Grant Thornton

# Corporate Governance Review 2024

**Review and renew**

A guide to refreshing your approach

# Strong governance creates value

## Why?

**Companies with robust governance have:**

| 43% | 3.4x | 2x |
|---|---|---|
| more operational efficiency | more cashflow | more shareholder returns |

**Companies with robust governance have:**

| 15% | 25% | 44% | 46% | 10% |
|---|---|---|---|---|
| more solvency | more liquidity | more operating cashflow | increase in free cashflow | higher operating efficiency |

The ten-year period allows for an in-depth assessment of performance with the results showing that strong corporate governance is a robust indicator of consequential higher performance across a number of financial measures. More recent research touching 25,000 data points across the benchmarked companies (2014-2024) shows that the top quartile of performers have better turnover, profitability, and capital efficiency:

| 12% | 18% | 7x |
|---|---|---|
| average return on capital employed (vs. 11% for the bottom quartile) | returns on shareholder funds (vs. 14% for the bottom quartile) | higher average dividend pay-outs |

Source: 'Getting smart about governance,' a Grant Thornton study (2007 to 2017) looking at the link between governance best practice and financial performance in over 2,300 FTSE 350-listed companies.

## How

**Our annual Corporate Governance Review is evidence-based:**

Throughout this review, we refer to the UK Corporate Governance Code as 'the Code.'

# Welcome

## From rinse and repeat to review and renew

Corporate boards continue navigating large macro-impacts at pace; pandemics, stagnant economies, climate change pressures, evolving global conflicts, political dynamics, transformative technology, and fast-moving customer demands.

As a result, many organisations have stuck to familiar governance structures and cadence to support decision making. They recycle agendas and continue similar year-on-year approaches to risk, succession, board and committee structures and terms, stakeholder engagement processes, and strategic iteration.

Our 2024 review underscores the importance of a diverse and frequent approach to testing and updating governance in order to position companies for the future as well as the present.

Organisations should evaluate whether existing processes will continue to ensure success not just in the here and now, but during the next five to ten years of economic, technological, environmental, legal, social, and political changes.

As an example, 21% of the 254 companies in our study lacked board members with IT, tech, cybersecurity, or data skills, despite the growing significance of data-driven decision making, technology-enabled ways of working, and the escalating threat of cybercrime – not to mention the maturing use of AI.

Before we even consider the future, there's work to be done on the here and now: 29% of companies identified the need to improve the quality of their board papers and management reporting.

There's also a need to integrate more leading indicators that signal future risk and opportunities. The FCA's decision to fine Starling Bank £29 million is a case in point: it grew from 43,000 customers in 2017 to 3.6 million in 2023, but its financial crime systems and controls didn't keep pace. It adds to other recent governance and control scandals that show the grave consequences of board complacency in the governance of previous years.

Last year, this review focused on the need to define how assurance is used to validate and communicate the impact of decision making. This year, we're posing the question whether tried and tested governance approaches are fit to guide future decision making.

Disrupting the rinse and repeat cycle is a significant challenge that demands a shift in mindset and a willingness to overhaul systems rather than simply making incremental changes.

**Sarah Bell**
Partner, Governance and Board Advisory

**Gabriella Demetriou**
Senior Governance Practice Analyst

**Claire Fargeot**
Sustainable Governance

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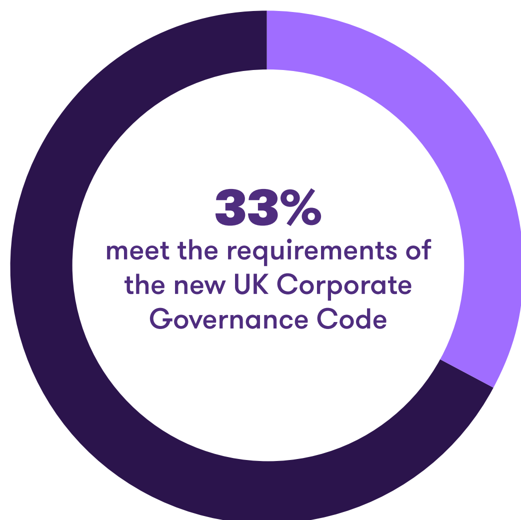
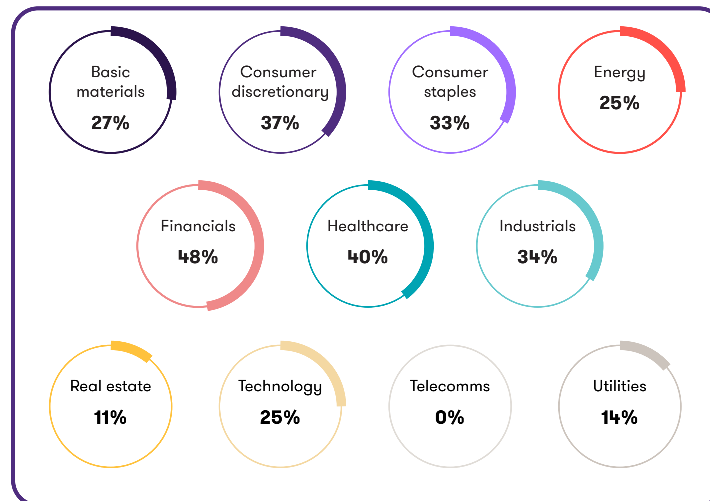
# Corporate governance 2024 report card

| | |
|---|---|
| General behaviour | Some 65% of companies in our study claimed full compliance with the Code in 2024, compared to 39% in 2023. The largest improvement was in the industrial sector, with 83% of companies fully compliant compared to 32% in 2023. All other sectors reported an improvement in Code compliance apart from energy and utilities, where compliance has fallen year on year.<br><br>Increased compliance with Provision 38 – the alignment of executive director pension contribution rates with the workforce – drove overall scores. Non-compliance in this area fell to 10% in 2024 from 34% in 2023, with all providing compliant explanations and 92% strong disclosures. This reflects a timing lag from policy implementation and also signals that most boards view the Code as a useful and flexible governance framework supported by its basis in 'comply or explain.'<br><br>The number of FTSE companies audited by non-Big Four firms rose from 11 to 17 in 2024, demonstrating that the recent consultations and various changes to guidance and the Code are starting to bring more choice to the market. |
| Accountability and change | Increased Code compliance comes when corporate governance guidance is once again in flux. In January 2024, the Financial Reporting Council (FRC) released a revised Code and guidance. The changes focus on enhancing transparency, accountability and governance outputs while minimising the burden on businesses.<br><br>The revised Code requires a directors' declaration on the effectiveness of the internal control environment as well as disclosures seeking further detail on how culture is embedded within organisations. It stopped short of requiring large and listed companies to provide audit and assurance policy statements or resilience statements.<br><br>Over the last 12 months, there have been further regulatory developments impacting the UK's top listed companies. For example, in July 2024, the Financial Conduct Authority (FCA) made the biggest changes to its listing regime in three decades, looking at facilitating transactions as well as streamlining eligibility for companies seeking to list in the UK. At the same time, it expected some listed companies to implement the final stage of its Consumer Duty rules. |

# New code readiness

Effective from periods commencing 1 January 2025



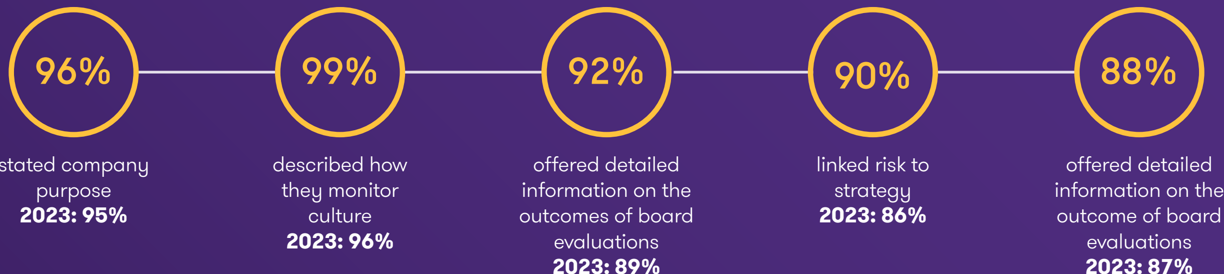



**32% sit within the FTSE 100**
**68% sit within the FTSE 250**

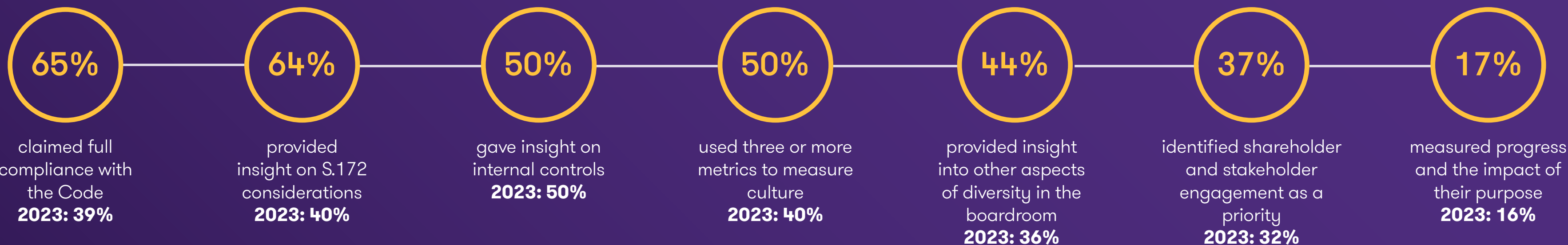
**No more than 50% of any one industry meets the new requirements**

