Policy Voice full survey results July 2023

Number of respondents: 876
Survey dates: 13 - 30 July

When reporting on company strategy, do you think that boards should always be required to report on the company's climate ambitions and transition planning towards net zero?	
No, this should be a matter for each board to decide	51.1%
Yes, this should always be provided	47.4%
Don't know	1.5%
Grand Total	100.00%

Do you think that annual reports should have to include more information on directors' external time commitments with other organisations and how they manage these?	
No, boards and directors should decide how much information is reported	58.9%
Yes, more information should always be provided	39.2%
Don't know	1.9%
Grand Total	100.0%

We used this data to submit our consultation response to the Financial Reporting Council in respect of proposed changes to the UK Corporate Governance Code.

We also produced UK 'Corporate Governance Code - what changes have been proposed and do they go far enough?' and hosted a webinar under the same name, looking at some of the key changes to the Code and what our expert panel had to say about it.

In the comments section, members expressed their views on the prospect of mandatory reporting on their company's climate ambitions and transition planning towards next zero. Those who opposed the measures expressed their concern around increased reporting burden on businesses [of varying sizes].

'There already is a huge reporting burden on companies. I would welcome a push to reduce the reporting burden on companies and to make sure the reporting that remains really adds value to society and is easy to understand by the general public rather than the current technical tick box regime that is way too complicated for the average person to understand and in reality is very rarely read by anyone.' (London, 100-249 employees, Financial services, turnover of over £50 million)

Many also wanted to ensure that firms could retain autonomy with regards to what extent they choose to report climate ambitions.

'Regarding reporting on climate ambitions: for companies in scope of the code yes this makes sense. Though they should retain substantial freedom to determine their goals/targets, different companies may rightly have different emphasis.' (South East, 2-9 employees, Professional, scientific and technical activities, turnover of under £250,000).

Opposition to the proposal was also driven by a sense that boards should be focusing on standard operational matters, instead of political targets created by ministers, crafted independently of board input.

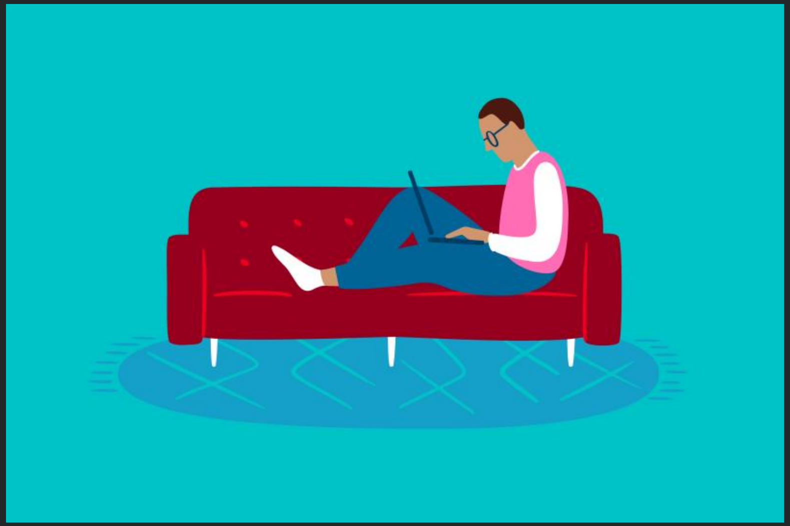
'Boards need to take a long term view as to how they respond to the net zero target, which was a government announced target and personal legacy ambitions dictate reached with no consultation. Boards need to concentrate on the issues needed to operate both responsibly and profitably, without having to slavishly follow the latest political grandstanding fashion.' (East Midlands, 2-9 employees, Civil service/public administration, turnover of under £250,000)

When asked about increased transparency on directors' external time commitments in annual reports, sentiment suggested this was only necessary if the activities posed a conflict of interest.

