

2023 Annual review of Corporate Governance Reporting

Podcast Transcript

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Good morning and welcome to another FRC in conversation. My name is Kate O'Neill. I'm the Director of Stakeholder Engagement and Corporate Affairs here at the FRC. And today I'm joined by Maureen Beresford, our Head of Corporate Governance. Welcome, Maureen. I know probably to you it doesn't feel like this came around quickly, but here we are almost the end of the year talking about the annual review of corporate governance, which is a very popular series of annual reports where you look at how companies have reported against their corporate governance

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behaviours and outcomes. So what have we got in store for this year's annual report? Yeah, OK, it's gone quickly, hasn't it, the last year. And I just want to remind our listeners that we do this report to highlight best practise and good practise and demonstrate how companies are actually doing the best governance in the UK. And we do have a high standard of governance in the UK. And I think I've said this before, we often forget that because people look at the

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reported areas and comment on that. So I wanted to make sure that listeners remember that we do have high standards of corporate governance. It's such high standards that it's copied by many other countries in the world. So I guess that's one of the greatest forms of flattery. Absolutely. I think it's important that we don't, as I said, dwell on the negatives. But back to your initial question, our review, you know, has recognised that there are lots of good reporting. We always have a high number of companies doing very good reporting on engagement with their stakeholders.

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Workforce engagement is something that we've noted over the last three years has really improved over time. And I think we should also remember that at the time we introduced the workforce engagement provision, many respondents to our consultation then said this is actually not needed. We're doing this already. But the wealth of information that we get from our review and the information that's out there in the public domain helps everybody grow their governance. And I think companies have benefited from seeing what other companies are doing within this area. And Maureen, it's interesting you say that because it almost sounds like when people

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start to adopt some guidance or examples of best practise, it becomes almost as part of their BAU. It's not seen as this big burden or event they have to think about. They just do it because it's got the right outcome.

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Yeah, it's the right thing to do. But every company, as I've said many times before, is different and every piece of reporting is different. But frameworks that companies put around their governance and the actions that they're taking can be amended to companies that individual circumstances. And you know again, flattery of copying what one company does against another is great, but reports on it in a concise way, in a way that tells the story and gives the reader information they need without going up into pages and pages and pages of reporting.

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Yeah, I think that's an important point for our listeners, Maureen, because it is about proportionality. I mean you wouldn't report as though you were shell on your climate requirements if you're a much simpler company not operating in that sector. Yeah, and different areas will be different levels of engagement and reporting for companies. But I think the message, particularly this year that we want to get out there is write about what's important to your company and your investors and stakeholders within the brain work of the code. You know the code is complier. Explain. We see more and more companies demonstrating

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departing from the code,

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over 50% of companies year on year demonstrating that they depart from the code. That is the underlying flexibility of a principles based code because it's not one-size-fits-all right. I mean, you know, you might be on a different part of your journey, an overused word as a company on some of the issues that the code covers. Yeah, that's so right Kate, a company that's just listed will write in a very different way to an oil and gas company that's been in the Footsie 100 for many, many years and as a mature framework. And we take this into account when we're looking at the reports. You know, we look across the sector, we look at the small caps as well as a Footsie 100, and we are showing that best practise so that everybody can learn from it.

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When you are seeing these explanations, Maureen, reading the review this year, you're still talking about the need for some companies, not all, to leave behind a boilerplate explanation and really give a bit more of a rich insight into how the company is feeling about this particular governance point and how they explain what they're doing. I think when we started doing the reviews a few years ago, the main element was to get companies more comfortable. And we discussed about this in actually being upfront and talking about departures from the code, because originally we found that companies weren't comfortable doing that. And I still think there are companies not comfortable saying that they've departed from the code, but we've kind of crossed that boundary a little bit now. And the next area is to get those explanations of the best quality possible. You know, to explain why you've departed from the code, explain why your governance is still high quality,

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and explain why this departure is right for your company. And we both discussed this many times. For example, keeping your chair on for an extra year or two

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might be the right thing for your company at the right time and you might have full investor support for that. Well, that's very easy to explain. What you're talking about really listening to today, Maureen, is people being brave enough to stand behind the choices they've made. Because surely if you're stakeholder engagement as a corporate is pretty robust, you'll anticipate how your explanation will land with your stakeholders. That's absolutely right. And it demonstrates that you're thinking about your governance. You're not going down the box ticking route. You've actually thought about the code, what it's trying to achieve and how you can work within their brain work, you know, and demonstrating that good governance, whether it's complying with the provisions or applying the principles or departing good governance bills trust and it informs investors and stakeholders of what companies are doing.

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And this does boost the competitiveness of the UK. I completely agree on that. I think there is that element of bravery, whether it's setting out your store from a strategic perspective or explaining your operating model or working out where you are in a competitor universe. You've got to be brave and really stand behind what you say. I mean, you're talking in the review quite a lot about it's great news that stakeholder engagement reporting has improved, but they still need to better demonstrate how it impacts board decisions. Are you talking about a situation where someone says, Oh well, I met five times with our top five investors.

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Do you want people to bring that to life a bit more?