# Grades

## Good

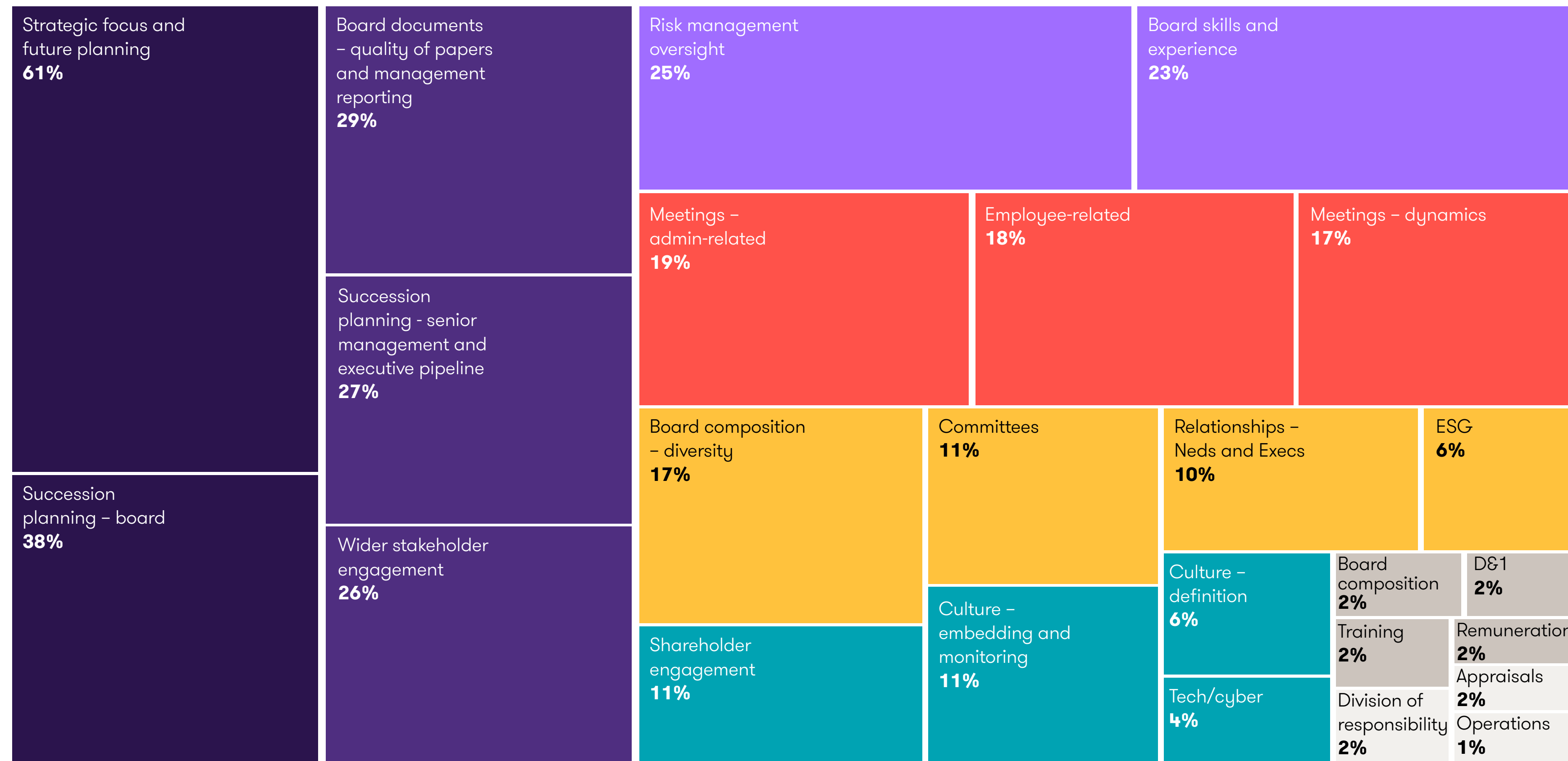



## Improving but could do better



Board performance

# Key areas of improvement



## Complacent in the here and now

Companies in this year's review aren't as future-fit as they would like. Some 61% identified strategic planning as an area for improvement, 38% spotlighted board succession as an issue, and 27% called out poor senior management and executive pipelines.

To know where you're going, you must know where you are, yet 29% of companies earmarked quality of board documents and management reporting as an area for improvement. This points to elements of a need to review process and approaches to ensure sufficient balance between what's used for education of the business to inform decision and elevation of key issues to shape and make them.

> "The key to working effectively with the board is to discuss issues well in advance of any meetings, and brief the directors on the direction that we would be recommending (and why). That's probably where I get more value when I approach them for help to solve problems or for guidance on where we should be going as an organisation.
>
> The other thing is making sure they've got good quality board packs and giving them the right level of information about our organisation. As executives, we could do a lot more to tailor and focus what we do."
>
> **Claire Dudley-Scales**
> CFO, CP Holdings

# Getting more value from your board

"Performance reviews are critical to the success of a strong and effective board. Ideally, investors want to see annual performance reviews with external input at least once every three years. This is important to bring in an independent perspective, keep up with evolving best practices, and understand new challenges. The goal of a review, internal or external, should be to identify areas for improvement, skills gaps, and any opportunities to maximise the effectiveness of their time and drive the best strategic impact. It's also important to work out what your company's strengths are and to help the board to capitalise on these strengths.

It's interesting to see the key areas for improvement evidenced here. Strategic focus and future planning is a core component of the board's role, so it's crucial that they spend appropriate time on this and get it right. The board should be focused on preserving and enhancing sustainable value over the long term, in alignment with a company's purpose and strategy.

## Approaching governance frameworks

Succession planning, both for the board and the company's senior leadership, is critical, so getting this right matters. Boards need to take time to plan well ahead and have a formal, fair, and transparent process in place to make these important decisions.

Spending time and resources on creating good governance frameworks shouldn't hold companies back – they should help them get on the front foot and prepare for the future."

**Jen Sisson**
CEO, ICGN

Computer scientists use the analogy 'garbage in, garbage out' to express that poor quality input produces faulty output. Similarly, by making decisions on poor quality and insufficient information, boards are exposing their companies to heightened risk.

To stabilise this, directors need to ask whether incumbent governance frameworks, policies and structures are being used appropriately to facilitate robust and strategic decisions. They must identify not only what's working now but the processes and ways of working that will ensure success over the next five or even ten years.

The 2024 changes to the Code heighten boards' accountability for the effectiveness of their company's material controls. In managing and mitigating existing and emerging risks, they must address material controls that have failed to operate effectively and outline remedial actions. This accountability extends to reporting controls, including ESG reporting.

Despite this focus on risk and internal controls, only 25% of companies identified risk management oversight as an area for improvement. This potentially signals a need for further work on risk ownership and the empowerment of risk to tackle new challenges.

## Performance: questions for boards

1. Does the board have comprehensive oversight and ownership of risk?
2. Do you have a clear enough picture of management's capability and capacity to deliver the present and make future plans?
3. Does your approach to oversight and ownership encourage healthy risk-taking in challenging environments?

# Risk

## From rearview mirror to both eyes on the road

By their very nature, annual reports are characterised by demonstrating progress through lagging indicators – measurements like annual finances and management reviews that reveal progress after the event. However, our research shows that board disclosures are focusing on past performance at the expense of future stability and opportunity.

For example, many companies in our 2024 cohort failed to disclose the outcomes of their approach to monitoring and reviewing internal controls. In addition, while 98% provided a sufficient viability statement, only 23% provided details as to how the board reached such a conclusion. This is a surprise in a year in which high-profile internal control and risk management failures dominated headlines.

Another surprising finding was how AI and machine learning are being considered in the context of both business models and market opportunities. Despite the disruptive impact of these technological advances on businesses, our analysis of annual reports revealed a lack of discussion about the associated threats and opportunities. Areas for consideration might include skills and culture, ethical impact, ways of working, market opportunity or heightened security threat.

## Internal controls: changes to the Code

The 2024 changes to the Code ask boards to explain how they have monitored and reviewed their risk management and internal control framework, specifically including material financial, operational, reporting, and compliance controls.

Though the requirement isn't effective until January 1 2026, only 2% of companies in this year's cohort disclosed all the recommended information.

