highlighted that corporate governance disclosure is valuable when companies use it as an opportunity to reflect on their activities and report on improvements/actions/outcomes.

The Investor focus group discussed the importance of transparency and accountability in enhancing the trustworthiness of an organisation. They highlighted that being supportive and trusting a company's strategy and governance is of paramount importance in deciding whether to invest in a company or not. Finally, the civil society focus group stated that these disclosures enable them to evaluate the quality of the processes in place and whether there are communication channels between the upper echelons and the operational level within a company. Participants agreed that they use these disclosures to understand how stakeholders' (especially the workforce's) interests and opinions are integrated into corporate decisions and actions.

5.3 Quality of corporate governance disclosures reported by UK large private companies

The following section compares the 2019/20 findings to the 2020/21 findings. Using the feedback from the focus groups, this section also considers the information the stakeholders would find useful when reporting against each Principle and suggests how reporting can be improved.

The quality of the disclosures provided in relation to the six Wates Principles was evaluated by considering the extent of disclosure. This allowed us to evaluate the presence of meaningful information that could help users to understand how the Principles were implemented in practice. To assess the extent of disclosure, each Principle was broken down into separate elements for analysis. Please see Appendix B for all disclosure scores per Principle.

5.3.1 Principle One: Purpose and Leadership

Overview

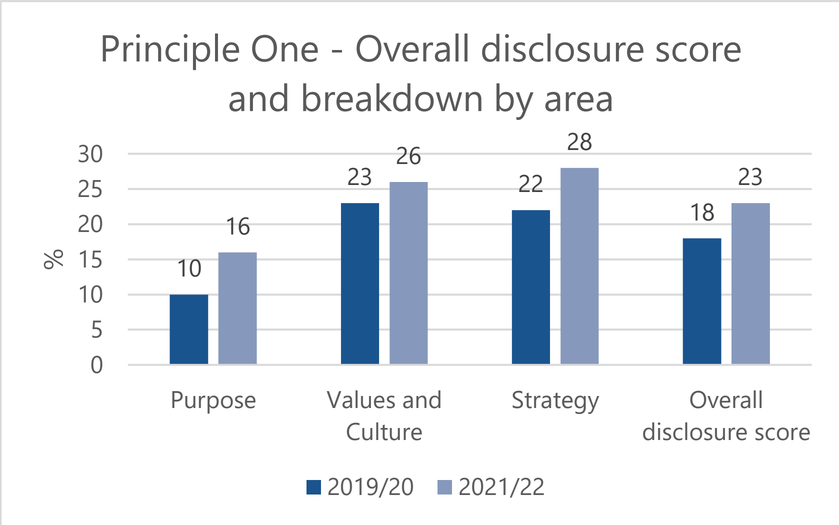
Principle One refers to the purpose of the company, how this is developed and promoted by the board and how the board ensures that alignment of purpose with the company's values, strategy, and culture. Articulating a clear purpose can support decision making and effectively engage shareholders and stakeholders.

All four focus groups acknowledged that disclosures about a company's purpose allow them to form a clear understanding of what drives a company's behaviour and the context within which a company makes decisions. This enables users to fairly evaluate a company's actions and performance and to get a better understanding of the company's character.

Purpose and Leadership disclosures

Compared to the 2019/2020 findings, the percentage of companies disclosing information against Principle One increased by only a small amount. However, it was encouraging to see the quality of disclosure indicated by the overall disclosure score increase to 23%. See Figure 1 for details.

Figure 1.



Quality of disclosures

Reporting on company purpose and other elements of Principle One continues to be challenging for companies. Although there has been an increase in reporting on company purpose and strategy compared to the figures from 2019/20 the disclosure scores remain low. While the figures are low, progress is being made in some areas such as reporting on purpose and detailing how purpose is aligned with business practices/business models. For the rest of the individual disclosure items, smaller but positive changes were found.

Many companies were found to disclose some general information regarding their culture (67% in 2021/22 compared to 51% in 2019/20). Whilst almost half of companies (46%) were found to identify their values, only 16% offered any detail on what their values mean and only 7% discussed the process in place to ensure that behaviours are aligned with culture. Further, only 6% disclosed how values guide decision making at Board level.

On a more positive note, improvements were found in the number of companies disclosing which individuals on the board are involved in the oversight of culture (40% in 2021/22 compared to 28% in 2019/20).

A similar level of strategy-related disclosures was found in the 2021/22 analysis compared to 2019/20, with half of companies (50%) disclosing their strategy. It was also encouraging to find that the percentage of companies disclosing the connection between their strategy and purpose increased (from 11% in 2019/20 to 28% in 2021/22) as did the connection between its strategy and culture (from 7% in 2019/20 to 27% in 2021/22). However, fewer companies discussed how their strategy was implemented throughout the organisation.

How companies can improve the way they disclose Principle One

Focus group participants found Principle One disclosures to be the least informative among the six Principles as it was often the case that companies follow the form but not the substance of the Principle. For example, while companies referred to culture broadly, there was often no meaningful discussion of how their culture is embedded in their organisation. Participants were surprised by the relative absence of meaningful disclosure around culture and values and felt that reporting on this area was seen as a compliance exercise. Participants agreed that many companies failed to explain how a company's culture is embedded in their workforce and emphasised that culture should run through the organisation and not only at the top.

To improve reporting on culture and values, participants felt that a focus on outcomes-based reporting would provide more insightful reports. Giving examples of actions and decisions made by the board and linking this to their company purpose will give a more meaningful picture of a company's strategy. An example of this can be seen below.

> 'The Company remains committed to integrating ESG considerations into its decisions and strategy and building a more sustainable environment for everyone. The xxx Group delivered on its pledge to be carbon neutral in 2021, through the reduction of greenhouse gas emissions in its own operations and the purchase of verifiable offsets'."

Participants also felt it would be valuable to understand how companies balance their short-term goals with their long-term visions. It was also suggested that a statement from the Chair which pulls together and demonstrates how the board brings different pieces of the governance structure together in making decisions would be a useful way to connect a company's strategy and governance. This may reflect a specific aspect or workstream (eg., a review of remuneration policies; linking purpose to strategy/values/culture) and in doing so, provide more specific evidence on how the Board meets its responsibilities and remains accountable to the company's shareholders/stakeholders.

5.3.2 Principle Two: Board Composition

Overview

Principle Two refers to board-related matters such as the role and responsibilities of the board Chair, the diversity of the Board, the size and structure of the board and the effectiveness of the board. An effective board is likely to make good decisions that lead to the long-term success of a company if they have a balance of perspectives and the right breadth of relevant skills.

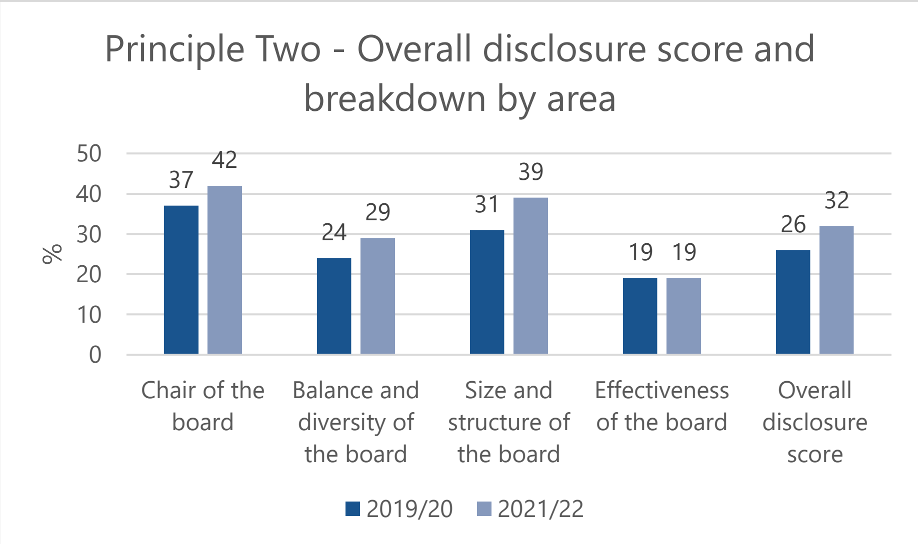
Many focus group participants highlighted the usefulness of information that companies provided about their board evaluations. They felt these disclosures can be particularly valuable when companies report meaningfully on the outcomes of the review by highlighting the themes of the issues that were identified, the actions that they implemented and what the impact of these actions were. Although there is no requirement for private companies to have annual board performance reviews, the Wates guidance suggests that regular evaluation of the Board is useful.