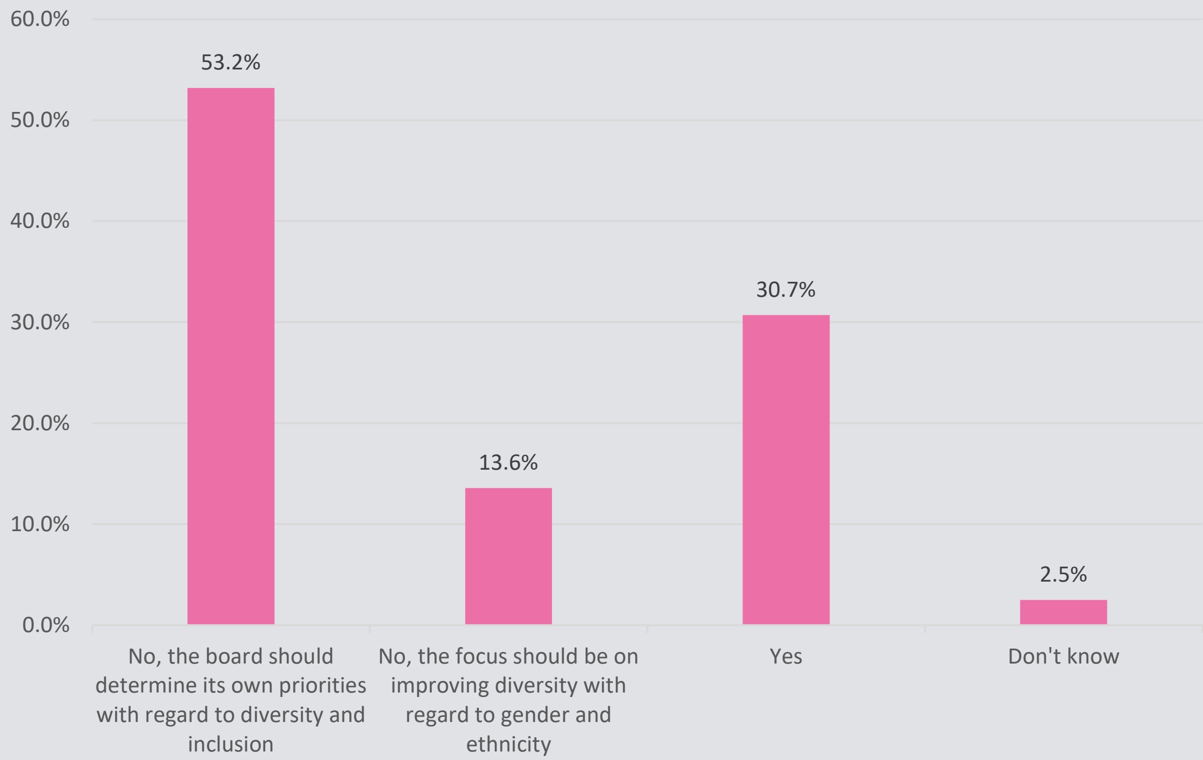
'With regard to director's external time commitments these should be reported where they have the potential to be perceived as causing a conflict of interest.' (North West, 2-9 employees, Professional, scientific and technical activities, turnover of £250,000 - £2 million)

Others noted the lengthy nature of annual reports and the need for them to be reduced in size, rather than the scope added to.

'Annual Reports for listed companies have now become absolute monsters - I seriously do not believe that any more than a handful of shareholders read them all the way through - effort is needed to reduce their length, significantly.' (North East, 2-9 employees, Financial services, turnover of £250,000 - £2 million)



With respect to board and senior management positions, should the Code give equal weight to all diversity characteristics - to encourage companies to consider diversity beyond gender and ethnicity?