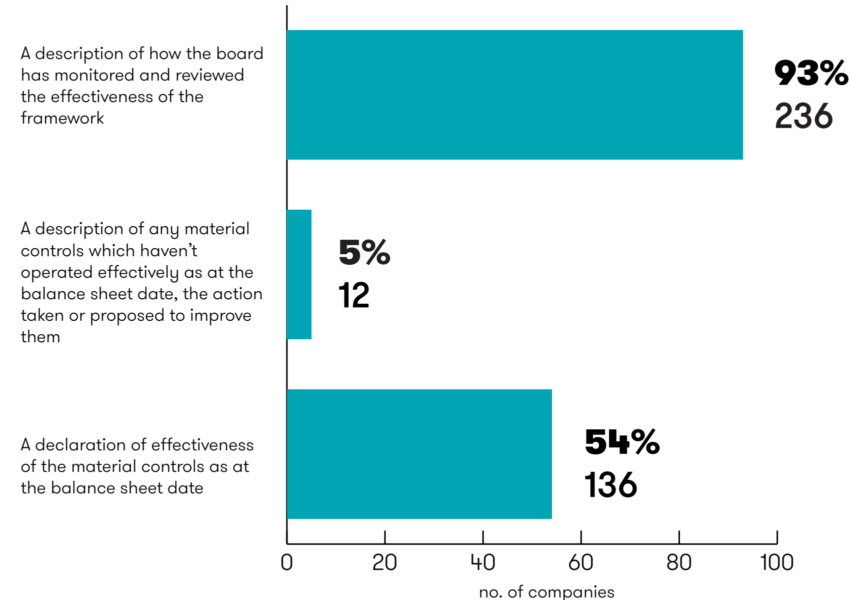
While there's still time to finesse these practices and systems, without these in place, the majority of companies could miss early warning signs of deteriorating business performance.

## Internal controls and risk management

*Note this is not effective until 1 January 2026*

All companies benchmarked include a statement that the Board monitors the group's internal controls and risk management framework.

**The extent of disclosure is as follows:**



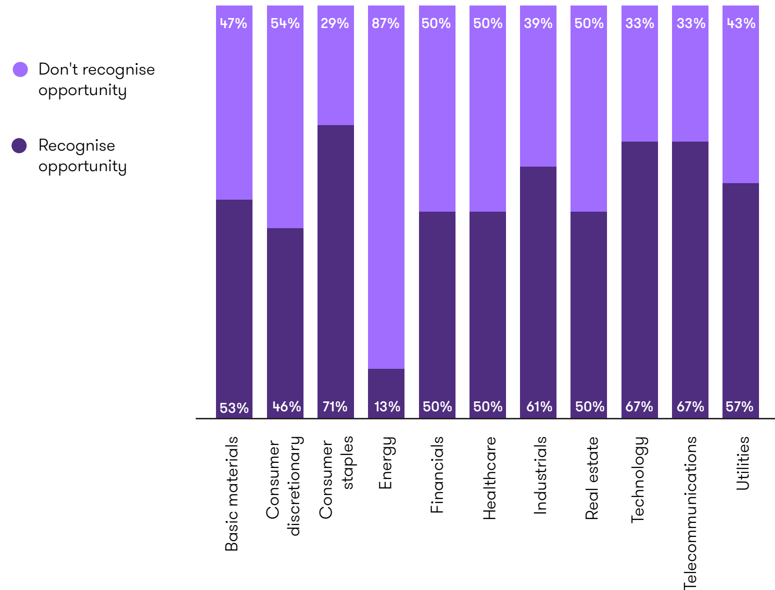

Only **5 companies (2%)** cover all three areas.

## Are UK companies shrugging off the impact of AI?

Of the companies which identified AI as an opportunity, some 44% didn't cite AI as an emerging or principal risk, and 15% didn't have any board members with skills related to IT, tech, cybersecurity or data.

Provision 22 of the Code says that the chairperson should act on the results of the board performance review by recognising the strengths and addressing any weaknesses of the board. Each director should engage with the process and take appropriate action when development needs have been identified.

## Artificial intelligence – opportunity v risk




From an industry-level perspective, the energy, healthcare, consumer discretionary, and financial sectors placed a lower emphasis on recognising AI as an opportunity and incorporating its transformative potential into their strategic reports. Our data shows a general failure to establish a clear correlation between the potential of AI, its associated risk and the requisite skills necessary for its effective integration. This shortfall extends to the evaluation of board skills and how AI is integrated into existing business models.

## A low-energy response

Only 13% of energy companies disclose AI as an opportunity. This is at odds with the opinion of its industry regulator, Ofgem, which has set up dedicated AI resources.

"AI could play a big part in decarbonising the energy sector. For example, it can be used to better predict weather that can help improve solar generation forecasts. Using this technology in this way means there should be less reliance on fossil fuels. This means that the use of AI technology can support the UK government's medium and long-term Net Zero targets." **Ofgem.**

**The Financial Times** further outlines the AI opportunities for energy companies, from emissions monitoring to infrastructure routing.

"AI is accelerating the energy transition, say industry leaders. The technology is transforming all areas of the sector, with new roles generated and more traditional, lower-skilled jobs at possible risk."

At this inflexion point, it's important that boards look beyond operational efficiencies and adapt to governing at scale, integrating opportunities into strategy while managing new risks.

## Unlocking AI: risks, rewards and talent acquisition

**Alex Hunt** Head of Data and Analytics, Business Risk Services

**What are the consequences of not dealing with risk alongside opportunities?**

The threats of AI are often overlooked because of their technical nature, but they can really damage a company's reputation if they aren't seen to be using it in a safe and responsible manner. Failure to address AI-related risks may result in privacy breaches from cyber-attacks leaking data, or from misuse of personal data, and bias in decision making, leading to a negative experience for customers or colleagues. It can also inhibit transparency in AI algorithms, which can have legal consequences and cause reputational damage. For UK businesses with international operations, navigating the regulatory landscape is complex in itself, with the EU AI Act just one of many global standards being developed.

Effectively managing these risks presents opportunities for large corporates, such as gaining a competitive advantage through responsible and ethical deployment to better target customers with personalised offers or AI-enabled products that enhance the customer experience. Properly addressing AI risks can also optimise operational efficiency, improve decision making processes by using current and predicted trends as part of management information, and ensure alignment with regulatory requirements. This approach can position companies for sustainable growth and success in the rapidly evolving digital landscape.

**What problem are we trying to solve with AI?**

Rushing to adopt AI can lead to misaligned solutions that create new problems because AI wasn't needed to solve the issue in the first place. This can divert focus from more critical issues, and breed scepticism that hinders future adoption of AI, which is why it's important for companies to socialise their AI success stories and track the benefits. I'm seeing companies leveraging AI to address various challenges, including operational efficiency, automating repetitive tasks to free up human resources for higher-value work, enhancing customer experience through personalised services and recommendations, improving decision making with data-driven insights, detecting and mitigating potential risks and fraud, and fostering innovation by uncovering new opportunities and solutions.

AI also assists in predictive maintenance to minimise downtime, streamline supply chain management, and enable agile responses to market changes. In summary, technology and data leaders are aiming to harness AI to gain a competitive edge, drive growth, and adapt to the rapidly evolving business landscape by leveraging the power of advanced technologies and data-driven intelligence.

**What's the ROI on AI projects, considering both the costs and the benefits?**

In my view, the ROI (return on investment) for AI projects varies based on factors such as the specific use case, implementation costs, and the realised benefits. Initial costs for AI projects often include investment in technology, infrastructure, talent, and data management. We're seeing corporates testing roll-outs of Microsoft Copilot through to investment in data science and machine learning capabilities. The potential benefits can be significant, including increased operational efficiency, improved decision making, enhanced customer experiences that ultimately lead to increased revenue, and cost savings through automation and predictive analytics.

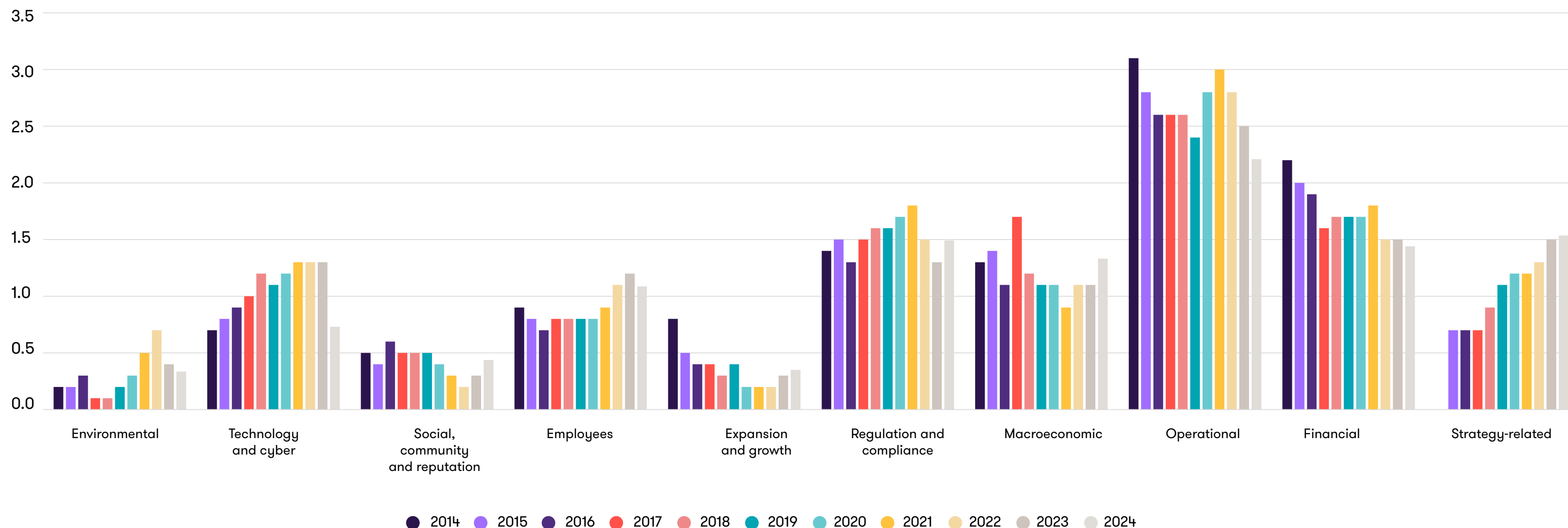
The long-term ROI also encompasses factors such as competitive advantage, innovation, and scalability. While AI projects can yield substantial returns, I expect management to carefully evaluate the costs and benefits, considering both short-term gains and long-term strategic impact, to ensure that the investment aligns with the organisation's goals and delivers sustainable value.