The governance professionals focus group further discussed the value that they found in disclosures about board attendance, training offered to the executives and executives' participation in committees. It was also emphasised in the civil society focus group how useful it is when the stated purpose of a company is connected with how its board is structured.

Board Composition disclosures

Figure 2 shows that overall companies have improved their disclosures of board-related matters. Of the four disclosure areas within this Principle, an improvement in disclosure scores was observed in three areas: Chair of the board, balance and diversity of the board, and size and structure of the board.

Figure 2.



Quality of disclosures

Our research found that three-quarters of companies (73%) disclosed information about the Chair. Slight improvements were also found in the percentage of companies disclosing the roles and responsibilities of the Chair, and whether the Chair is also a CEO. However, no change was found in the percentage of companies disclosing information on how the Chair promotes open debate and facilitates constructive discussion Companies are encouraged to disclose this under Principle Two of the Wates Principles.

While fewer companies were found to disclose information about their board's diversity (57% in 2021/22 compared to 75% in 2019/20), improvements were found in other areas related to balance and diversity. Those disclosing the set of characteristics that allow the board to achieve effective decision-making increased (from 12% in 2019/20 to 23% in 2021/22), and those disclosing how the board understands the company's business needs and stakeholder interests also increased (from 12% in 2019/20 to 41% in 2021/22). It was also encouraging to find that 26% of companies included examples of initiatives started/groups created to promote Diversity & Inclusion (D&I) compared to only 8% in 2019/20.

Most companies (90%) were found to disclose information about their board's size and structure. Those disclosing information about how they evaluate the suitability of a board's size and structure also increased (from 23% in 2019/20 to 43% in 2021/22).

54% of companies were found to disclose information about their board effectiveness. The percentage of companies making more specific disclosures remained effectively unchanged including those relating to how the board evaluates its effectiveness, how it acts on the evaluation, the procedures in place to guarantee its directors' objectivity and its board's professional development. No companies were found to disclose how directors embrace professional development opportunities.

How companies can improve the way they disclose Principle Two

Focus group participants found that although some companies provided basic information about the profiles of board members, other companies provided no information at all. Participants were particularly surprised at the lack of discussion around what companies consider when evaluating the independence of directors. They were also disappointed to see that there was a lack of any independent board members. Companies are encouraged to follow the Wates guidance on independence and to disclose in their corporate governance statements whether they consider their non-executive directors to be independent and able to offer constructive challenge.

Focus group participants felt that reporting on diversity would be more meaningful if companies broadened their discussions and considered diversity beyond gender and ethnicity. Investor focus group participants highlighted that when many companies reported on diversity, they provided boilerplate disclosures that gave little insight into what the board do in relation to diversity. An example of better reporting can be seen below.

> "Whilst it is recognized that there is still some way to go in this area, the appointment of XXX as an independent Non-Executive Director in June, is regarded as further progress in terms of improving gender diversity. XXX brings a wealth of experience in industry, government, the energy sector and climate change."

5.3.3 Principle Three: Director Responsibilities

Overview

Principle Three aims to promote the board and directors' understanding of their responsibilities, their accountability and effective decision-making. Board committees are integral in supporting effective decision making and offer additional oversight.

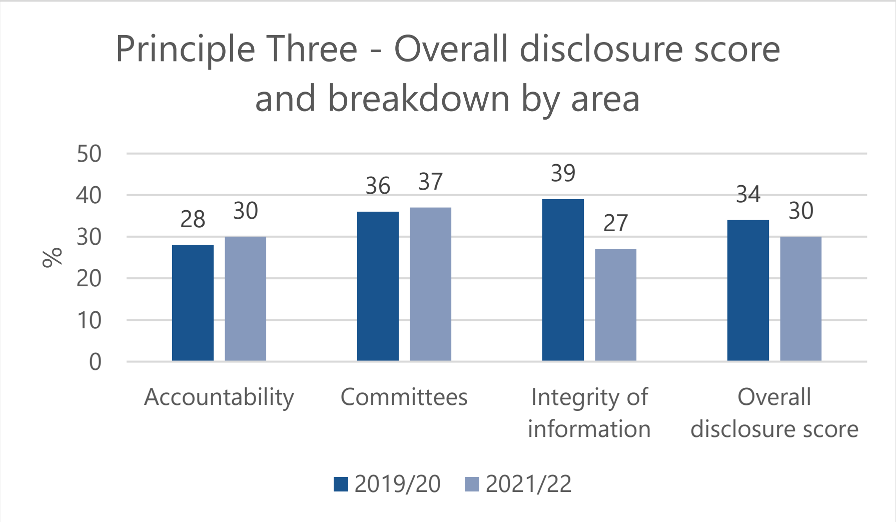
Focus group participants emphasised the importance of companies providing information about their committees and their responsibilities. Investor focus group participants found the discussions about the external and internal audits to be useful. Civil society focus group participants acknowledged the importance of companies ensuring the integrity of their data and how this is audited.

The usefulness of specific disclosures was also highlighted, such as the standing agenda items, potential conflicts of interest, reports from the CEO and CFO, and reports from the group company secretary. Such disclosures enable a deeper understanding of how the organisation functions.

Director responsibilities disclosures

As shown in Figure 3, the current research found that the overall disclosure score for Principle Three was 30% compared to 34% in 2019/20. While there was an increase in companies disclosing information about accountability and committees, fewer companies were found to disclose information about the integrity of information.

Figure 3.



Quality of disclosures

Our research found that 74% of companies disclosed general information about accountability. It was encouraging to find that the percentage of companies disclosing information about the lines of accountability for the board as a whole increased (from 9% in 2019/20 to 19% in 2021/22). Like the 2019/20 research, few companies disclosed outcomes of their board evaluation process looking back and looking forward.

72% of companies disclosed the delegation of some board functions to committees. Of those that did disclose this information, 79% discussed the functions and authorities delegated to the committees. A third of companies (33%) also discussed the means adopted to ensure the independence of the committees. Another small but positive increase was observed in the percentage of companies discussing whether board members have relevant experience/skills.

In terms of integrity of information, fewer positive disclosures were observed. The percentage of companies disclosing the sources of information its board relies on decreased (from 70% in 2019/20 to 56% in 2021/22). As found in 2019/20 research, only 3% of companies disclosed their information systems in place, although 26% of companies did discuss how these systems ensure the quality and integrity of information.

How companies can improve the way they disclose Principle Three

Focus group participants acknowledged that it can be challenging to report on directors' individual responsibilities and private companies may have less or no committees compared to listed companies. However, committees can ease the burden on boards and support effective accountability. The board has a collective responsibility, and companies of this size may not have a number of committees, for example, a Nomination Committee. Having such committees can sometimes support more effective processes.

Some focus group participants identified that the main reason for poor disclosures on directors' responsibilities is that there is a lack of transparency about who is on the board and what their roles are. By clarifying these aspects, companies would be able to improve their reporting on responsibilities. Participants also suggested that individual committee reports should be included in annual reports and an introductory letter from the committee chair.