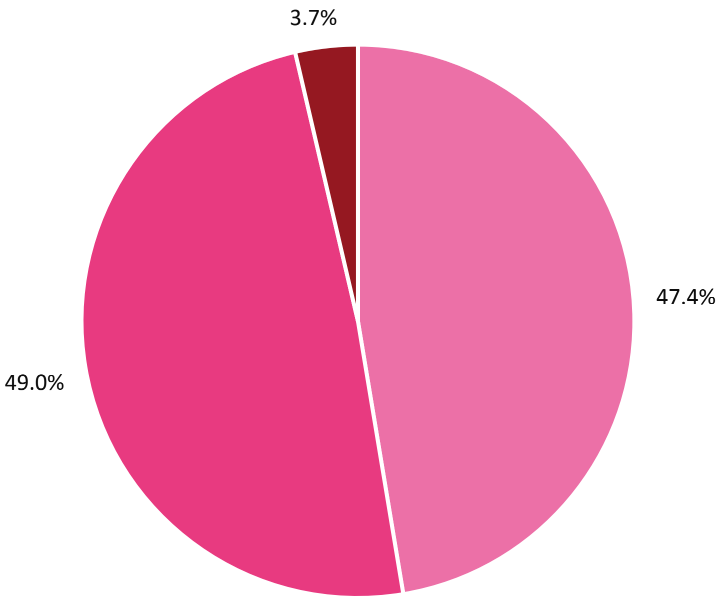


For this question, the comments suggested that instead of fixing targets based on diversity characteristics, the proposed board member's whole background and suitability to the role should instead be considered.

'Diversity and inclusion are not straightforward. I believe it is more important to demonstrate an impartial/unbiased process for talent management and board composition over fixed targets. We need the right skill, knowledge and mindset mix.' (London, 250+ employees, Information and communication, turnover of over £50 million)

'Simply the best person for the job should be employed irrespective of any other conditions' (South West, 10-49 employees, Manufacturing, turnover of £2 million - £10 million)

Is it reasonable to expect directors to have to disclose any weaknesses or failures in internal control and risk management systems in their annual report?



Those who agreed noted the role of transparency within practicing good governance.

'Corporate transparency is an absolute fundamental of good business in the 21st century; a statement of values is meaningless without authentic and visible leadership by the Board.' (South East, 250+ employees, Civil service/public administration, undisclosed turnover)

Some concerns stemmed from the potential for negative commercial impact following such transparency.

'Disclosure on internal controls and risk management is a difficult one as it can have a commercial impact that is disproportionate to the actual level of risk. However, against this you have to balance the risk that Boards will downplay concerns or issues that do have a potential impact to the wider stakeholders of that business or organisation. A bit of 'thin edge of the wedge' that has led us to large scale corporate failures in the past.' (London, 50-99 employees, Professional, scientific and technical activities, turnover of £2 million - £10 million)

Others expressed the need for there to be a difference in the expectations of large and small businesses.

'For larger Companies and PLC I would go for full disclosure, but for smaller entities purely at Boards discretion.' (London, 2-9 employees, Professional, scientific and technical activities, turnover of under £250,000)

When asked about the prospect of directors' contracts including provisions that would enable the company to recover and/or withhold sums or share awards in cases of subsequent misconduct or wrongdoing, one director flagged this as a legal issue, and not one that necessarily needs be covered in contracts.

'"subsequent misconduct or wrongdoing" - These are often recoverable under common law.' (East Midlands, 2-9 employees, Financial services, undisclosed turnover)