**How can companies ensure they have the right talent for implementing AI?**

AI skills are very limited and with the advancements in remote working, the marketplace for workers is global, meaning corporates have a challenge with attracting, securing and retaining top talent. To address this challenge, I'm seeing companies focusing on several key strategies. First, they need to anticipate talent needs by identifying the specific skills required for their AI projects. Attracting best-in-class candidates involves offering competitive compensation, fostering a culture of innovation, and providing opportunities for professional growth. Collaboration with educational institutions and participation in industry events can also help in sourcing and nurturing AI talent.

Moreover, building diverse and cross-functional teams, such as technology partners within marketing or finance functions, can bring varied perspectives and skills essential for successful AI implementation. Lastly, fostering a culture of experimentation, creativity, and knowledge sharing can attract and retain top AI talent, ensuring that the company has the expertise needed to effectively leverage AI for business transformation and growth.

# Do boards have the expertise to deal with emerging risk areas?



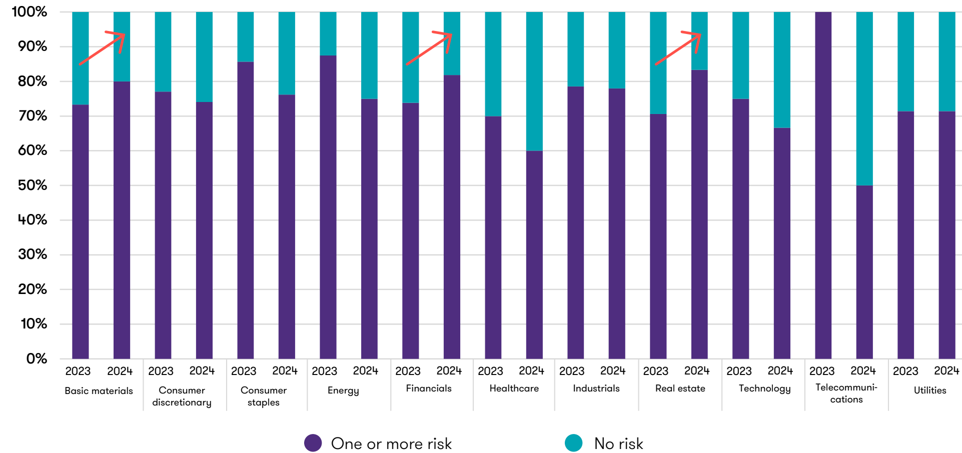

In 2024, companies seem more focused on the risks presented by macroeconomics, regulation and compliance than in 2023. Obvious external factors explain this, such as new global conflicts, a huge election year, and ever-changing regulation in industries such as finance, healthcare and telecoms, in addition to the revised Code and the crystallisation of certain ESG regulations. Companies – particularly those dealing in basic materials, finances, and real estate – viewed strategy-related risk as an increasing concern.

Operational and financial risks are declining in terms of prominence. This could be due to the heavy weighting of board skill sets towards operations and finance, which provides sufficient mitigation to these areas.

Perceived risk from environmental factors has also declined for the second year in a row. This may be explained by the fact that 82% of companies claim to align with the Taskforce on Climate-related Financial Disclosures (TCFD) reporting requirements, indicating that organisations may consider the necessary work that has been done to comply. However, it could also be because sustainability-linked skills remain rare in boards and senior-level positions, and the discussions in this regard within organisations are only starting to mature beyond compliance requirements.

Nevertheless, there's no room for complacency. When boards become comfortable with certain risk areas, there's a danger that they will adopt a rinse and repeat mentality, which runs the risk of overlooking areas of potential opportunity.

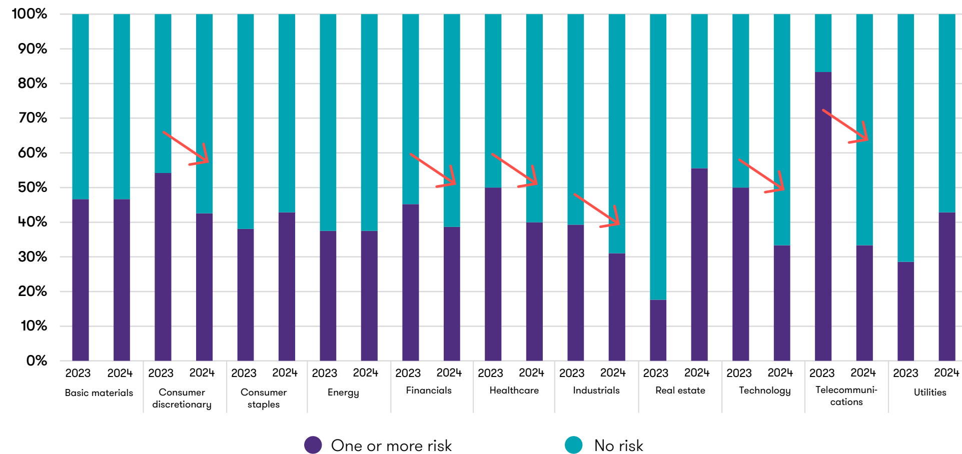
## Increasing risk areas by industry: strategy




Mentions of technology and cyber risk dropped significantly compared to previous years, particularly for companies dealing with consumer staples, financials, healthcare, industrials, technology and telecoms. This is particularly surprising for sectors such as financials and healthcare, which hold swathes of personal and sensitive information. In June 2024, for example, a cyber attack on Synnovis, a pathology lab that processes blood tests for NHS organisations, resulted in the theft of sensitive patient results.

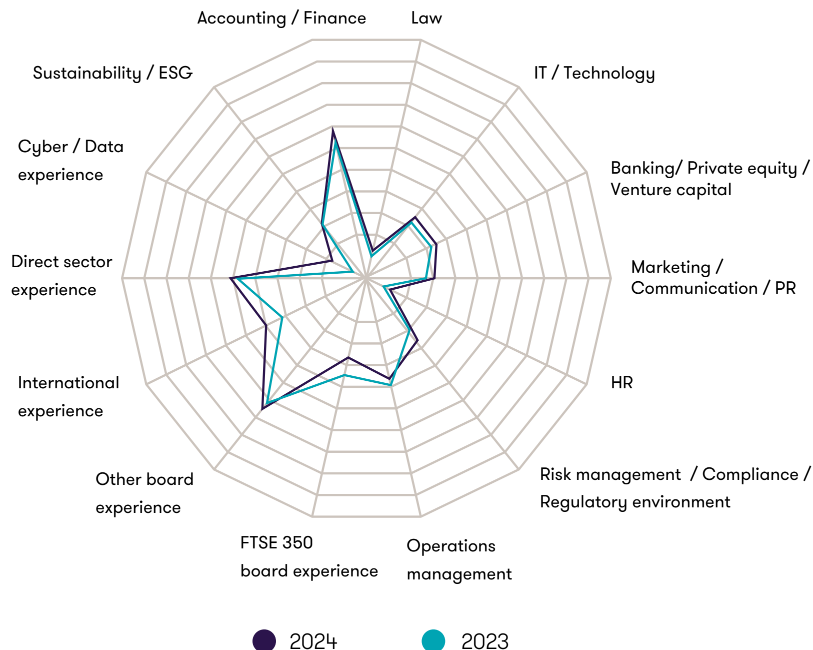
The representation of cyber and IT expertise on boards remains the same as in 2023, yet data shows the external threat from cyber-attacks is growing. The 2024 UK Government Cyber Security Breaches Survey, for example, shows 50% of businesses reported some form of IT security breach in the last 12 months.

## Decreasing risk areas by industry: technology



## Board skills and experience

### Skills as a proportion of board




159 (63%) companies have at least one board member with sustainability/ ESG linked skills. 70 sit within the FTSE 100, 77 within the FTSE 250.

Notable increases in the proportion of the board with accounting/finance (48% vs 43%), risk management (27% vs 20%), international experience (40% vs 31%) and cyber/data (9% vs 3%) skill sets.

