

Corporate Governance – What Investors Think

The publication of the Government response to the green paper consultation on Corporate Governance Reform outlined the introduction of secondary legislation and invited the FRC to revise the UK Corporate Governance Code. Following publication of the Code consultation in December 2017 Asesoria Group sought investors' views on some of the key elements highlighted in the revised Code including stakeholder engagement, corporate culture, board and senior management diversity and succession planning.

This is the second year Asesoria Group has surveyed institutional investors. Approximately 50 institutional investors, representing around £20 trillion of assets under management, were sent an online survey and invited to give their views. The majority of the investors have been assessed by the FRC as "Tier 1" in relation to the quality of their stewardship code statements. The survey asked a range of questions, both qualitative and quantitative, with multiple choice and single answer options. In addition, all questions asked respondents to comment on the background to their answer.

64% of investors are not satisfied with the level of reporting on stakeholder engagement

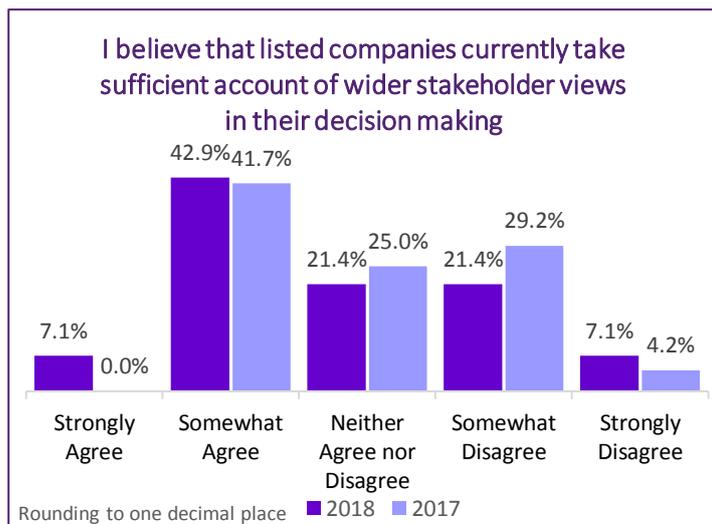
67% of respondents favour a formal workforce advisory panel

Only 28% agreed to some extent that the companies they invest in have diverse boards

85% are focusing more attention on ESG issues in the companies in which they invest

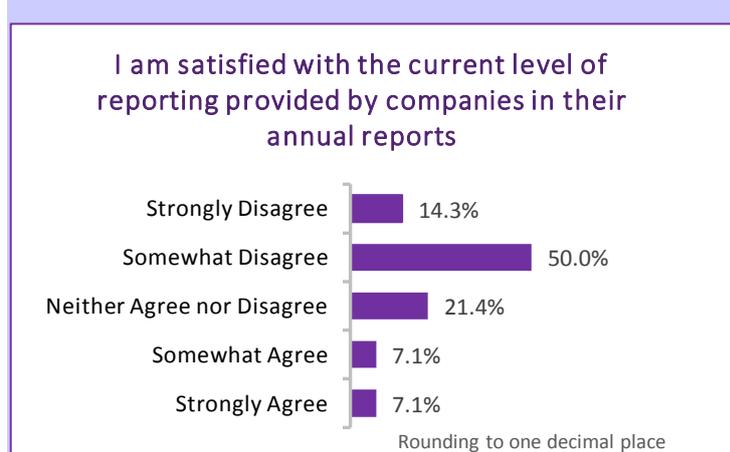
An overview of the results

Stakeholder Engagement - Respondents were asked whether "listed companies currently take sufficient account of wider stakeholder views". Respondents indicated they believe there has been improvement in engagement since the last survey with 50% of investors either "somewhat" or "strongly agree" (41% - 2017) and a reduction to 28% of those indicating they "somewhat or strongly disagree" (33% - 2017).



When specifically asked whether they were satisfied with "the level of engagement they received from the companies they invest in" over 78% responded that they "somewhat or strongly agreed". Comments indicated that it varied by company but generally UK listed companies were proactive however investors struggle where there were global elements to the organisation.

Annual Reporting - Comments suggested respondents were less satisfied with the "current level of reporting provided in annual reports on wider stakeholder engagement". With 64% of respondents "somewhat" or "strongly disagreeing" to the statement. Some commented that annual reports appeared to be used for compliance rather than 'wider business reporting and engagement with stakeholders'.