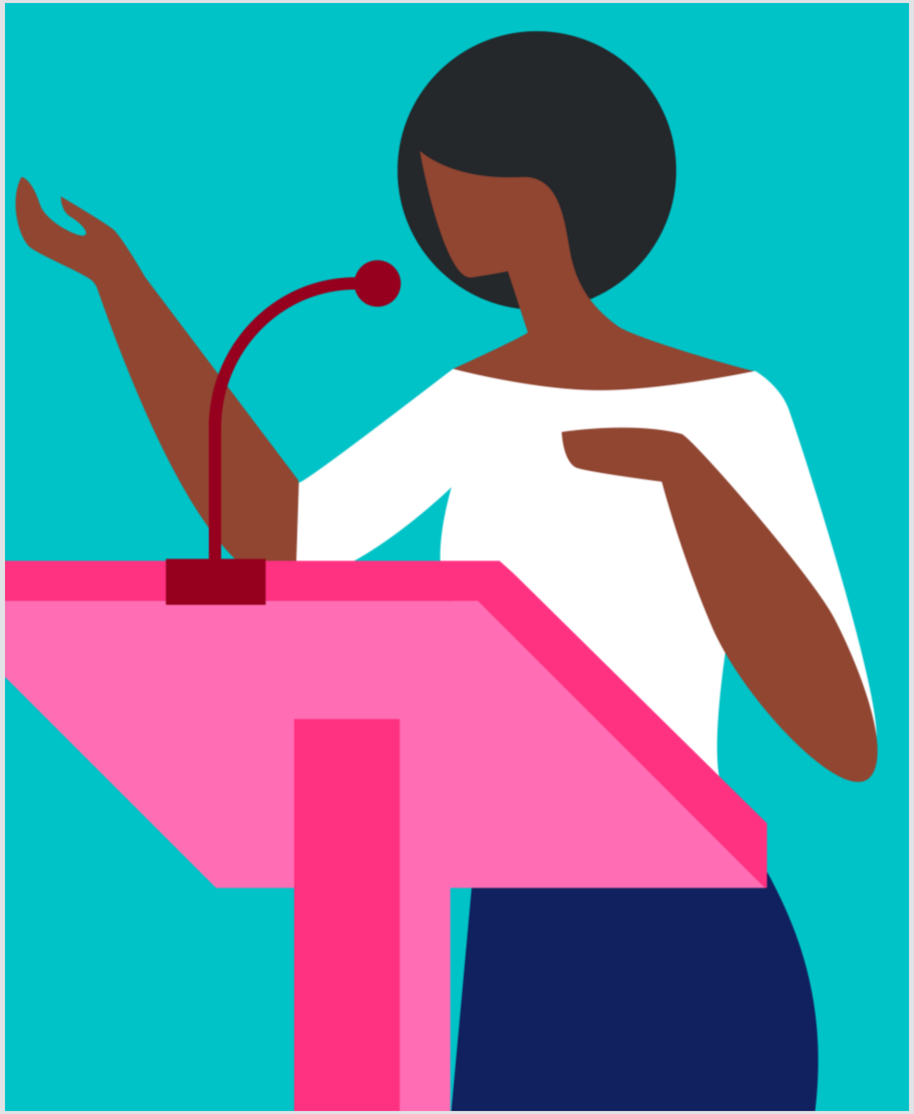
Others expressed the importance of this with regards to taxpayer money.

'Particularly in cases of public service companies and where taxpayers' money is involved' (North West, 50-99 employees, Other services, turnover of £10 million - £50 million)

Some, however, countered support for this by flagging the possibility of abuse of power and questioned how far back one could go if a change in governing body deemed financial sanctions on previous directors necessary.

Its a very dangerous game to suggest that companies can recover sums or share awards as these might be entirely subjective and could be used as a punishment or deliberate abuse of power. For example, Labour re-nationalise water companies are they then able to recover funds from existing and previous directors? Where then does the entire concept of a limited liability go? (South East, 100-249 employees, Manufacturing, turnover of £10 million - £50 million)

Should directors' contracts always include provisions that would enable the company to recover and/or withhold sums or share awards in cases of subsequent misconduct or wrongdoing?	
No, the contents of directors' contracts should be a matter for boards and directors to determine	30.3%
Yes, such provisions should always be included in directors' contracts	67.1%
Don't know	2.6%
Grand Total	100.0%



In relation to the general theme of corporate governance and updates to the Code, a strong theme [note commonly expressed throughout by most members] was the need for the type of company to be considered when considering the above amendments/requirements.