The relationship between a parent company and its subsidiaries was of particular interest to many focus group participants. Subsidiaries were found to disclose very little information about their own board and the demarcation of responsibilities and accountability between the parent's and the subsidiaries' boards. The regulation applies to individual entities and subsidiaries should report on their own governance arrangements and be transparent about their relationship with the parent company.

5.3.4 Principle Four: Risk and Opportunities

Overview

Principle Four introduces recommendations concerning the processes in place to identify opportunities to promote long-term value creation and manage risks. Identifying and managing a company's risks are integral in ensuring the effective development of a company's strategic objectives and enabling them to gain opportunities in order to succeed.

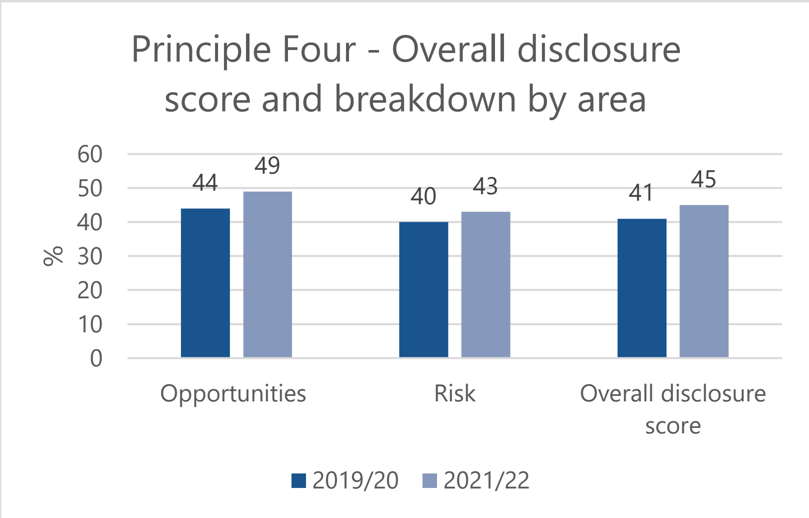
Focus group participants stressed the importance of reporting on risks and referred to specific types of risks and opportunities, such as sustainability, climate transition, health and safety, and reputational, which they found useful. They explained that it would be useful if the discussion of risks and opportunities could be backed by data and relevant KPIs.

The Wates Principles highlight the importance of cross-referencing to avoid duplication within companies' annual reports. In line with the findings of the 2019/20 research, Principles Four and Six were found to have the highest levels of cross referencing. This is likely to be due to information on risk and stakeholders already being reported in other parts of the annual report.

Risk and opportunities disclosures

As shown in Figure 4, the current research found that the overall disclosure score of risks and opportunities increased to 45% from 41% in 2019/20, an increase driven mostly by the disclosure of opportunities.

Figure 4.



Quality of disclosures

A slight increase was found in the percentage of companies disclosing some general information about their corporate opportunities. The percentage of companies discussing what processes the company has in place to identify future opportunities also increased (from 43% in 2019/20 to 58% in 2021/22). A small but positive increase was further observed in the percentage of companies discussing how the board is involved in considering and assessing how the company creates value over the long term. As found in the 2019/20 research, only 11% of companies gave examples of opportunities discussed at board level.

It was encouraging to find that more than 90% of companies disclosed information about their risk management. 38% of companies discussed their material/principal risks, which increased slightly from 34% since 2019/20. Other improvements were found in the percentage of companies discussing roles and responsibilities in relation to developing the company's risk management systems (increasing from 58% in 2019/20 to 66% in 2021/22). Further, those discussing roles and responsibilities in relation to determining the nature and extent of the company's principal risks increased since the 2019/20 research (from 31% in 2019/20 to 40% in 2021/22). As found in the 2019/20 research, 64% discussed roles and responsibilities in relation to agreeing to a monitoring and review process.

50% of companies discussed their internal communication channels on risk information, however only 3% discussed external communication channels. It was also found that only 3% of companies discussed the use of a scenario analysis in risk assessment.

How companies can improve the way they disclose Principle Four

There was a consensus among all focus group participants that companies engage more in discussing risk than opportunities. One participant from the civil society focus group suggested that companies may be parsimonious in their discussion around opportunities because of the danger of disclosing sensitive commercial information. Companies are encouraged to discuss the processes that they have in place to identify opportunities. To enhance reporting on opportunities, some governance professionals suggested that listing opportunities would enable readers to understand what the board considers important opportunities.

The governance professionals focus group specifically pointed out the usefulness of disclosures on how companies' approach and deal with risks. See the example below.

> "The Board, with the assistance from the Executive Risk Committee ("RC"), is responsible for overseeing how risk is managed and stakeholders are accountable. The RC comprises the EC (equivalent to an operational board) and meets at least twice-a year to formally review each of the Group's principal risks and consider any emerging risks, including those identified within various functions of the Group and escalated to the RC. Each of the principal risks as defined are owned by individual EC members and each prepares a dashboard which summarises the Group's exposure, what is in place to manage the risk and planned further measures for each meeting. A twice-yearly report is provided to the Board reporting on changes to the Group's risk profile, following this review."

A few participants highlighted that they would have liked to see more about the effectiveness of controls in place to identify and tackle risks. Civil society focus group participants found some of the disclosures on companies' risks to be detailed enough and to give a good overview of the risks companies are facing.

Some companies disclosed information about their risks in other parts of their annual report. Participants felt that the cross references from the corporate governance sections to other parts of the reports could be improved with better signposting to make the report more user-friendly.

5.3.5 Principle Five: Remuneration

Overview

Principle Five encourages companies to promote executive remuneration structures aligned to their long-term sustainable success. Clear policies on remuneration structures should enable effective accountability to shareholders.

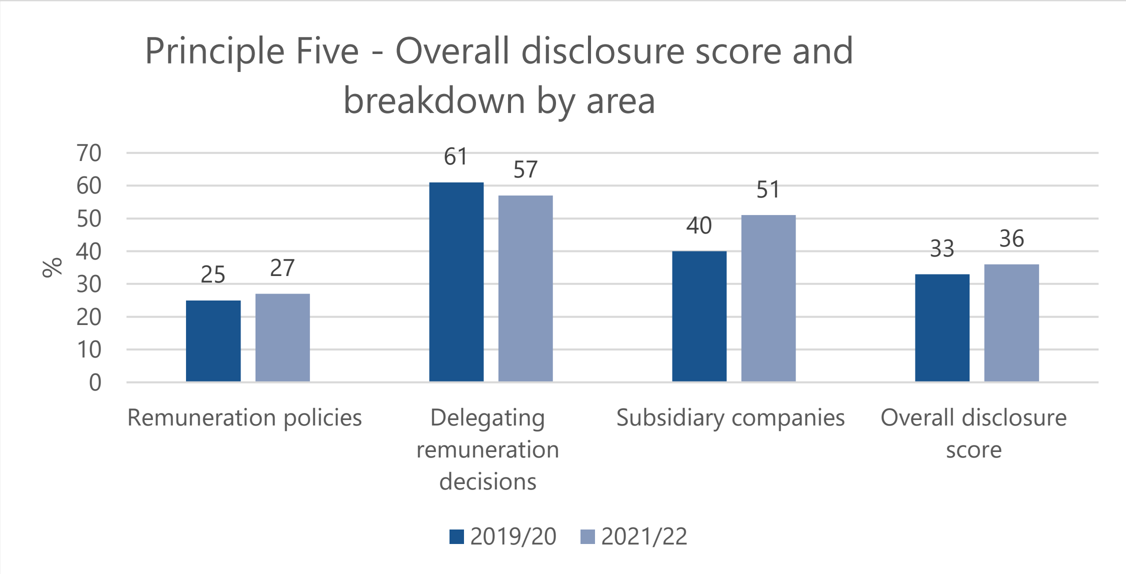
The investor focus group stated that disclosures about CEO and board salaries are highly beneficial, particularly when firms offer information about the gender pay gap in their workforce and a comparison of the chief executive's remuneration to that of company employees.