## Are board skills aligned with critical risks?

Our 2024 analysis of board composition shows a notable increase in the proportion of the board with experience in accounting/finance, risk management, international experience and cyber/data skills.

Some 63% of companies have at least one board member with sustainability/ ESG skills. This leaves 37% of boards exposed to risk amid an onslaught of new and incoming ESG-related directives, including TCFD, TNFD, ISSB, and CSRD. The penalty for non-compliance can range from financial penalties, legal repercussions, reputational damage, and failure to procure contracts (among others).

As mentioned above, there continues to be a disproportionate focus on finance and operational specialisms when it comes to board skills. This could leave companies potentially exposed to new and emerging threats and perhaps puts a greater emphasis on the need for more transparency around learning and development programmes, and an understanding of how potential risk areas are mitigated through senior skills within the business. For example, only 7% (6% in 2023) of boards in our 2024 study have HR representation, despite labour shortages and the talent for competition being a high threat for many UK sectors.

"CFOs [and board members] are more inclined to stay technically up-to-date and aware of what's going on externally when they have good industry bodies and networks feeding them; being able to challenge the way things have historically been done is key to the role."

**Claire Dudley-Scales**
CFO, CP Holdings

# Improving the board's approach to succession and composition planning

**Karen Brice,** Director, governance and board advisory

**Last year we discussed the risks boards face in skills not being aligned to critical risks and strategy. You mentioned both undertaking a gap analysis and looking beyond primary skills and experience. How could a chair or a NED bring these considerations into their board's approach to succession and composition planning?**

In the challenging business environments boards work in today, succession planning and composition whether at board or executive levels require serious consideration, with effective foresight and planning because mitigating disruption at these most senior levels is critical to delivery of the strategy. This is just one aspect of good succession and composition planning. Forward thinking CEOs are clear about what type of leadership team they want alongside them to build sustainable growth but do chairs and NEDs make the opportunities, skills and support they need to do the same? The traditional practice of having 'names in frames' is no longer applicable, then so too should planning by accommodating a more dynamic, ongoing dialogue regarding 'high performance.'

The UK CGI's research on the effectiveness of independent board evaluations (Review of the effectiveness of independent board evaluation in the UK listed sector) has stated that term board evaluation is no longer a fitting description, lacking the grit perhaps of true accountability. The new term being embraced by the FRC from 2025 for listed entities is that they engage once every three years in an external board performance review. A different emphasis which is yet to be fully understood, let alone adopted.

At board and executive levels this is key. When effective planning and composition takes place, success can be measured to validate the process. Conversation should commence with agreeing the purpose of the board? It is surprising how few executives and NEDs can answer this question demonstrating a real understanding of their responsibilities beyond assurance and scrutiny. Few boards (and their executive members) look at strategy as a shared endeavour, rather it can be an area of contention. In the new world, will it need to be a more collaborative process which starts with establishing and gaining collective buy-in to the purpose of the board, its values and tone? Should this be explicit and visible, succession and composition planning could flow with regular dialogue and performance accountability framed from the wider stakeholder and shareholder points of view.

Without this dialogue, buy-in and performance accountability, the various roles that deliver value protection will compete with the work of value creation. In other words, does the strategy act as an enabler for board members to coalesce around or does it generate friction with the executive seeing NEDs as crossing party lines?

It is the responsibility of the chair and CEO to ensure they work together to deliver on their responsibilities regarding succession planning and composition. If this relationship doesn't work for whatever reason, it will affect board and executive performance, which in turn can affect growth. The board should be just as accountable as to its performance as the executive. Chairs have a right to be ambitious as to what their boards can achieve but boards in turn have the right to expect a clear frame of reference, not just around governance and regulatory compliance.

**The FCA's quotas, even following recent UK Code changes, continue to play a significant role in driving focus on DE&I. What value can boards gain in considering much wider diversity characteristics for their current and future board composition and performance?**

We know the Code's focus in this area and quotas drive the board's attention, but what other forms of diversity are hidden in plain sight? Every board is different in its make-up, but each has the right to expect a deep understanding of the values that deliver a healthy and diverse dynamic. Examples of less-than-healthy dynamics at board such as hierarchy, grandstanding and parent/child behaviours, if not addressed will influence what is and isn't ok in the organisation. Another area is diversity of personality types. Boards and executive teams can be dominated by strong, task-orientated personalities who, whilst good at getting the work done, may not value how they can deliver greater value by adapting their styles to achieve more. Chairs can take the lead here in ensuring the board is fit-for-purpose, but it's also a whole board and wider management responsibility - because it's about performance.

While many of the lesser discussed biases aren't always front of mind, quotas can and should provide a platform for wider discussion. As board time is squeezed more and more, the subject of the People agenda may be seen to be dropping down the agenda and heading towards the 'too difficult to deal with' box. It is the role of the NEDs to hold the executive directors to account around their work on people engagement, culture and succession planning to create a stable environment from which the organisation can flourish.

Data is not enough, NEDs need to experience the culture in action for themselves if they are to be assured that succession is getting the attention it deserves. Business life in this hybrid world is increasingly focused on task orientation and the value of teams will diminish if not kept visible. Boards tell us they are concerned that leaders are losing sight of how to continue to build a dynamic workforce (not workplace) culture, and work is becoming a less shared experience. Organisations need to ensure that quotas are the output of great cultures and not just numbers. References in the new Code elude to this placing responsibility at the door of the boardroom. So having a truly diverse board in every sense of the word must set the tone from the top. The new Code shines a light on board reporting, holding organisations and their leaders to account around DE&I in action which makes a good starting point for discussion. Does people and culture, succession planning and senior team composition take centre stage on the board's agenda at least twice a year?

**Coming back to the wider context, what conflicts and prioritisations are you seeing in the market which may have shifted since last year?**

> "From more traditional boards there is still some resistance to the value of quotas, but most we speak to now recognize the benefits of having diverse board members with the fresh perspectives and skills they bring. The value is seen in the quality of the discussion, the ways in which wider perspectives are incorporated or challenged, and above all, in decision making."
>
> **Karen Brice**
> Corporate Governance Review 2023

There's increasing interest from boards, company secretariats and governance teams about what the Code is looking for, but has the business conversation kept up? NEDs should take guidance from what the new Code is explicitly asking for across the four out of five principles. Greater visibility and accountability for boards is clearly a must. NEDs need to engage in and experience the organisation at work embracing in-person engagement, talking up the vison, values and the brand. If NEDs aren't encouraged to get out of the boardroom and into organisation, then they should be asking "what are we not seeing?". To deliver the tone of the new Code requires first-hand experience and discussion. NEDs should have the freedom to experience how future leadership is being addressed to satisfy themselves that the processes will deliver the right outcomes. Organisations of today are dynamic, hybrid and different to the recognised business models of ten years ago, and to remain relevant, boards need to take the time to consider how they should adapt accordingly to stay ahead of the curve.

## Risk: questions for boards

1. How does your governance framework support a strategic balance between a focus on the present and the future?
2. How has your board gained comfort around newer risk areas such as cyber, AI and data in terms of risk and opportunity?
3. Is the board comfortable that the organisation has sufficient capability and capacity to address new risk areas?
4. When was the last time you reviewed your governance structures around risk, including remits, terms of reference, delegated authorities, learning and development, and succession?

# Board effectiveness

## Progress towards diversity

Progress towards board diversity is a mixed bag. Great strides have been made regarding ethnicity. 83% of companies in 2024 meet the FCA's target of having at least one board director from a minority ethnic background, with only one FTSE 100 company failing to meet the target. The same can't be said for gender equality, with only 54% of companies boasting a board composition that's more than 40% women.

For the first time since 2022, boards have shown more reluctance to set out both their diversity and inclusion (D&I) policy and progress against it – 77% of companies did this in 2023 compared to 65% in 2024. This seems odd when UK business is battling a talent shortage caused by a shrinking UK workforce, skills gaps, and business transformation. To attract the widest talent pool possible, it's in an organisation's interest to demonstrate an inclusive workplace and culture.

## Succession planning is an opportunity for diversity

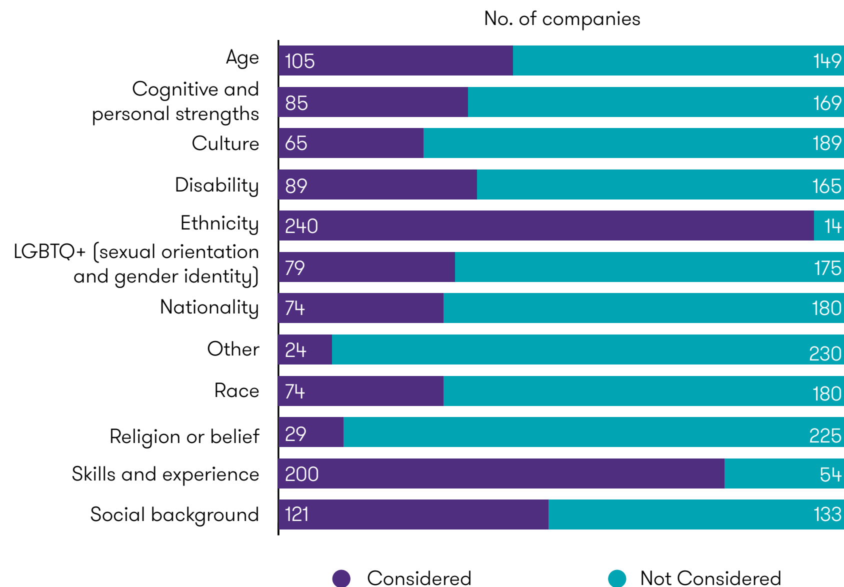
Companies identified succession planning as a priority focus area, creating an opportunity to inject diversity at board level. However, our study shows that companies are taking a narrow approach to diversity, overlooking factors such as age, disability, and social background. For example, 59% of companies failed to consider age/generational diversity and even more, at 67%, didn't mention cognitive or personal strengths.