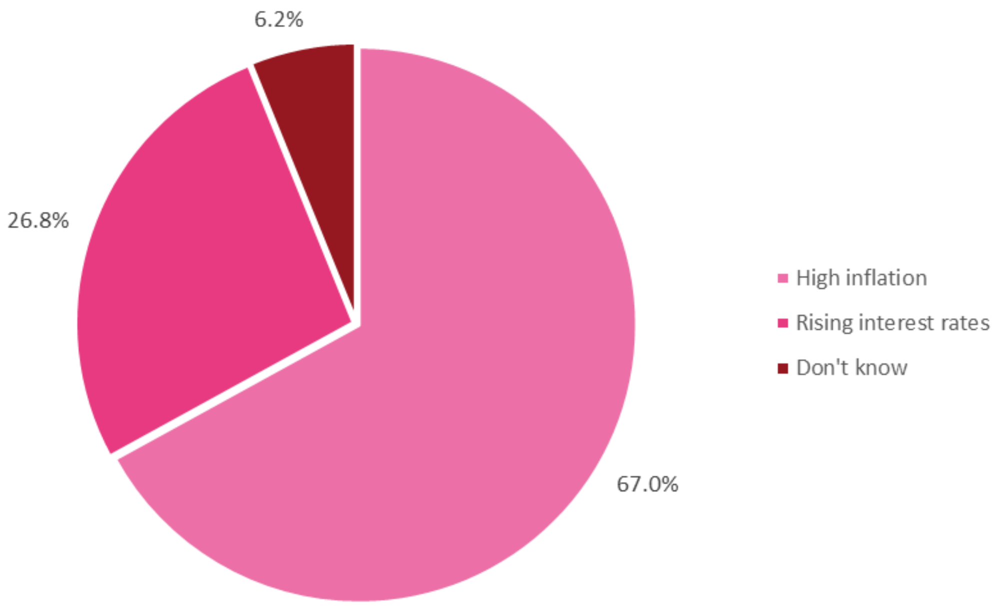
Like all questions, the above questions are not black or white, the answers often depend on the type of company, eg PLC or private limited company. (London, 50-99 employees, Manufacturing, turnover of £10 million - £50 million)

Across the board application of the above to all companies would add huge red tape to SMEs and therefore cost, especially as the above would not relevant/ applicable to many small companies. I would expect much of the above to reported for publicly listed companies though, especially FTSE 250 and above. (West Midlands, 0-1 employees/sole trader, Professional, scientific and technical activities, turnover of £2 million - £10 million)

Economic Monitoring

The following data contributed to our Director's Economic Confidence Index, which we send directly into the heart of government each month. July data gave a reading of -30, confirming that the deterioration seen in June was a substantive change rather than a monthly blip. This was featured in articles by The Times, The Telegraph and City A.M.

If you had to choose, which of the following would you say is causing the greatest difficulty for your organisation?



In the comments section, many members highlighted how inflation was affecting their business through the need to raise wages to support staff in a high-inflation environment.

"It's this concern around cost of living and needing to meet pay increases to ensure everyone is ok". (East of England, 250+ employees, Professional, scientific and technical activities, £10m-50m turnover)

We also picked up evidence of economic distress: some firms cited customers' lack of disposable income and client difficulties leading to less orders. Those that couldn't pass on high costs talked about increasing pressure on their own margins. Others highlighted how it wasn't interest rates or inflation per se that was causing difficulties but rather the general climate of economic uncertainty that weighed down on decision-making.

Depending on the nature of their business, we also found examples of rising interest rates beginning to constrain investment. This took two forms: some members were less likely to invest themselves due to the higher cost of debt finance. Others, who were themselves recipients of equity investment, cited increased reluctance from their own backers to invest in growth plans.