The governance professionals and civil society focus groups discussed the importance of companies relating their performance assessment and remuneration with their values and culture. It was also suggested that a discussion of the rationale behind a company's remuneration is very important to stakeholders.

Remuneration disclosures

As shown in Figure 5, the current research found that the overall disclosure score for Principle Five increased to 36% from 33% in 2019/20. An increase was also found in the average disclosure score of remuneration policies and subsidiary companies.

Figure 5.



Quality of disclosures

Most companies (79%) disclosed general information about their remuneration policies, structures and practices. While disclosures of general information relating to remuneration policies was high, the extent of disclosures on more specific information was substantially lower.

Around a third of companies discussed how the remuneration structures for directors and senior managers are aligned with the company's performance and 41% gave a rationale or explanation of their remuneration structures. However, the percentage of companies discussing how the remuneration structures for directors and senior managers are aligned with the company purpose/values/strategy remained low (but did show an increase from 4% in 2019/20 to 11% in 2021/22).

Only 16% of companies discussed how the company's remuneration policies take account of practices in the sector (a decrease from 33% in 2019/20). Furthermore, only 7% discussed pay ratios on a voluntary basis (i.e., gender pay ratios/ managers-employee ratios). While there was a slight increase in the number of companies that gave examples of the remuneration decision-making process, this remained low at only 4%.

Most companies (80%) disclosed information about remuneration decisions with 65% disclosing whether there is a remuneration committee. However, of those that had a remuneration committee, only 28% discussed the independence of its participants compared to 37% in 2019/20.

A substantial increase was found in the percentage of subsidiary companies that disclosed whether they rely on the parent's remuneration policy (from 66% in 2019/20 to 89% in 2021/22), 14% of which cross-referenced in their corporate governance statement to the parent company's policy.

How companies can improve the way they disclose Principle Five

Focus group participants were largely in agreement that companies provided rather vague information and did not address the central question of "*what is your philosophy on pay?*" It appeared that some companies provided information about the remuneration given in tables but almost all companies failed to connect their remuneration with their purpose, strategy, and values. That renders such disclosures uninformative as the reader cannot evaluate whether the payments are aligned with the long-term goals of the organisation. Alignment to strategy is not only weak amongst private companies. The FRC in the Annual Review of Corporate Governance Reporting found that only 68% of premium listed companies in the sample stated that their performance measures were aligned to their company strategy. An example of better reporting on this can be seen below.

> "The remuneration policy is aligned with the business strategy, objectives, values and long-term interests of (the company). The policy supports a culture where individual are rewarded for delivering sustained performance in line with risk appetite and for demonstrating the right conduct and behaviours."

To improve the quality of reporting on remuneration, focus group participants felt that companies should disclose more information when discussing directors' remuneration in light of workforce pay.

5.3.6 Principle Six: Stakeholder Engagement

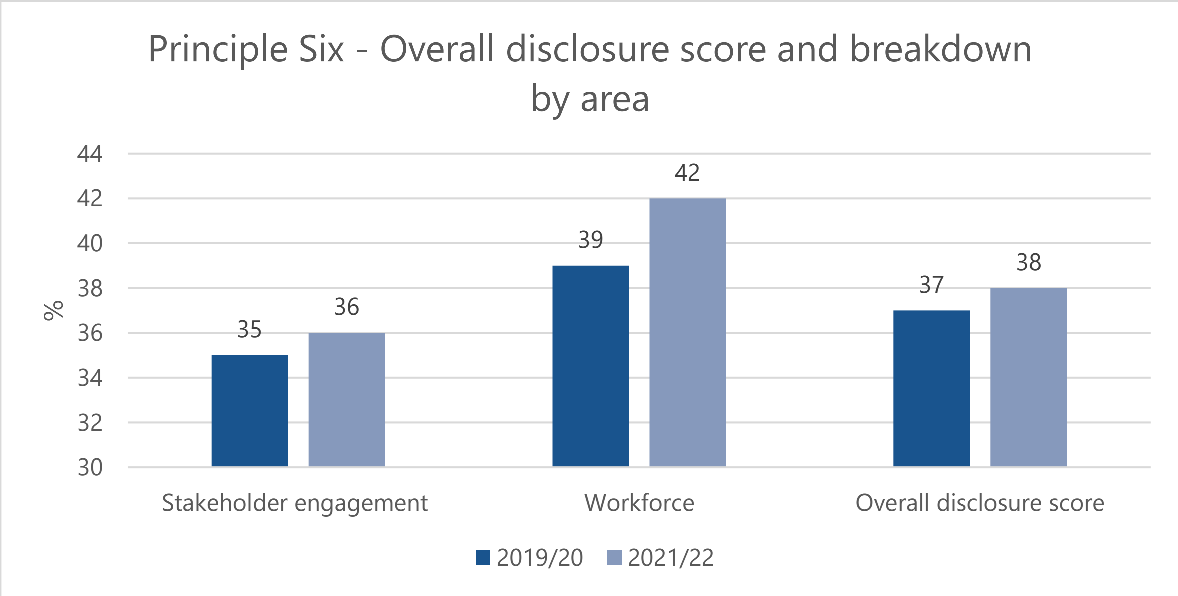
Overview

Principle Six introduces recommendations aimed at promoting effective relationships and engagement with corporate stakeholders, including the workforce. Stakeholder engagement forms an integral part of building a positive company culture. An effective board will be proactive in ensuring that they have a two-way dialogue with stakeholders and that stakeholder views are considered in board decision making.

As mentioned under Principle Four, our research found that Principle Four and Six had the highest levels of cross referencing. It was found that 38% of companies used cross references to Section 172. of the Companies Act 2006 disclosures when explaining Principle Six.

Focus group participants emphasised the usefulness of companies identifying their stakeholder groups and discussing what the needs of each group are to get a good understanding of how companies approach their stakeholder groups differently.

Figure 6.



Quality of disclosures

Similar to the 2019/20 research, 90% of the companies disclosed some general information about their relationship and engagement with their stakeholders, and 86% of companies indicated who their stakeholders are. The percentage of companies disclosing how the board has a dialogue with these stakeholders, to understand the effects of company policies and practices, remains low but has increased since the 2019/20 research (8% in 2019/20 to 16% in 2021/22). An increase was also observed in those disclosing how the board has a dialogue with stakeholders to help inform future developments and trends and re-align strategy (from 20% in 2019/20 to 27% in 2021/22).

Around half of the companies discussed what formal and informal channels are there to receive appropriate feedback from stakeholder discussions (excluding workforce). However, it was disappointing to find that only 5% of companies discussed how dialogue with stakeholders has impacted board decision-making. Similarly, only 5% of companies provided examples of how engagement has helped inform decisions at the board level.

Most companies (91%) disclosed some general information about their relationship and engagement with their workforce. In comparison to the 2019/20 research, the percentage of companies disclosing the nature of dialogue the board has with their workforce, to predict future developments and trends, and re-align strategy almost doubled (form 13% in 2019/20 and 25% in 2021/22). More than two thirds discussed what formal and informal channels are used to foster two-way dialogue with the workforce. For example, one company conducted regular listening sessions with executive leaders around the business. This remained consistent across reporting years. The disclosure of the dialogue the board has with the workforce to understand the effects of company policies and practices (20%), how this dialogue impacted board decision-making (9%), and the procedures in place for raising concerns (36%) have remained at similar levels since the 2019/20 research.