Changes to the Code may remedy this by replacing guidance that boards "should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths" with a broader remit to "promote diversity, inclusion and equal opportunity."

A wider interpretation of diversity could help to futureproof performance. A diverse range of age groups, for example, may bring a different perspective on upcoming risks and opportunities.

## Diversity

### Other areas of diversity



# DE&I – is your board leading by example?

**Jenn Barnett** Head of Diversity, Equity & Inclusion, and ESG

**How can boards drive a sustainable DE&I policy?**

Boards play a crucial role in driving diversity, equity and inclusion (DE&I) policies by setting the tone at the top, providing strategic oversight, and holding leaders accountable for hiring, promotion, and retention decisions. Boards who work in collaboration with senior leadership to set realistic, clear, measurable targets, and inclusion expectations can have even more impact in ensuring these are embedded into operational excellence at every decision point, as well as resource allocation, and strategic planning. This signals the importance of DE&I as a core business imperative.

Their role is then to provide oversight and accountability, regularly reviewing progress, and holding leaders accountable for achieving their DE&I objectives. This could involve regular reporting on metrics, milestones, and the impact of these efforts on the culture and performance.

Most importantly, boards can lead by ensuring diverse representation and inclusion within the board itself as well as senior leadership positions. A shadow board is an example of this signaling. Driving a sustainable DE&I policy is a long-term commitment that requires continuous action; repeated transparency and communication will ensure DE&I retains its place at the top of the organisational agenda.

**How can organisations build a mature and authentic approach to DE&I?**

The key is engaging people to identify the real issues in their organisations. Involving employees at all levels in the DE&I journey is essential for authenticity. This can include employee resource groups, diversity councils, and opportunities for input and feedback on DE&I initiatives. The next step is adopting a holistic and long-term strategy to tackle the systemic challenges that goes beyond surface-level initiatives.

Authentic commitment to DE&I starts at the top. Boards need to demonstrate a genuine dedication to DE&I efforts by advocating for change and leading by example in fostering an inclusive environment. Using a data-driven approach to understand the current state of DE&I is crucial. This includes collecting and analysing demographic data, conducting DE&I surveys, and tracking targets. Long-term data collection can create clear accountability measures and transparent reporting on DE&I , tracking progress, and sharing outcomes which build trust in the authenticity of the agenda.

DE&I can't be embedded without an inclusive culture where diverse perspectives are valued, and all employees feel a sense of belonging. This involves creating psychological safety, promoting open dialogue, and addressing bias and discrimination. Investing in ongoing training and education on DE&I for employees at all levels, such as unconscious bias training, cultural competency education, and leadership development programmes focused on inclusion skills can make this style of communication business as usual in an organisation. An authentic approach to DE&I involves addressing systemic barriers to recruitment, advancement, and retention of diverse talent. This may include implementing inclusive hiring practices, promoting diverse leadership pipelines, and creating opportunities for career development. It has to be felt at every point in the employee experience including decision making processes, policies, and practices.

## Case study: our social mobility programme

We've been working on improving social mobility in our firm since 2014. Our goal has been to address the barriers and societal challenges that exist for people from underprivileged backgrounds. The children of finance professionals are more likely to pursue careers in finance, often due to social connections and confidence that facilitate entry into the profession. This disparity is further compounded by microaggressions like accent bias, which can more adversely impact individuals from lower socioeconomic backgrounds (LSEB). They are less likely to put themselves forward for promotions, and it's difficult for them to be open about their background'; affecting their confidence, entry, and progression in the field.

Our strategy for social mobility is straightforward: getting in, getting on, and belonging.

### Getting in

We run several initiatives to help people from lower SEBs to get into our firm such as:

- school outreach and mentoring programmes targeting 'cold spot' areas
- collaborations with external organisations like RISE, the Social Mobility Foundation, One Million Mentors, and the Amos Bursary to raise awareness of the accountancy profession and deliver skill workshops
- work experience opportunities and acting as a trustee for overseeing the Access Accountancy programme for LSEB secondary school students
- varied routes into employment including apprenticeship opportunities
- removing grade barriers and implementing competency-based interviews
- targeting recruitment activities at LSEB schools through partnerships with organisations like the Sutton Trust
- promoting our School Enterprise Programme externally through outreach efforts.

### Getting on

To help new all new employees and trainees thrive once they join the firm we offer a wide range of support-implementation and monitoring of the new Early Careers (EC) framework such as:

- buddy and mentors for new joiners
- ACA changes and an updated syllabus
- enhancements to the Institute's portal and systems
- revisions to our talent and orientation programme, specifically with exams, study, and revision skills
- promoting intersectionality across Inclusion & Diversity (I&D) strands
- offering sponsorship, mentoring, and coaching opportunities
- group learning sessions with senior input and improved awareness on how to request a coach or mentor.

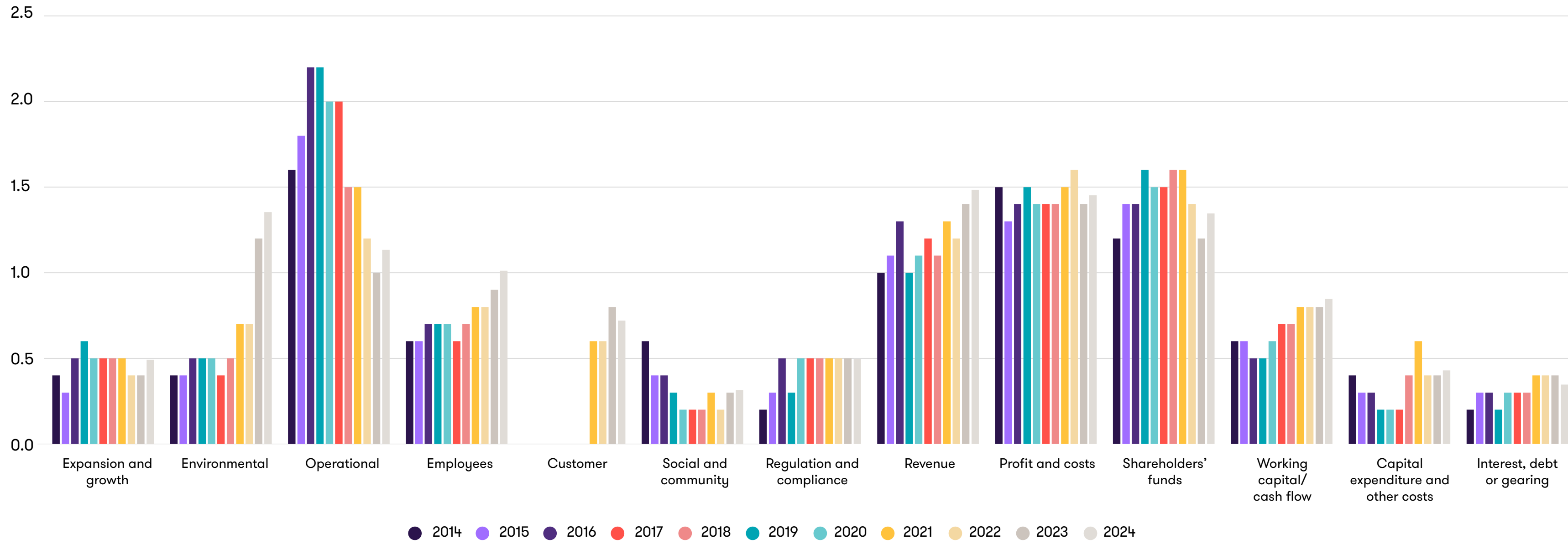
### Belonging

As well as succeeding in their roles we also want all our people to feel that they genuinely belong at the firm and have taken actions to enable this environment. The key initiative is setting up a Social Mobility Board to engage senior leaders in the agenda, which is supported by both an active partner and board sponsor. Partners from LSEBs also act as role models for change and speak at internal and external events. Other support includes:

- building a community through 'tea break' sessions and raising awareness through Social Mobility Awareness Day
- increasing visibility of social mobility role models and creating bitesize videos, including explainers of micro-aggressions
- encouraging senior role models from LSEBs to share their stories – fostering a culture that values talent above background.

# Stakeholders and shareholders

## Key performance indicators




## Early signs of a review and renew approach to governance

In our 2023 report, we warned that companies risked falling into an echo chamber by focusing on internal KPIs at the expense of external stakeholders.