One member reported for example that *"as a Biotech with no borrowings, the high interest rate adversely affects the appetite for private equity investment rather than it coming as a direct cost to the business." (Scotland, 10-49 employees, Professional, scientific and technical activities, under £250,000 turnover)*

This is one of our quarterly economic monitoring questions

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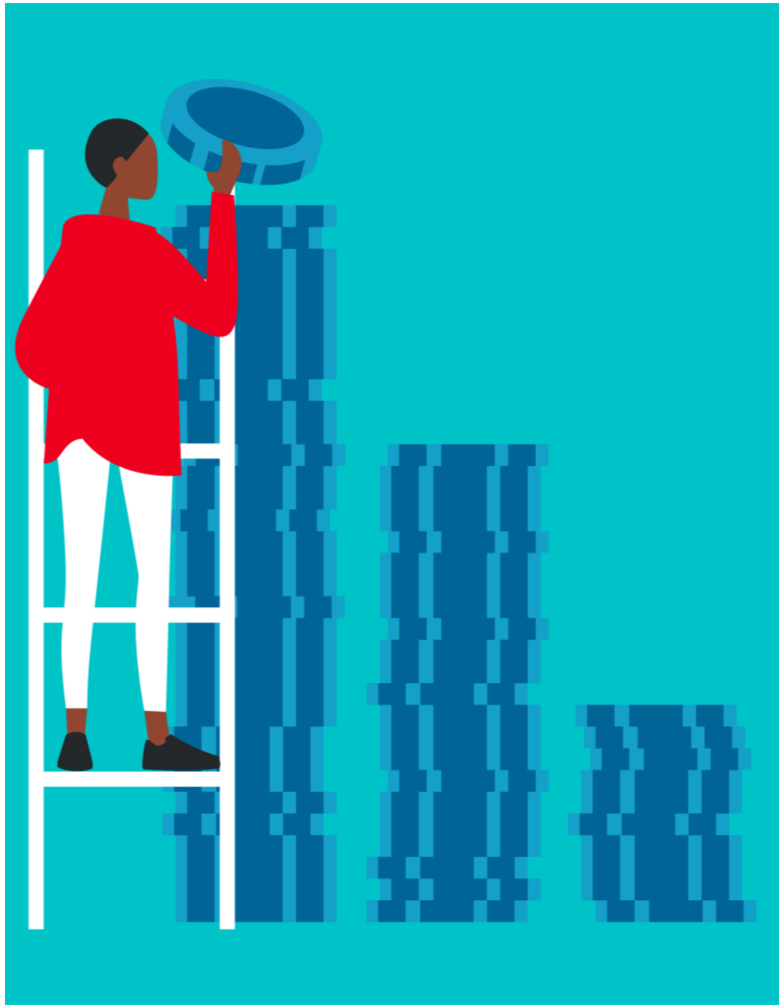
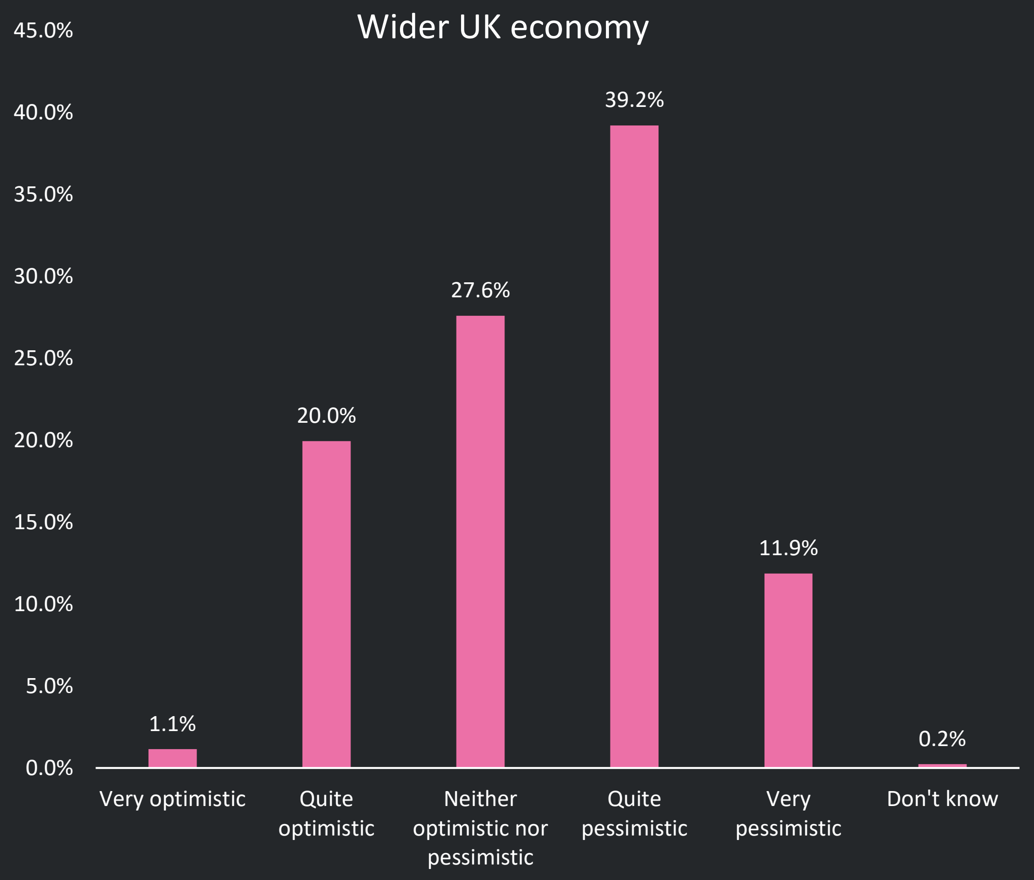
At what point, if at all, do you expect the rate of inflation in the UK to peak before starting to fall back again, or has it already peaked?	
Summer 2023	10.0%
Autumn 2023	14.0%
Winter 2023-2024	14.6%
Spring 2024	11.5%
Summer 2024	3.0%
Autumn 2024	3.1%
Later than Autumn 2024	3.3%
Inflation has already peaked	35.4%
Never	0.6%
Don't know	4.5%
Grand Total	100.0%