How companies can improve the way they disclose Principle Six

Focus group participants were seeking disclosures that indicate how the board identified their key stakeholders, how they engaged with them, and finally, how they used that information to create long-term decisions in the interest of those stakeholders and the company as a whole. An example of good reporting on this can be seen below.

> “The 'Colleague Listening Strategy' - which includes colleague. opinion surveys; a Colleague Advisory Panel that connects colleagues directly with the Board; the 'Colleague· Experience Squad', a group of colleagues who volunteer to provide feedback on colleague products and services; and 'Workplace', (the company's) social media platform - contributes to a deeper understanding of colleague sentiment.”

The investor focus group participants found this Principle to have the most insightful disclosures of all six Principles. Governance professionals focus group participants found it particularly useful when Section 172. disclosures were cross referenced in the corporate governance statement and commented that using an example which refers to a ‘real case’ within the company about how stakeholders are considered is a good reporting practice. Participants expressed that there were insightful discussion about workforce-related disclosures but felt that this was at the expense of discussing other stakeholders. Companies should take a broader view of their stakeholders and for example, consider the impacts of their operations on the communities in which they operate.

Reporting on outcomes of stakeholder engagement is necessary to demonstrate to users of reports that the board have considered stakeholder views in their decision making. Companies are encouraged to give specific examples of actions they have taken as a result of issues raised by a stakeholder group and explain whether this action has had the desired impact.

6. Similarity of Corporate Governance statements

The previous findings of the 2019/20 research indicated that many companies provided generic statements about their corporate governance arrangements in relation to the six Wates Principles. A generic corporate governance (CG) statement is unlikely to offer any insight and leaves the reader uncertain about the governance activities within a company.

The Regulations require companies to provide information on their own corporate governance arrangements, rather than those of other companies within their business group.

In the current research, those companies that applied the Wates Principles were assessed against two quality attributes of corporate governance reporting, to determine the use of boilerplate disclosure and the specificity of information used to explain the application of the Wates Principles.

A similarity score equal to the percentage of text that was similar to other sources was calculated. The higher the score, the higher the use of boilerplate disclosure. The lower the score, the more information about the specific circumstances that a company provides in its disclosure.

Four groups of similarity were calculated.

a) Similarity between the 2021/22 CG statement published by a company in comparison to the 2021/22 CG statements published by other companies that applied the Wates Principles.

b) Similarity between the 2021/2022 CG statement published by a company in comparison with the 2021/2022 CG statements published by other companies that applied the Wates Principles and belong to the same business group (i.e., companies that are controlled by the same entity).

c) Similarity between the 2021/2022 CG statements published by a company and the 2019/2020 CG statements published by the other companies that applied the Wates Principles.

d) Similarity between the 2021/2022 CG statement published by a company that applied the Wates Principles and the 2019/2020 CG statement published by the same company.

Table 1 reports the results on the use of boilerplate disclosure by the Wates adopters in 2021/22 and shows the presence of an overall high level of similarity between the CG statements published by the companies that adopted the Wates Principles.

Table 1 – Descriptive statistics for the similarity analysis, 2021/2022

Similarity Tests	Obs.	Min.	Q25	Q50	Q75	Max.	Mean	SD
Group (a)	547	16%	50%	56%	59%	65%	54%	0.09
Group (b)	125	25%	77%	93%	99%	100%	85%	0.19
Group (c)	547	16%	51%	57%	61%	67%	55%	0.09
Group (d)	261	26%	85%	94%	98%	100%	88%	0.15

Note: The table shows the descriptive statistics for the four similarity analyses we performed. Group (a) is measured as the average cosine similarity of a firm's 2021/22 CG statement with the CG statements published in the same period by the other firms that adopted the Wates Principles. Group (b) is measured as the average cosine similarity of a firm's 2021/22 CG statement with the CG statements published in the same period by firms that are controlled by the same entity/group which also adopted the Wates Principles. Group (c) is measured as the average cosine similarity of a firm's 2021/22 CG statement with the CG statements published by the firms that adopted the Wates Principles in 2019/2020 and were analysed in Gaia et al. (2022). Group (d) is measured as the cosine similarity of a firm's 2021/22 CG statement with the CG statements published by the same company in 2019/2020.

High scores in groups (a) and (c) are indicative of companies mimicking previous or current disclosures provided by other companies on how the Wates Principles have been applied. High scores in group (b) are indicative of companies mimicking the disclosures provided by other companies that belong to the same group. High scores in group (d) are indicative of companies mimicking the same disclosure they provided in previous years.

A high average level of similarity (85%) in group (b) was found indicating that companies operating in the same business group tend to produce almost identical corporate governance statements and do not contextualise them to the individual company's circumstances. Similarly, group (d) had a high average level of similarity (88%) also indicating that companies are providing the same disclosure they provided in previous years.

It was found that groups (a) and (c) had almost the same average level of similarity (54% and 55%).

While it is understandable that companies are looking to learn from other similar businesses with high quality reporting, the Wates Principles do encourage companies to report on information specific to their strategy and business model.

7. Conclusion

In conclusion, this research project has highlighted the value that a range of stakeholders find in high quality corporate governance statements and has outlined some positive aspects of reporting that have improved since the previous research. The insights from the focus groups showed unanimous interest in the usefulness of the Wates Principles disclosures, primarily in terms of conveying the trustworthiness of the purpose, strategy, and governance. Specific disclosures and information related to board activity, director responsibilities, risk and stakeholder engagement were commended because they demonstrate high levels of accountability and transparency. However, this report shows that the quality of disclosures remains similar to the first year of reporting. We hope that companies use this report to improve reporting and demonstrate good practice going forward.

8. References

Bozanic, Z. and Thevenot, M., 2015. Qualitative disclosure and changes in Sell-Side financial analysts' information environment. *Contemporary Accounting Research*, 32(4), pp.1595-1616. https://doi:10.1111/1911-3846.12123

Brown SV and Tucker J.W. 2011. Large-sample evidence on firms' year-over-year MD&A modifications. *Journal of Accounting Research*, 49(2), pp. 309–346.

Dyer, T.A., Roulstone, D.T. and Van Buskirk, A., 2023. Disclosure similarity and future stock return comovement. *Management Science*.

Gaia, S., Baboukardos, D., Cuomo, F., Michelon, G. and Soobaroyen, T., 2022. *The Wates corporate governance principles for large private companies: the extent, coverage and quality of corporate governance reporting*. Available at: https://www.frc.org.uk/getattachment/e8759f3d-d189-448e-979a-f6bb6d335c83/The-Wates-Corporate-Governance-Principles-for-Large-Private-Companies_Februrary2022.pdf

Holder-Webb, L. and Cohen, J., 2012. The cut and paste society: Isomorphism in codes of ethics. *Journal of Business Ethics*, 107, pp.485-509.

Morgan, D. L. (1997). *Focus groups as qualitative research* (2nd ed.). Thousand Oaks, CA: Sage.

O'hEocha, C., Wang, X. and Conboy, K., 2012. The use of focus groups in complex and pressurised IS studies and evaluation using Klein & Myers principles for interpretive research. *Information Systems Journal*, 22(3), pp.235-256.

Shrives, P.J. and Brennan, N.M., 2015. A typology for exploring the quality of explanations for non-compliance with UK corporate governance regulations. *The British Accounting Review*, 47(1), pp.85-99.

Sutton, S.G. and Arnold, V., 2013. Focus group methods: Using interactive and nominal groups to explore emerging technology-driven phenomena in accounting and information systems. *International Journal of Accounting Information Systems*, 14(2), pp.81-88.

9. Annex A

Methodology

This research project was done in four phases. The first phase aimed at identifying the companies within the scope of the Regulations that have provided information about their corporate governance practices and the corporate governance codes adopted, if any. The annual reports of all companies within the scope of the Regulations with a financial year-end between June 2021 and May 2022 were retrieved from the Companies House database. These annual reports were examined to ascertain the presence of a statement (or section) reporting on 'corporate governance arrangements' and whether the company applied a formal corporate governance code and, if so, which one(s).