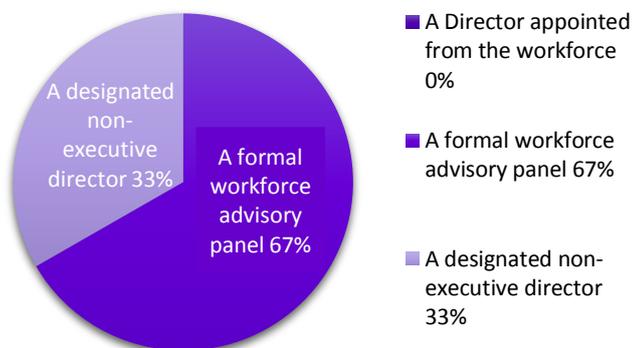


Some of the main risks identified by respondents when a wider stakeholder engagement strategy is not pursued were:

- ✚ **Employee dissatisfaction**, undermining of staff morale & productivity
- ✚ **Potential loss or lack of license to operate**
- ✚ **Prioritisation of short-term issues over longer-term concerns**
- ✚ **Exposure and lack of awareness of all risks**

Workforce Engagement - When asked which of the three workforce engagement options highlighted in the Code was the favoured option respondents indicated a clear preference.

How do you believe companies should best ensure that they take account of workforce views?



Whilst 67% of respondents indicated a formal workforce advisory panel would best ensure workforce views are taken into account, many highlighted it is the **'whole board's responsibility'**. Some commented a preference for an advisory panel as well as a designated NED & others suggested companies should have the flexibility to choose.

When asked **"what percentage of listed companies they believe already have processes in place to engage with the whole workforce and report on these activities"** around half of respondents felt that less than 25% of listed companies currently had a process in place. While many respondents indicated employees are considered priority stakeholders they suggested companies do not have a formal approach that covers the entire workforce.

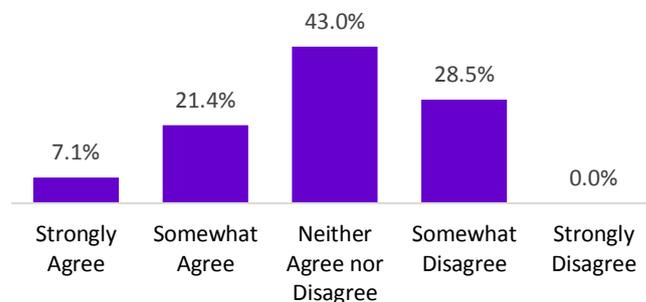
Company culture - 93% of respondents indicated that they discuss company culture when engaging with companies. They commented that the quality of discussion varies and many acknowledged it was **"hard to measure"**. However, some emphasised that it is **"probably the most important aspect of corporate governance"** to get right.

ESG Issues - 85% of respondents indicated they are focusing more attention on ESG issues. Many specifically mentioning "Governance" and commented it was **"essential to running a good business"**. Other areas mentioned included:

- ✚ Climate change and the environment
- ✚ Equality and gender diversity
- ✚ Corporate culture and business ethics
- ✚ Any elements material to the business
- ✚ Cyber risk and data privacy

Board Diversity – Only 28% agreed to some extent that they believe **"the companies they invest in have diverse boards"**. Most indicated that there was **"room for improvement"** especially in gender diversity with some commenting it is part of a **"wider issue of female advancement"** in the workforce. Others suggested a need to get **"closer to a 50:50"** position.

I believe the companies we invest in have "diverse" boards



Diversity in the Workforce – Only 36% of respondents agreed to some extent that **"companies have policies and practices in place to build a diverse workforce"**. With 50% responding **"neither agree nor disagree"** with some commenting for a need to **"implement practices rather than policies alone"**.

Some Investors Top Priorities for 2018

✚ Climate Change	✚ Corporate Governance
✚ Remuneration	✚ Company Strategy
✚ Cyber security	✚ Board Tenure and Diversity

Asesoria Group's comment: From the wide range of consultations, reports and research undertaken over the past few years on stakeholder engagement, corporate culture, board and workforce diversity and the benefits of adopting such strategies, it would seem short-sighted if companies do not implement policies and practices to address these issues. Forward thinking companies won't wait for changes to the UK Corporate Governance Code and Government legislation to be implemented but will instead take a serious look at their approaches now, to ensure they engage with stakeholders, manage risks, adapt to change, create a constructive culture and engaged workforce and ultimately have a sustainable business for the future. **If you have any responses to the comments above or would like a full copy of the results please email clare.hunter@asesoria-group.com.**

The Asesoria Group is a professional services company specialising in Governance, Leadership Capability and Board Services. We work with boards and senior executives from listed companies, large private organisations and the public sector. Our specialist practice areas include: Board Evaluation and Effectiveness; Corporate Responsibility, Non-Financial Reporting and Governance; Stakeholder Engagement; Leadership Capability and Succession Planning; and Executive Coaching. For more information visit www.asesoria-group.com or call Melissa Kittermaster on 020 3053 8630 to discuss our work.