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Corporate governance guidance – large private companies

A high level overview of the three principal UK corporate governance codes

With effect from 1 January 2019, large private companies* will be required to explain their governance practices. As such they may find utilising one of the governance codes useful. Choices include the Wates Corporate Governance Principles for Large Private Companies. To better inform your choice, we have compared the three principal codes available for adoption in the UK.

Theme	Wates Principles (2018)	QCA Code (2018)	UK Corporate Governance Code (2018)
Compliance	Consists of six principles to "apply and explain" against, with guidance for each provided	Consists of ten principles to be applied. A "comply or explain" approach is adopted	Consists of 18 principles to apply and 41 provisions to "comply or explain" with
Code reporting	Supporting statements for each principle to be provided	Related disclosures including Chair's statement to be published in annual report and/or website	Meaningful statement on application of principles required. Provision compliance and departures disclosure required
Board structure	Dependent on structure, complexity and size, boards may wish to delegate some matters to committees. These include financial reporting, risk, succession and remuneration. A committee responsible for designing remuneration policies may benefit from the contribution of an INED	The board should be supported by committees (eg audit, remuneration, nomination) that have the necessary skills and knowledge to discharge their duties and responsibilities effectively	There should be audit, nomination and remuneration committees. The audit and remuneration committees for smaller companies**, should have two, independent non-executive directors*** (INEDs). Before appointment, a remuneration committee chair should have served on the committee for at least 12 months
Independence	No direct recommendation. Companies are urged to consider the value of independent representation	The board should have an appropriate balance between executive and non-executive directors (NEDs) and should have at least two INEDs. Independence is a board judgement	At least half of the board, excluding the chair, should comprise INEDs. The chair should not remain in post beyond nine years from the date of their first appointment to the board. Criteria for independence provided
Re-election	No direct recommendation. INEDs should be appointed via a transparent procedure	Not applicable	All directors should be subject to annual election by shareholders. A director's value-add to the company's long-term sustainable success must be provided

* Large private company: a company with either 2,000 or more global employees or a turnover over £200 million globally and a balance sheet over £2 billion globally. Includes subsidiaries of UK and overseas parents that meet this threshold - Companies (Miscellaneous Reporting) Regulations 2018

** Smaller companies – those premium-listed companies that sit outside the FTSE 350. Includes AIM listed companies.

*** Independent non-executive director – a "NED who is independent in character and judgement without any relationships or circumstances which may affect this" B.1.1 – UK Corporate Governance Code

Theme	Wates Principles (2018)	QCA Code (2018)	UK Corporate Governance Code (2018)
Chair & chief executive roles	Consideration should be given to separating these roles to ensure a balance of power and effective decision-making	Not applicable	The roles of chair and chief executive should not be exercised by the same individual
Senior Independent Director (SID)	Not required	Companies should consider whether it is appropriate to have a SID. The SID should attend enough meetings with major shareholders and analysts to ensure a balanced understanding of shareholders' issues and concerns	The board should appoint one of the INEDs to be the SID to provide a sounding board for the chair and to act as an intermediary for the other directors and shareholders when necessary
Board effectiveness evaluation	Guidance suggests regular evaluations to demonstrate individual and board effectiveness (no mandatory period)	The board performance review may be carried out internally or, ideally, be externally facilitated from time to time (no mandatory period)	The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. The chair of smaller companies should consider having a regular externally facilitated board evaluation
Employees and other stakeholders	Companies can enable meaningful two-way dialogue with their workforce by developing a range of formal and informal communication channels. Boards should demonstrate how the company has undertaken effective engagement with material stakeholders and how such dialogue has been considered in its decision-making	The company should explain how it obtains stakeholder feedback and the actions that have been generated as a result of this feedback	The board should establish a method for gathering the views of the workforce. This would normally be either a director appointed from the workforce, a formal workforce advisory panel or a designated NED. The board should explain in the annual report how it has engaged with employees and other stakeholders, and how their interests and the matters set out in S.172 of the Companies Act 2006 influenced the board discussion and decision making
`Fair, balanced and understandable' assessment	Stakeholders should be presented with a fair, balanced and understandable assessment of the company's position and prospects on an annual basis	Not applicable	The board should present a fair, balanced and understandable assessment of the company's position and prospects
The board and culture	The board must make and maintain a commitment to embedding the desired culture throughout the organisation. In addition, culture should be effectively monitored. No culture disclosures specified	The board should embody and promote a culture that is based on sound ethical values and behaviours and use it as an asset and a source of competitive advantage. The corporate culture should be recognisable throughout the disclosures in the annual report, website and any other statements issued by the company	The board should address and monitor culture. Where it is 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
Governance review	The chair and company secretary should periodically review the governance processes to confirm they are fit for purpose and means of strengthening it	Not applicable	The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently

How can we help?

Have you decided which code to choose? Looking for an assessment of your current governance practices or gap analysis?

Governance is not one size fits all. We can advise on the features of different governance codes to help you identify which code is best for your business and how the design and application can support your strategy. We can check compliance with the chosen code, support its adoption and help with reporting against it. We have 17 years of experience of assessing annual reports and a unique best practice database to help you with the new requirements.

We can also undertake board effectiveness reviews to provide assurance and support the development of your leadership team.

Our Governance Advisory team brings its board governance and shareholder relations team together with business psychologists, executive coaches and leadership development specialists. We support organisations in shaping fit-for-purpose governance structures that build trust and integrity with stakeholders; ensure dynamic performance through leadership for the future; and create environments in which their people and operations can thrive.

Any questions? Get in touch grantthornton.co.uk

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