The second phase focused only on a sample of companies that declared their reliance on the Wates Principles to define their corporate governance arrangements. This included all companies that were found to adopt the Wates Principles in the first year of adoption of the principles (see Gaia et al., 2022) which were still within the scope of the regulation in 2021/2022, and a sample of an additional 20% of new companies that were found to adopt the Wates Principles in 2021/2022. The statements regarding the corporate governance arrangements[4] of these companies were further analysed using the coding scheme developed by Gaia et al. (2022) to evaluate the extent of disclosure provided on how they had applied the Wates Principles.[5]

The third phase of the research project focused on all the companies that declared their reliance on the Wates Principles to define their corporate governance arrangements in 2021/2022. It aimed at assessing two quality attributes of corporate governance reporting: the use of boilerplate disclosure to explain the application of the Wates Principles. To investigate the above points, the narratives disclosed within the Corporate Governance statements were extracted and analysed using R and Python.

The first attribute, i.e. the use of boilerplate disclosures, indicates companies not reflecting on their circumstances but on those of someone else (Shrives and Brennan, 2015). For each corporate governance statement, a similarity score equal to the percentage of text that was similar to other sources was calculated (Holder-Webb and Cohen, 2012; Shrives and Brennan, 2015). The higher the score, the higher the use of boilerplate disclosure and the lower the use of information about the specific circumstances that a company provides in its disclosure. Four types of similarity scores were calculated:

a) Similarity score between the 2021/2022 Corporate Governance statement published by a company in comparison with the 2021/2022 Corporate Governance statements published by other companies that applied the Wates Principles.

[4] In line with Gaia et al. (2022), we considered only the disclosures provided within the Corporate Governance Statements. Other parts of the annual reports were analysed only when companies provided a clear cross-reference to these sections.
[5] Please see Section 4 and Appendix 1 of Gaia et al. (2022) for more details on the research methodology used.

b) Similarity score between the 2021/2022 Corporate Governance statement published by a company in comparison with the 2021/2022 Corporate Governance statements published by other companies that applied the Wates Principles and belong to the same business group (i.e., companies that are controlled by the same entity).

c) Similarity score between the 2021/2022 Corporate Governance statements published by a company and the 2019/2020 Corporate Governance statements published by the other companies that applied the Wates Principles.

d) Similarity score between the 2021/2022 Corporate Governance statement published by a company that applied the Wates Principles and the 2019/2020 Corporate Governance statement published by the same company.

These scores allow an assessment of a company's corporate governance disclosure as to whether it reflects its own "current" (i.e., 2021/2022) circumstances or uses generic language that can apply to other companies, companies that belong to the same business group, or other periods. High scores in (a) and (c) are indicative of companies mimicking previous or current disclosures provided by other companies on how the Wates Principles have been applied. High scores in (b) are indicative of companies mimicking the disclosures provided by other companies that belong to the same group. High scores in (d) are indicative of companies mimicking the same disclosure they have provided in previous years on how they applied the Wates Principles, indicating that their disclosures are not primarily related to their current context/circumstances.

To calculate the above similarity scores, we proceed as follows. We extracted the text of the Corporate Governance statements for each report and removed any "stop-words" which do not add to the estimation of the similarity score (Bozanic and Thevenot, 2015). Then, we estimate the textual similarity of the corporate governance statements by using the cosine similarity (e.g., Brown and Tucker 2011; Dyer et al., 2023) to calculate each of the four different similarity scores. Cosine similarity measures the similarity between two vectors of words, the first being the words used in a given corporate governance statement and the second being the words used in the matched corporate governance statement (i.e., a corporate governance statement published by another company in 2021/22, a corporate governance statement published by another company belonging to the same business group in 2021/22, a corporate governance statement published by another company in 2019/2020, a corporate governance statement published by the same company in 2019/20). Both vectors of words count the frequency of words in the respective corporate governance statement. Cosine similarity is measured by the cosine of the angle between two vectors and determines whether two vectors are pointing in roughly the same direction. Cosine similarity ranges between 0 (texts are dissimilar) and 1 (the two texts are exactly similar).

The fourth phase of the research project aimed at evaluating the usefulness of the corporate governance information disclosed by the companies that adopted the Wates Principles. This was assessed with the use of focus groups, which represents a "research technique that collects data through group interaction on a topic determined by the researcher" (Morgan, 1997: p. 6) and involves a group of participants and one or more moderators (O'hEocha et al., 2011). They provide an opportunity to probe issues in more depth which provides a source of rich data, as the researchers can enquire further into the complexity of issues underlying the interpretation of corporate governance information in the annual report, and the perspective of users of such information (Sutton and Arnold, 2013).

We run four focus groups with a total of 18 participants, ranging from 4 to 6 per focus group. Each focus group included a specific stakeholder group: investors (4), regulators (4), governance professionals (6) and members of civil society (4). This wide range of participants was chosen as it helped to gather different views and opinions that reflect different perspectives on the usefulness of the disclosure companies provide in their corporate governance statements. At the same time, the participants' profile was carefully selected to ensure they had a good understanding and experience of corporate governance disclosures. Each participant to a focus group was provided, before the focus group meeting, with extracts of the corporate governance statements of ten companies that apply the Wates Principles, which were selected to provide the participants with a variety of different types of disclosures from different industries and ownership structures. During the focus group, the participants were asked questions to understand how they use corporate governance information in their decision-making process, how they evaluate the disclosures provided in relation to the six Wates Principles and the structure/organisation of the corporate governance statements.

The focus groups took place online via Microsoft Teams in September and October 2023. They lasted between 90-120 minutes. The focus groups were recorded, and automatic transcriptions were generated by Microsoft Teams. The accuracy of the transcriptions was checked by a research assistant who coded them into relevant research themes.

Sample selection

Using the data available from the Fame database for the 2021/2022 financial year, the FRC identified 1,815 UK large private companies likely to fall under the scope of the Regulation. The annual reports of these companies were searched for in the Companies House online database, and a further three companies were excluded because their annual reports were not available. As a result, 1,812 companies and their annual reports were analysed for Part A. The corporate governance statements of all the companies applying the Wates Principles in 2021/22, coming to a total of 547 companies, were analysed in Part B to evaluate the boilerplate and specificity of the information disclosed. Whereas to evaluate the extent of the information disclosed for Part C only a sample of these reports was analysed. This sample includes 324 corporate governance statements composed of a) 268 reports, representing all the corporate governance statements published by the companies that were found to have applied the Wates Principles in 2019/20 by Gaia et al. (2022) and b) 56 reports, representing 20% of the remaining 279 corporate governance statements that were not analysed by Gaia et al. (2022).

Table1: Sample Selection

Number of companies within the scope of the Regulations	1,815
Number of companies with no available annual report on the Companies House website	(3)
Total companies analysed for Part A	**1,812**
Number of companies excluded, as they did not use the Wates Principles	(1,265)
Total companies that adopted the Wates Principles and analysed for Part B (268 + 279)	**547**
• Companies that adopted Wates Principles in 2019/2020 analysed by Gaia et al. (2022) and analysed again for Part B in respect of their 2021/2022 annual reports	**268**
• Companies that did not adopt the Wates Principles in 2019/2020 or had a financial year-end from April to November and were not analysed by Gaia et al. (2022)	279
- 20% of the companies selected from above list (20% x 279)	**56**
Final sample of companies that adopted the Wates Principles and analysed for Part C (268 + 56)	**324**

10. Annex B

1.1 Principle One

Table b1: Principle One - Disclosures related to purpose.