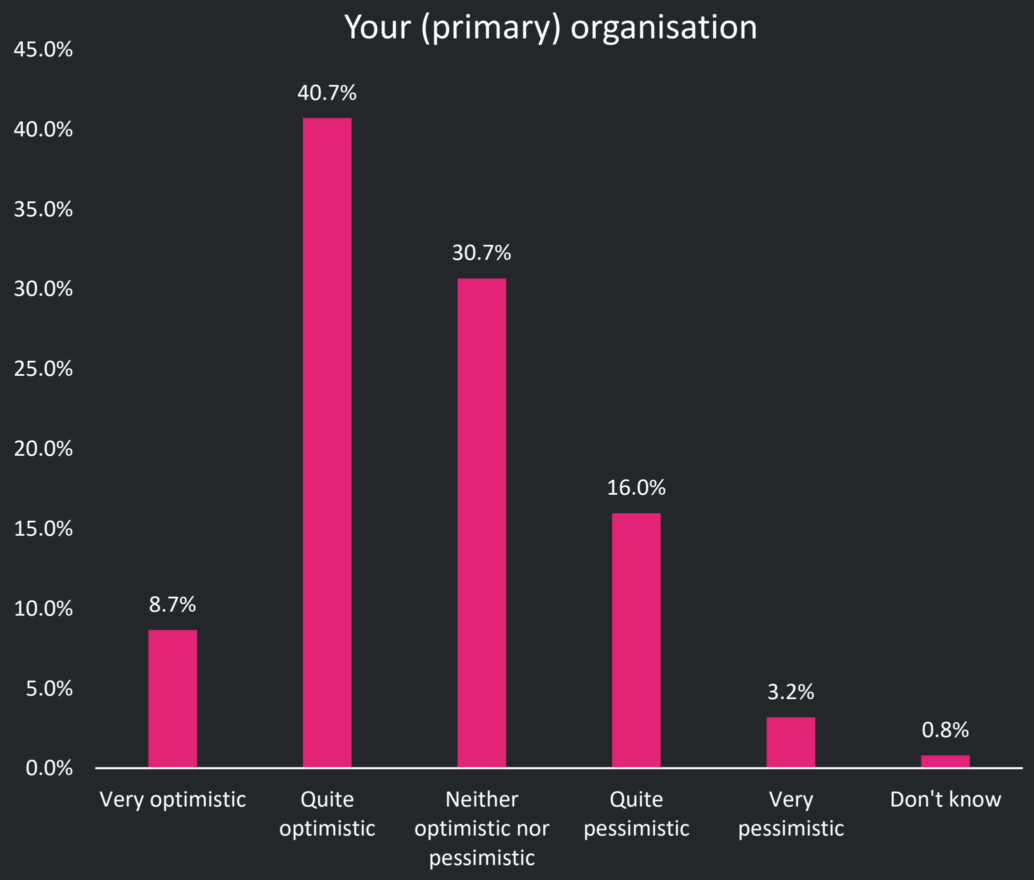
Comparing the next 12 months with the last 12 months, what do you believe the outlook for your organisation will be in terms of:

	Much higher	Somewhat higher	No change	Somewhat lower	Much lower	Don't know	N/A
Business investment	5.2%	29.6%	40.1%	16.4%	6.6%	0.2%	1.7%
Costs	15.8%	68.9%	10.6%	3.1%	0.5%	0.2%	0.9%
Exports	3.0%	15.7%	32.3%	4.4%	2.6%	0.5%	41.5%
Headcount	3.2%	32.2%	47.8%	12.3%	2.5%	0.5%	1.6%
Revenue	7.0%	49.5%	20.4%	17.6%	4.1%	0.2%	1.3%
Wages	10.4%	65.3%	20.8%	1.5%	0.0%	0.3%	1.7%



How optimistic are you about both the wider UK economy and also your organisation over the next 12 months?





Members who were pessimistic about the future split into two camps: first, those who worried about the impact of decisions made by policymakers, be it the tax and regulation policies of the government or the Bank of England raising interest rates and so precipitating a recession; and second, those who cited a deterioration in the operating environment for their own firm. In the latter camp, examples were given of falling customer demand, high wage costs, energy price volatility and specific problems in the house building sector.

Those who were positive about the future, however, were far more likely to cite specific advantages relating to their own organisations, either due to good management decisions or operating in sectors that were demonstrating growth.

For example, a services company in South East England (2-9 employees, turnover £250,000-£2m) stated they had been "fortunate in securing additional investment income and this has enabled us to maintain our staffs pay and also expand and develop our services".

A similar-sized services company based in London but mainly operates outside the UK cited *"a demand for UK know-how both from emerging markets and wealthier countries investing heavily in innovation, transformation and developing resilience".*

Even among these firms that were flourishing, however, there was a recognition that times were tough, even if not for them.

"we've weathered other storms and will come through this one too." (South East England, financial services 10-49 employees, turnover £2m-£10m)

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Our mission is to develop, support and represent skilled, knowledgeable and responsible leaders for the benefit of the economy and society at large.

Integrity and **Enterprise** are our core values.

The objects of the institute are:

To promote for the public benefit high levels of skill, knowledge, professional competence and integrity on the part of directors, and equivalent office holders however described, of companies and other organisations.

To promote the study, research and development of the law and practice of Corporate Governance, and to publish, disseminate or otherwise make available the useful results of such study or research.

To represent the interests of members and of the business community to government and in the public arena, and to encourage and foster a climate favourable to entrepreneurial activity and wealth creation.

To advance the interests of members of the Institute, and to provide facilities, services and benefits for them.