Boards in our 2024 cohort evidenced some understanding of this risk. They improved their 'licence to operate' by increasing the number of KPIs related to employees, shareholders' funds, communities, and the environment.

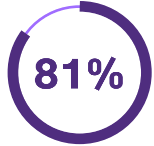
This dynamism was also reflected in an increase in the quality of Section 172 statements, which explain how a company's actions impact employees, suppliers, and the environment.

64% of companies provided good or detailed Section 172 statements in 2024, compared to 40% in 2023. Increasingly, we're seeing companies provide real insight into boardroom decision making, including a detailed analysis of how they evaluate stakeholder impact.

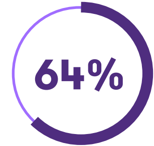
These positive instances of a review and renew approach show that board discussions can be of very good quality and set an example to less proactive boards.

Companies must ask what will drive a move to leading indicators: perhaps it's a solid governance platform, an experienced non-executive director or both? Recognising this should be part of the constant evaluation and redesign of governance structures to meet future challenges.

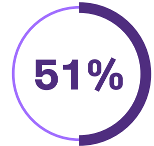
## Engagement party – 2024's biggest improvements




of companies illustrated the impact of board decisions in the context of stakeholder considerations **(2023: 40%)**




of companies provided a good or detailed Section 172 statement **(2023: 40%)**




of companies specified actions prompted by information collected from shareholders **(2023: 22%)**

"Corporate governance, as a starting point, is really there to protect our shareholders. We do that largely by having some of those shareholders in key roles within the organisation. But we've got to extend that and make sure we're also considering a wider group of stakeholders."

**Claire Dudley-Scales**
CFO, CP Holdings

## Why have KPIs related to shareholders' funds increased?

An increase in KPIs related to shareholder funds may reflect the cash-rich position of many companies following COVID-19 and the subsequent discussions on whether to return value to shareholders or invest in growth. It may also be a result of the 2024 Code changes, which require more detailed and transparent disclosure of how share-based payments are managed and controlled internally.

## Employee engagement

**82%** of companies use one of the three workforce engagement methods specified in the Code: employee directors, a workforce advisory panel or a designated non-executive director.

**5%** employee directors **(2023: 5%)**

**10%** employee representative attends board meetings **(2023: 10%)**

**29%** workforce advisory panels **(2023: 31%)**

**62%** NEDs with responsibility for engaging with employees **(2023: 65%)**

"Designated NEDs with responsibility for engaging with employees are by far the preferred company mechanism by company boards, which is a good approach. However, not all of these directors are well-equipped for discharging this special responsibility, there is little guidance and a potential to generate tensions with management."

**Dr Filipe Morais**
Henley Business School

## To report or not to report? That's the questionnaire

While 219 companies disclosed the use of surveys and questionnaires for employee engagement, few published the detail of the results or even completion rates. This makes it difficult for stakeholders to draw conclusions about company culture, an important leading indicator of company performance and sustainability.

"For us, we're continually trying to evolve our [governance] framework and to make sure that we're not burdening the business on a day-to-day basis. We also try to embed controls where we can, but this isn't always easy, especially when you have divisions that are doing multiple different things."

**Claire Dudley-Scales**
CFO, CP Holdings

### Stakeholders and shareholders: questions for boards

1. Do your terms of reference and delegations enable effective and diverse stakeholder engagement, or is one representative responsible?
2. What KPIs and metrics give you comfort in your licence to operate?

# Purpose and culture

## Business purpose

**96%**
define their purpose **(2023: 95%)**

**17%**
authentically demonstrate their purpose, including measuring progress against their purpose **(2023: 16%)**

**93%**
assess alignment of the company's policies and practices with purpose **(2023: 81%)**

## Linkage

**14%**
include culture as a performance metric within their executive annual bones **(2023: 7%).** Only 4% include culture as a performance metric withing LTIP

**59%**
clearly explain the linkage between their business model strategic priorities and culture **(2023: 56%)**

## Culture

**99%**
say how they monitor culture **(2023: 96%)**

**50%**
use a 'basket' of three or more metrics to measure culture **(2023: 40%)**

**63%**
give a direct linkage of the culture, purpose and values to the output of employees, remuneration, etc.

## Purpose as a leading indicator

Though boards are committed to the idea of purpose, once again, they're falling down on providing transparency on how they deliver it. While 96% of companies stated a purpose, just 17% authentically demonstrated it with associated metrics.

### The power of PAS

PAS 808, the first national standard in Purpose-Driven Organisations (BSi: PAS808) was published in 2022. The standard provides companies with guidance on what governance behaviours are needed to be a purpose-driven organisation based on ISO 37000. PAS808 sets out the worldviews, principles and behaviours for delivering sustainability – put another way, an organisation that exists to optimise for a contribution to long-term wellbeing for all (sustainability) while ensuring it doesn't harm this in the process. It also includes guidance relating to the governance of culture which is helpful when culture can also be an indication of being purpose-driven. The relatively new standard is gaining traction and is designed to help boards of companies create effective purpose-driven governance frameworks and therefore govern more effectively. While work to create the international consensus is underway, PAS 808 remains a working draft with the expectation that development will take two years and from there, ISO 37011 in Purpose-Driven Organisations will be published in 2026.

"As per the first national standard in Purpose-Driven Organisations (PAS808) the important thing for boards is to be clear what culture would enable their purpose; where they are now; the plan to close the gap and how to continually oversee and be accountable for this - keeping in mind the governance system structures decision making and is the most potent in affecting culture. To me this is the only logical way for the board to approach measurement and oversight/accountability of culture, and it should be supported and informed by robust systems of measurement."

**Dr Victoria Hurth**
Independent Pracademic and Fellow of Cambridge Institute for Sustainability Leadership

## Culture measurement needs nuance

**How companies measured culture in 2024**

23% of companies used staff turnover as a culture metric in 2024, compared to 17% in 2023. However, as with employee surveys, a headline figure isn't enough. More nuance is needed: are employees leaving because there's no career progression, pay is better elsewhere, or there's a lack of flexible working?

Stepping away from a rinse and repeat approach to reporting allows boards to add new metrics that act as powerful leading indicators of business performance. For example, a sudden increase in voluntary staff turnover may signal underlying issues such as low employee morale, poor management, or inadequate compensation. These issues can lead to decreased productivity, lower quality of work, and, ultimately, a decline in business performance.

### Case study: Taylor Wimpey, building strong foundations for culture

Taylor Wimpey's more nuanced approach to monitoring, measuring, and embedding culture is evidenced in its report through a focus on nuancing some of its culture metrics and clear engagement and discussion by the CEO.

**CEO's letter**

The CEO's discussion of culture, the metrics used, and the culture initiatives driving changes in these metrics evidence ownership by senior management, a proactive approach to embedding the company's desired culture and the direction of travel through demonstrating the impact of these initiatives. For example, successful internal succession-planning (45% and 62% internal promotions at various management levels) and recently introduced employee-recognition schemes have supported a decrease in voluntary turnover levels (from 17.7% to 14.2%). Also mentioned were increased eight-week customer NPS scores but lagging nine-month customer NPS scores with a decisive intent to address this as part of driving the desired culture in the coming year.

**Employee survey**

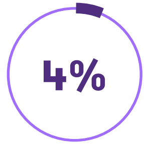
At first glance, this appears to be a typical culture measurement metric. However, while Taylor Wimpey specifically describes a 93% engagement level from their survey, their report also provides a degree of difference by detailing a response rate of 69%. This small, but important detail contextualises the 93% outcome on scoring for stakeholders in various ways: it helps them understand how reflective the result is of the company's workforce – the majority, but not the entirety given the response rate isn't 100% and that the organisation has to engage other means to seek feedback from the outstanding 31%, as relying on surveys provides a limited view. The report also acknowledges this by describing the other approaches by which the company ensures it gains vital feedback from employees.

**Staff turnover**

Taylor Wimpey's reporting specifically homes in on the voluntary aspect of this metric, noting this is 14%, down 3.5 % from the previous year. This level of nuance – the difference between overall staff turnover (voluntary and involuntary combined) and voluntary specifically is much more useful for stakeholders, senior management, and the board when considering how healthy the culture of the organisation is, as it clearly indicates that increasingly more employees choose to stay at Taylor Wimpey. Additionally, by providing the year-on-year change for this metric, stakeholders are able to effectively conclude that any culture initiatives put in place are having a positive, intended impact to embed the company's target culture.

## Is a short-term approach to culture creating risk?

of companies include culture as a performance metric within executive annual bonuses **(2023: 7%)**




include culture as a performance metric within long-term incentive plans (LTIPs) **(2023: 4%)**

## Provision 2 of the 2024 Code

In line with this provision, the board should assess and monitor how the desired culture has been embedded. Where it's not satisfied that policy, practices or behaviour throughout the business are aligned with the company's purpose, values and strategy, it should seek assurance that management has taken corrective action. The annual report should explain the board's activities and any action taken. In addition, it should include an explanation of the company's approach to investing in and rewarding its workforce.

The 2024 changes to the Code further focus on company culture, particularly Provision 2, which now requires boards to assess and monitor how culture has been embedded within an organisation.