		No (%) of disclosing companies	
		2019/20	2021/22
AQ1.	Does the company disclose its purpose within the corporate governance section of its AR? (0/1)	157 (45%)	194 (60%)
AQ2	Does the company discuss:		
	A the link between behaviours and purpose? (0/1)	3 (1%)	12 (4%)
	B if its purpose is aligned with business practices/business model? (0/1)	6 (2%)	55 (17%)
	C the processes that are in place for the board to obtain a clear understanding of shareholder views on the company's purpose? (0/1)	4 (1%)	0 (0%)
	D the processes that are in place for the board to build positive relationships with stakeholders by engaging in dialogue with them in relation to the company's purpose? (0/1)	27 (8%)	40 (12%)
	E the processes that are in place for the board to incorporate shareholders'/stakeholders' views into its decision-making process in relation to the company's purpose? (0/1)	2 (1%)	15 (5%)

Table b2: Principle One - Disclosures related to values and culture.

			No (%) of disclosing companies 2019/20	2021/22
BQ1.	Does the company disclose its culture?		178 (51%)	217 (67%)
BQ2.	Does the company:			
	A	identify its values (i.e. a list of values)? (0/1)	145 (42%)	14 (46%)
	B	explain what their values mean? (0/1)	59 (17%)	53 (16%)
	C	how values guide decision making at Board level (0/1)	5 (1%)	19 (6%)
	D	discuss about its attitudes and/or behaviours? (0/1)	76 (22%)	66 (20%)
	E	discuss the process in place to ensure that behaviours are aligned with culture? (0/1)	93 (27%)	24 (7%)
	F	discuss who is involved in the management of culture? (0/1)	99 (28%)	128 (40%)
	G	discuss how information relating to culture is passed to the board?(0/1)	46 (13%)	47 (15%)
	H	discuss how the board monitors the company's culture? (0/1)	18 (5%)	52 (16%)

Table b3: Principle One - Disclosures related to strategy.

			No (%) of disclosing companies 2019/20	2021/22
CQ1.	Does the company disclose its strategy?		177 (51%)	161 (50%)
CQ2.	Does the company discuss:			
	A	how it implements its strategy throughout the organisation? (0/1)	63 (18%)	23 (7%)
	B	the connection between its strategy and its purpose? (0/1)	37 (11%)	91 (28%)
	C	the connection between its strategy and its culture? (0/1)	26 (7%)	86 (27%)

1.2 Principle Two

Table b4: Principle Two - Disclosures related to the chair of the board.

			No (%) of disclosing companies 2019/20	2021/22
AQ1.	Does the company disclose information about the Chair? (0/1)		202 (58%)	235 (73%)
AQ2.	Does the company discuss[a]			
	A	What the roles and responsibilities of the Chair are? (0/1)	104 (31%)	110 (34%)
	B	How the Chair promotes open debate and facilitate constructive discussion? (0/1)	10 (3%)	11 (3%)
	C	Whether the Chair is also the CEO? (0/1)	177 (52%)	189 (59%)

Note: For the area 'Chair of the board', items in AQ2 were not applicable to seven companies in 2019/20 and to one company in 2021/22 as they did not have a Chair. Therefore, for these companies, the score for 'Chair of the board' was computed by considering only the disclosure made in AQ1.

Table b4: Principle Two - Disclosures related to the balance and diversity of the board.

			No (%) of disclosing companies 2019/20	2021/22
BQ1.	Does the company disclose information about its board's diversity?		260 (75%)	185 (57%)
BQ2.	Does the company discuss:			
	A	the set of characteristics that allow the board to achieve effective decision-making? (0/1)	41 (12%)	73 (23%)
	B	how the board understands the company's business needs and stakeholder interests? (0/1)	42 (12%)	134 (41%)
	C	the efforts to promote diversity in the board? (0/1)	93 (27%)	78 (24%)
	D	broad company diversity and inclusion policy? (0/1)	98 (28%)	88 (27%)
	E	specific targets, for example, those of the Hampton-Alexander review (gender diversity) and McGregor-Smith review (ethnic diversity)? (0/1)	21 (6%)	24 (7%)
	F	any examples of initiatives started/groups created to promote D&I? (0/1)	29 (8%)	85 (26%)

Table b5: Principle Two - Disclosures related to the size and structure of the board.

		No (%) of disclosing companies 2019/20	2021/22
CQ1.	Does the company disclose information about its board's size/structure? (0/1)	261 (75%)	293 (90%)
CQ2.	Does the company discuss:		
	A considerations made to evaluate the suitability of board's size and structure? (0/1)	80 (23%)	140 (43%)
	B how the size and structure of the board facilitate constructive challenge and effective decision-making? (0/1)	68 (20%)	91 (28%)
	C the presence of independent non-executive directors? (0/1)	148 (43%)	155 (48%)
	D the procedure to appoint non-executive directors? (0/1)	38 (11%)	26 (8%)
	E the role of non-executive directors? (0/1)	51 (15%)	59 (18%)

Table b6: Principle Two - Disclosures related to the effectiveness of the board.

		No (%) of disclosing companies 2019/20	2021/22
DQ1.	Does the company disclose information about its board effectiveness?	160 (46%)	174 (54%)
DQ2.	Does the company discuss:		
	A how it evaluates its board's effectiveness? (0/1)	95 (27%)	78 (24%)
	B how the board acts on the evaluation? (0/1)	14 (4%)	20 (6%)
	C the procedures in place to guarantee its directors' objectivity? (0/1)	7 (2%)	2 (1%)
	D the procedures in place for its board's professional development? (0/1)	113 (32%)	101 (31%)
	E how directors embrace professional development opportunities? (0/1)	0 (0%)	1 (0%)

1.3 Principle Three

Table b7: Principle Three - Disclosures related to accountability.

			No (%) of disclosing companies	
			2019/20	2021/22
AQ1.	Does the company disclose information about accountability?		279 (80%)	241 (74%)
AQ2.	Does the company discuss:			
	A	the lines of accountability for the board as whole? (0/1)	30 (9%)	63 (19%)
	B	the lines of accountability for the directors? (0/1)	135 (39%)	66 (20%)
	C	how the board establishes and maintains corporate governance practices that provide clear lines of accountability and responsibility? (0/1)	165 (39%)	144 (44%)
	D	the policies in place to identify and manage conflicts of interest? (0/1)	140 (40%)	139 (43%)
	E	the process in place to periodically review the governance processes? (0/1)	71 (20%)	58 (18%)
	F	any outcomes of its review process looking back (e.g. improvements that have been made to the governance processes)? (0/1)	1 (0%)	11 (3%)
	G	any outcomes of its review process looking forward (e.g. improvements that will be made to the governance processes) (0/1)	5 (1%)	18 (6%)
	H	the corporate governance policies and practices in place to clarify the relationship between the company and its owners? (0/1)	49 (14%)	44 (14%)

Table b8: Principle Three - Disclosures related to committees.

		No (%) of disclosing companies 2019/20	2021/22
BQ1.	Does the company disclose the delegation of some board functions to committees?	264 (76%)	233 (72%)
BQ2.	Does the company discuss (a):		
	A the functions and authorities delegated to the committees? (0/1/NA)	206 (78%)	204 (79%)
	B the means adopted to ensure the independence of the committees? (0/1/NA)	75 (28%)	84 (33%)
	C how these means have improved decision-making? (0/1/NA)	34 (13%)	22 (9%)
	D if members have relevant experience/skills? (0/1/NA)	42 (16%)	55 (21%)

(a) BQ2 disclosure items for committees were not applicable for 84 companies in 2019/20 and 67 companies in 2021/22, as these companies did not set up any committees.

Table b9: Principle Three - Disclosures related to the integrity of information.