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That's it. It's bringing it to life. We've had a lot of discussions over the summer. What are outcomes and what are impacts and how to report on that. And again, it's bringing this colour to the reporting that's insightful rather than the dryer as you just demonstrated. We met 5 people and we had a great chat. It's maybe we met a number of our investors and they raised a number of issues around X and we've taken a view to do something different or we're changing our view on climate policy or something like that.

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And the linkage between what you're saying is your strategy for demonstrating what you're doing to bring it to life through your operating model. Surely there has to be a strong linkage that would play into some of these disclosures. I absolutely believe that there is a linkage. And I think most companies would say that it's just going back to your point about Brave being brave enough to write that down in your annual report without of course giving away confidential information. That's obviously not what we want. Well, exactly. And I mean, I think it would be quite mad that someone thought a regulator was saying please disclose confidential

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information that's in opposition to the listing rules with internal controls. And I suppose that's a bit of a broad phrase because it means different things to different people, doesn't it, Maureen?

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Yeah, I mean, some people look at their internal controls as their risk management. Some people think about it and just their internal controls framework. And as we went over there somewhere, some people think much more about their financial controls than maybe some of their other controls. So, yeah, it's slightly different to different people. And I think also internal controls. I think a lot of investors would be very surprised to learn that people weren't thinking about this topic very closely. But I guess it's up to the board and management to really work out what's the framework that's going to give them confidence that these things are happening to the benefit of its stakeholders.

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I think that's right. I'm just looking at what we found from our review. There's not really much difference year on year in the reporting on internal controls. And just to throw out a few stats at the minute, we've got 20 companies out of what are 100 that give a really good insight into what they're doing. They talk about what the company did, what the role of the board was, what evidence the

board or the audit committee received about the internal control framework, who was involved? Was it internal audit? Was there external assurance? What functions of the business

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a risk, internal controls, audit, etcetera. We're getting together people

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sustainability to kind of put those controls all together. They gave some really good insights where you know there's around about half of our sample just saying, well, the audit committee took a review and it may be covered. XY and Z, not much insight, but the worrying thing is that maybe 40% of companies were just saying yes, not much information that is pretty light on for such an important topic. Exactly. So going forward, Maureen, I know you wouldn't go saying what's perfect because that's a silly benchmark for this because it's a flexible code. Where do you think it needs to go forward? Where can companies continue? Even if they are doing most of this? Where should they look to really continuously improve on how they

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disclose their governance processes, approach the way they're thinking about it. But as you said, more importantly, what are the outcomes? What's it really affecting? I think it's very easy and I shouldn't sit here and tell companies how to do their job. I think it's very easy to look at last year's report and just almost change the tone, maybe change a few words and say we're still doing things differently. I think the best reporters that we see are the ones that start from almost a blank page on their governance report to say what do we want to say this year? How does the code inform that? And what key messages do we want to get across? Making sure that they look through the code, the principles and the provisions and, you know,

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report on the requirements, but report in a concise and informative way.

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And Maureen, what do you say to people who would say, well, it's easy for the really big Footsie companies to do this really well? They've got an army of people, they've got all these resources. I mean, you really do highlight a very different mix of Footsie listed companies. Do you think that's a quick statement to make that doesn't really reflect how hard a lot of companies really try to strive to comply or explain in a meaningful way?

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I think different sizes of companies and maturity of companies obviously will do governance in very different ways. But we still see very good reporting from 250 companies that have got a very defined strategy and are in one defined sector and they tell a story really well. So I think going back to what I've said before, OK, it is about what is important to the company and what's important to its investors and its stakeholders and thinking what needs to be on the page and maybe where you can refer to policies on your website. And so let's be a little bit more creative, users cross references where you can report to policies on the website and tell us about the insightful outcomes in the report. And I think Maureen will be really timely to remind our listeners of how much resource there is on the FRC Zone website because maybe people can go, oh, regulated. But actually when you look at it, there's some really fantastic tools

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guidance.

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Yeah, I mean there's our guidance on board, effectiveness, audit committees, risk and internal controls. The lab put out numerous documents on best practise and also our research that we do year on year. We've covered things like culture, diversity, remuneration and you know, even our report on proxy advisors this year offered some insight into voting to kind of bust some of those myths that are out there. So it's all good, solid information that's on the website. And I guess the proxy advice at Peace is a hot topic, both by

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sentiment and also relevance. But I think that research really did show that people are using proxy agencies, whether people like it or not, and in very different ways.

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And I think it's also worth saying, when you look at significant votes against, it's a tiny percentage of all those resolutions that companies put forward each year. It's a really tiny amount. And we need to remember that. Yeah. No, I think it's important. Well, Maureen, well done on another annual review. I think it is a really landmark publication because it really gives people the tools and the ideas that they can use creatively in improving their reporting. Yeah. And I would just urge people to look at that good practise and think about how they can relate it to their own individual circumstances.

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And Maureen, I guess we should say to our listeners to watch out for an upcoming webinar when the reports published to really talk in more detail some of its findings. Yeah, welcome everybody along to listen to that and ask questions. Great. Thanks, Maureen, for participating in another FRC conversation. And thanks to all our listeners. Thank you, Kate.