

**Email – Belonging Space**

28 February 2018

## **Response to FRC Consultation – Proposed Revisions to the UK Corporate Governance Code**

Thank you for the opportunity to respond as part of the public consultation. Please find our points below.

### **Section 1 – Leadership and purpose**

*Q2. Do you have any comments on the revised Guidance?*

The revised Code is a chance to go further, to make a shift in leaders' commitment to culture: from knowing culture is 'very important', to actually doing something about it, and holding themselves accountable for leading it. The challenge is how to frame governance, usefully, about culture and values, in a way that relates to practical daily business practice.

'Culture' and 'Values' are huge subjects, and can be given a sweeping generalised view, rather than specific interpretation. Being specific about culture and values is important for Boards to hold themselves and their companies to accountability and integrity. Therefore, we recommend encouraging Boards to articulate what they mean, what are the significant components of culture and values in their organisations – in order to enable employees and shareholders to understand the framework for how culture is integrated within a company.

For example, the reference to 'alignment' of culture and values, and 'taking corrective action' **"...The board should establish the company's purpose, strategy and values, and satisfy itself that these and its culture are aligned.**

...

2. *The board should monitor and assess the culture to satisfy itself that behaviour throughout the business is aligned with the company's values. Where it finds misalignment it should take corrective action."*

This is appropriately broad (the subject is so wide, that to define will mean to limit). However, it leaves it open to a brittle and authoritative interpretation, rather than using values in a practical way to guide decisions and long-term sustainability.

Could the guidelines add a phrase to encourage Boards to think in active rather than passive terms? For example: Boards should express values in a specific way, with relevance to the business: 'What we value'. And because we value something: 'What we do about it'.

*Q3. Do you agree that the proposed methods in Provision 3 are sufficient to achieve meaningful engagement?*

The provision is for a method of gathering views, and for workforce to raise concerns. We would like to see this provision go further, with accountability for directors to address concerns, and in particular with a Duty of Care to respond, and act responsibly, to issues raised by employees which have direct impact on their safety and wellbeing, the future of employment, or good stewardship of pensions.

Given recent examples, in a number of significant businesses, of the breakdown of good stewardship, resulting in large-scale loss of employment and/or loss of pension funds, this is of high consideration currently.

Real accountability of boards to engage with, and act on, employee interests, may prove even more important post-Brexit.

### **Section 3 – Composition, succession and evaluation**

*Q4. Do you consider that we should include more specific reference to the UN SDGs or other NGO principles, either in the Code or in the Guidance?*

Yes. Again, this is about underlining accountabilities. If it is not in the FRC Code and Guidance it is unlikely to be reinforced.

*Q9. Do you agree that the overall changes proposed in Section 3 of revised Code will lead to more action to build diversity in the boardroom, in the executive pipeline and in the company as a whole?*

Yes, these proposed changes will encourage action to build diversity. Either in the code of accompanying guidelines, it would be helpful to go further.

Yes, inclusive and diverse boards lead to improved board effectiveness, and better decision-making – but there are steps of maturity from diversity, to inclusion, to leading with a strong sense of belonging.

- Ensure that board membership is diverse and relevant to the company's business – e.g. the make-up of employees, its communities, its market.
- Ensure that boards operate effectively as a unit, and are responsible for self-assessment on their performance (similarly to the accountability school Governing Bodies) and encouraged to have independent observation of their functioning as a unit
- Broadening the reach of who might 'belong' to a board and nurturing future leadership

### **Section 4 – Audit, risk and internal control**

We are keen to see a more explicit link of risk and internal audit with culture:

- Important to identify impact of culture on business risk.
- Making a specific link between policies and practice.

### **Section 5 – Remuneration**

Aligning remuneration, and in particular Directors' bonus, to company's purpose, strategy and values. Take on more of the implications of Matthew Taylor Review and 'Good Work' principles.

- Transparency and equity in pay: as well as general views of diversity and gender pay-gap, their may be particular themes that are relevant to an organisation, for example, for companies in emerging markets, to compare the pay or status equity of local and international employees
- Aligning remuneration, and Directors' bonus, to company's purpose, strategy and values: This needs to be handled in a way that is transparent, meets audit standards, and can be trackable in reasonable terms (hence the point above about linking culture with business risk and internal audit)
- Fair rewards for workforce: on a similar basis, transparent and trackable. Also demonstrating the relative equitable split of rewards for workforce and Directors, in a way that is sustainable – giving fair returns for shareholders and all those employed.