		No (%) of disclosing companies 2019/20	2021/22
CQ1.	Does the company disclose the sources of information its board relies on?	245 (70%)	180 (56%)
CQ2.	Does the company discuss:		
	A its information systems in place? (0/1)	10 (3%)	9 (3%)
	B how these systems ensure the quality and integrity of information provided? (0/1)	158 (45%)	83 (26%)
	C if the internal audit support integrity of information? (0/1)	112 (32%)	65 (20%)
	D who assures the company control systems/policies (internally or externally)? (0/1)	147 (42%)	95 (29%)

1.4 Principle Four

Table b10: Principle Four - Disclosures related to opportunities.

		No (%) of disclosing companies 2019/20	2021/22
AQ1.	Does the company disclose information about its opportunities? (0/1)	256 (74%)	245 (76%)
AQ2.	Does the company discuss:		
	A what processes the company has in place to identify future opportunities? (0/1)	149 (43%)	187 (58%)
	B how the board is involved in considering and assessing how the company creates value over the long term? (0/1)	170 (49%)	172 (53%)
	C examples of opportunities discussed at board level? (0/1)	38 (11%)	36 (11%)

Table b11: Principle Four - Disclosures related to risks.

		No (%) of disclosing companies 2019/20	2021/22
BQ1.	Does the company disclose information about its risk management? (0/1)	314 (90%)	298 (92%)
BQ2.	Does the company discuss:		
	A its material/principal risks? (0/1)	118 (34%)	124 (38%)
	B the use of a scenario analysis in its risk assessment? (0/1)	20 (6%)	11 (3%)
	C roles and responsibilities in relation to developing the company's risk management systems? (0/1)	203 (58%)	215 (66%)
	D roles and responsibilities in relation to determining the nature and extent of the company's principal risks? (0/1)	108 (31%)	128 (40%)
	E roles and responsibilities in relation to determining its 'risk appetite'? (0/1)	90 (26%)	96 (30%)
	F its internal communication channels on risk information? (0/1)	153 (44%)	162 (50%)
	G its external communication channels on risk information? (0/1)	12 (3%)	11 (3%)
	H roles and responsibilities in relation to agreeing to a monitoring and review process? (0/1)	229 (66%)	206 (64%)

1.5 Principle Five

Table b12: Principle Five - Disclosures related to remuneration policies.

		No (%) of disclosing companies 2019/20	No (%) of disclosing companies 2021/22
AQ1.	Does the company disclose information about its remuneration policies? (0/1)	270 (78%)	257 (79%)
AQ2.	Does the company discuss:		
	A how the remuneration structures for directors and senior managers are aligned with the company's performance? (0/1)	104 (30%)	96 (30%)
	B how the remuneration structures for directors and senior managers are aligned with the company purpose/values/ strategy? (0/1)	14 (4%)	37 (11%)
	C a rationale or explanation of its remuneration structures? (0/1)	63 (18%)	133 (41%)
	D if the policies on remuneration structures and practices take account of the broader operating context within the company's wider workforce pay and conditions? (0/1)	101 (29%)	86 (27%)
	E if the policies on remuneration structures and practices take account of the broader operating context and company's response to matters such as any gender pay gap?(0/1)	120 (34%)	123 (38%)
	F how company's remuneration policies take account of practices in the sector? (0/1)	114 (33%)	51 (16%)
	G pay ratios on a voluntary basis (e.g. gender pay ratio/ managers employee ration)? (0/1)	34 (10%)	23 (7%)
	H if remuneration levels take into account risks? (0/1)	47 (14%)	45 (14%)
	I examples of the remuneration decision-making process? (0/1)	6 (2%)	14 (4%)

Table b13: Principle Five - Disclosures related to delegating remuneration decisions.

		No (%) of disclosing companies 2019/20	2021/22
BQ1.	Does the company disclose information about remuneration decisions?	265 (76%)	260 (80%)
BQ2.	Does the company discuss:		
	A whether there is a remuneration committee? (0/1)	207 (59%)	212 (65%)
	B if the company has a remuneration committee, does it discuss about the independence of its members? (0/1/NA)(a)	40 (37%)	59 (28%)

(a) Item BQ2b was not applicable to 240 companies in 2019/20 and 113 companies in 2021/22 as these companies did not set up a remuneration committee.

Table b14: Principle Five - Disclosures related to subsidiary companies.

		No (%) of disclosing companies 2019/20	2021/22
AQ1.	Does the company disclose information about its relationship and engagement with its stakeholders? (0/1)	318 (91%)	292 (90%)
AQ2.	Does the company discuss:		
	A who its stakeholders are? (0/1)	300 (86%)	280 (86%)
	B what dialogue the board has with stakeholders (excluding workforce) to understand the effects of company policies and practices? (0/1)	27 (8%)	53 (16%)
	C what dialogue the board has with stakeholders (excluding workforce) to predict future developments and trends, and re-align strategy? (0/1)	70 (20%)	89 (27%)
	D how has this dialogue with stakeholders (excluding workforce) impacted board decision-making? (0/1)	21 (6%)	16 (5%)

	E	what formal and informal channels are there to receive appropriate feedback from stakeholder discussions (excluding workforce)? (0/1)	195 (56%)	166 (51%)
	F	if they follow international standards or frameworks to tackle their environmental, social and/or community impact? (0/1)	35 (10%)	17 (5%)
	G	examples of how engagement has helped inform decisions at the board level? (0/1)	20 (6%)	11 (3%)

1.6 Principle Six

Table b15: Principle Six - Disclosures related to stakeholder engagement.

			No (%) of disclosing companies	
			2019/20	**2021/22**
AQ1.	Does the company disclose information about its relationship and engagement with its stakeholders? (0/1)		318 (91%)	292 (90%)
AQ2.	Does the company discuss:			
	A	who its stakeholders are? (0/1)	300 (86%)	280 (86%)
	B	what dialogue the board has with stakeholders (excluding workforce) to understand the effects of company policies and practices? (0/1)	27 (8%)	53 (16%)
	C	what dialogue the board has with stakeholders (excluding workforce) to predict future developments and trends, and re-align strategy? (0/1)	70 (20%)	89 (27%)
	D	how has this dialogue with stakeholders (excluding workforce) impacted board decision-making? (0/1)	21 (6%)	16 (5%)
	E	what formal and informal channels are there to receive appropriate feedback from stakeholder discussions (excluding workforce)? (0/1)	195 (56%)	166 (51%)
	F	if they follow international standards or frameworks to tackle their environmental, social and/or community impact? (0/1)	35 (10%)	17 (5%)
	G	examples of how engagement has helped inform decisions at the board level? (0/1)	20 (6%)	11 (3%)

Table b16: Principle Six - Disclosures related to workforce.

		No (%) of disclosing companies 2019/20	2021/22
BQ1.	Does the company disclose information about its relationship and engagement with its workforce? (0/1)	288 (88%)	279 (91%)
BQ2.	Does the company discuss:		
	A what dialogue the board has with workforce to understand the effects of company policies and practices? (0/1)	60 (18%)	61 (20%)
	B what dialogue the board has with workforce to predict future developments and trends, and re-align strategy (0/1)	42 (13%)	77 (25%)
	C how has this dialogue impacted board decision-making? (0/1)	28 (9%)	27 (9%)
	D what formal and informal channels are used to engage in meaningful two-way dialogue with the workforce to share ideas and concerns with senior management? (0/1)	221 (68%)	214 (70%)
	E what procedures for raising concerns (for example, speak up and whistleblowing policies)? (0/1)	127 (39%)	110 (36%)

Financial Reporting Council

Financial Reporting Council
8th Floor
125 London Wall
London EC2Y 5AS

+44 (0)20 7492 2300

www.frc.org.uk

Follow us on
LinkedIn
or X [@FRCnews](https://twitter.com/FRCnews)