One potential solution is to reflect culture as a performance metric within executive remuneration. Only 14% of companies did this in 2024 (2023:7%), with only 4% including a culture metric in executive LTIPs.

This seems counterintuitive as maintaining company culture is very much a long-term endeavour. Reflecting this in executive rewards signals to stakeholders (particularly employees and potential employees) that a company's people policies are more than just words on a webpage.

## Purpose and culture: questions for boards

1. Are you measuring your progress against purpose?
2. When was the last time you reviewed your metrics around company culture to improve qualitative data?
3. Is culture included as a metric in executive long-term incentive plans?

# Sustainability

New and incoming sustainability directives have accelerated the rate at which larger listed companies are starting to consider governance models that focus on long-term sustainable value creation rather than short-term benefits. Drawing from the Five Capitals framework, these models align the interests of companies, shareholders, managers, stakeholders and society.

**94%** of companies provided a link between strategy and sustainability strategy in 2024 **(2023: 89%)**

## Sustainability reporting requirements are set to grow

- The EU Corporate Sustainability Reporting Directive (CSRD), which only impacts UK companies with operations in Europe, is effective for periods commencing January 1 2024. 24% of companies said they were committed to CSRD, 20% acknowledged the directive, and 56% of companies made no mention of it
- The Taskforce on Nature-related Financial Disclosures (TNFD) isn't yet mandatory for UK companies. However, there are recommendations and ongoing discussions about making TNFD reporting mandatory
- Though Task Force on Climate-related Financial Disclosures (TCFD) reporting is already mandatory for premium-listed companies (and 82% are compliant), the UK aims to make it mandatory across the economy by 2025

Code compliance

## Areas of non-compliance 2024

At the start of this report, we noted that compliance with the Code is rising, with 65% of companies complying in 2024, compared to 39% in 2023. This leaves 35% of companies in non-compliance, with 19% not disclosing whether they intend to comply next year either.

Once again, this opens up the hot topic of whether the Code is fit for purpose for every company – some argue it's onerous, over subscriptive, and not relevant to their business, with explanations of non-compliance sometimes reflecting this view. Others find the Code and other frameworks invaluable for protecting stakeholder interests. For example, an alliance of pension funds recently warned the London Stock Exchange that softened corporate governance rules would put investors at risk.

## Top three areas of non-compliance

**Number of companies not adopting the provision**

| Provision | Number |
|---|---|
| **Provision 9:** The chair should be independent (possibly an unwinding issue while 'non- independent' incumbents finish their tenure). | 20 |
| **Provision 19:** The chair should not remain in the post beyond nine years of their first appointment. | 24 |
| **Provision 38:** Pension contribution rates for executive directors should be aligned with those available to the workforce. | 26 |

"Chair independence and tenure being the top areas of non-compliance is clearly an area where the 'explain' should be carefully valued. Examining the governance leadership structures in my research, there is a clear case for chair and CEO role separation, however, chair independence and tenure can and should be subject to reflection. In highly successful, and often listed, family-controlled companies, there is often a long-serving chair - and time and again this emerges as a tremendous source of strategic advantage for long-term value creation."

**Dr Filipe Morais**
Henley Business School

## Case study: Cranswick Plc, Code readiness

Cranswick Plc was among the 33% of companies compliant with the updated provisions of the Code, effective 1 January 2025, and one of the few companies to publicly disclose its commitment to implement the updated provisions to ensure ongoing compliance upon adoption of the new Code, with the most substantive changes to audit, risk and internal controls to identify, assess and monitor key controls at both a Group and operational level.

Particular focus was given to compliance with Provision 2, which requires boards to not only assess and monitor culture but also measure how the desired culture is embedded into the company. Cranswick Plc successfully establishes a direct correlation between corporate culture, values, purpose and their 'differentiators', which is embedded throughout its business practices, employee output and director's remuneration. Key metrics are utilised to evaluate the potential impact on their people.

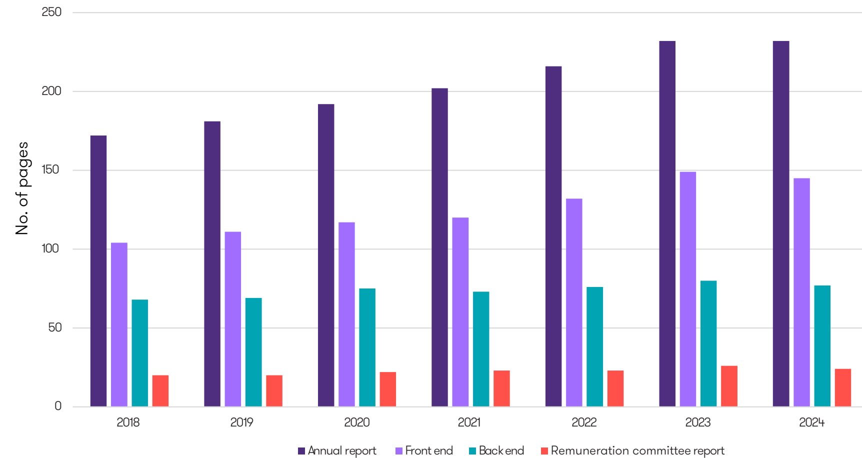
50% of companies use a basket of three or more metrics to measure culture. Cranswick Plc goes beyond, using a diverse range of metrics, including health and safety, employee surveys, speak up and whistleblowing, diversity, sustainability-linked metrics, and stakeholder satisfaction of employees, customers and suppliers. Cranswick Plc use the 'FOOD' behaviors (Forward thinking, One team, Ownership, Driven) to embed culture and values in their employees and retain sufficient levels of talent. The group's internal audit function has the necessary independence and a clear mandate to review aspects of corporate culture, providing independent assurance on the appropriateness and effectiveness of internal controls.

The Audit Committee initiated a project in 2022, with the assistance of external consultants, to review and enhance controls and to monitor the effectiveness of these over the Company's material financial, operational, reporting and compliance risks to align with the requirements of Provision 29. Under Provision 29, the board is mandated to not only review the effectiveness of the control framework, but also declare the effectiveness of material controls at the balance sheet date, and the action proposed to address ineffective controls.

## 2024 is the first year since 2018 in which annual reports have stopped getting longer

Remuneration committee reports continue to creep up with increasing recommended disclosures following the 2018 and 2024 Code revisions.

**FTSE 350 annual reporting length (avg) - seven years**




## Is the UK ready for the 2024 Code changes?

Some 33% of companies already meet the new requirements of the Code, which come into effect for reporting periods beginning on or after January 1 2025.

Compliance dipped following the last reform of the Code in 2018. However, we don't expect a repeat pattern as the 2024 changes are an evolution rather than a rewrite of the existing framework.

Whether the tweaks will be enough to allay the hardcore critics who believe the Code needs a complete overhaul will be borne out in next year's report.

For others, the new Code represents an opportunity for boards to break the rinse and repeat cycle. The FRC's **Annual Review of Corporate Reporting 2023-24** says, "Good quality reporting does not necessarily require greater volume". By switching to a review and renew approach, boards can create streamlined governance and reporting frameworks that are fit for the future.

# Priorities for boards in 2025

## 1 A dynamic approach to governance

The biggest takeaway from our 2024 Corporate Governance report is that companies need to review and renew their governance frameworks more often than every 5-10 years. Though not easy, the best boards are making governance a regular agenda item and challenging their own thinking about delegations of authority. This enables them to adapt their decision making infrastructure for present and future challenges and opportunities.

## 2 Benefit from the Code

The Code is a principles-based framework that distils best practice governance and has recently evolved to reflect the governance concerns and challenges faced by the UK's highest-performing companies. Changes to the Code come into effect in January 2025, providing a window for the 67% of companies that haven't yet complied (or explained why they're not complying) – our 10-year study found that when using the Code as a blueprint, companies had stronger overall performance.

## 3 Leadership, culture and talent

People-related risks – including a skills shortage, competition for talent, and the ability to retain employees – are some of the biggest threats facing UK companies in the next 12 months. Organisations need to focus on diversity in leadership and on culture in order to hire, train, develop, and retain skills for the medium and long term. This is true at board and senior management level and companywide.

## 4 Risk, opportunity and resilience

Organisations need to clearly articulate opportunities and threats to their strategy and business model (and what they're going to do about them). They need to ensure material controls support resilience to risk while opportunities aren't missed. Our study showed that AI and ESG will be two focus areas for this in 2025.

## 5 Stakeholder engagement

Boards should prioritise open and transparent communication and disclosures with stakeholders. Boards that are proactive in their approach to stakeholder engagement benefit from good data/insights and KPIs that can help support generative discussions and good governance outcomes.

# Review and renew for a strong future

# Methodology

## Our Corporate Governance Review has analysed, tracked, and captured best-practice and emerging governance trends for more than two decades.

We use data from the front end of 254 annual reports from FTSE 350 companies, who must apply the UK Corporate Governance Code 2018. Our analysis excludes investment trusts which follow the AIC Code of Corporate Governance.

With thanks to Eve Singleton, Antoinette Onwona, Jessica de Lange, Violah Matwaka and Erin Causley.

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