Chartered Governance Institute UK & Ireland

FTSE 350

Boardroom Bellwether

Summer 2024

Contents

Introducing Boardroom Bellwether

The FTSE 350 Boardroom Bellwether is an annual survey by The Chartered Governance Institute UK & Ireland that seeks to gauge the sentiment inside British boardrooms. It canvasses the views of FTSE 100 and FTSE 250 company secretaries to find out how boards are responding to the challenges of the economy, market conditions and the wider business and governance environment.

Questions cover a range of business concerns, topical issues and specific governance matters to provide unique insight into what British boards are thinking. Some questions change from survey to survey, but the core remains the same to reveal trends and shifts in opinion. This report summarises the key findings of the latest survey, which took place in June and July 2024.

The circumstances of this year's survey were unusual in that it opened just before the general election and concluded in early August after the Labour government's King's Speech. Responses on business matters evolved and became more positive as understanding of Labour's intentions in power became clearer.

Some may be surprised that questions which might have produced strong responses in one direction or another were more nuanced, such as the views on corporate pay for senior executives or on the level of regulation faced by businesses. Other areas highlight strong positive progress, such as gender balance on boards or confidence in board members' knowledge and abilities on ESG matters. There is, perhaps, a risk that while boards may view issues as resolved, even for good reasons, confidence is viewed as complacency. Sometimes there is no mountain peak on which to plant the flag to mark achievements, only the need for constant effort which, if not maintained, risks losing ground.

I would like to thank all the company secretaries who made the time to complete this survey as I am well aware how busy you all are. I would also like to thank my colleague David Mortimer, our Head of External Affairs, for work in analysing and preparing the report this year.

If you have any questions, comments, or thoughts to share on any of the issues it raises, please get in touch.

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#FTSEBellwether

For full results, please visit www.cgi.org.uk/bellwether. Please note that, due to rounding up or down, the data from the survey does not always add up to 100%. In addition, in some of the graphics, 'don't knows' have been excluded from the results.

Key metrics

53%

expect an improvement in UK economic conditions, a 20% increase on 2023 and the 2nd highest level of confidence since 2015.

94%

believe their board to be ethnically diverse. The deadline to meet the Parker Review target of at least one ethnic minority board member on every FTSE 250 board is the end of the year. Despite reported board diversity, only 51% report on their ethnicity pay gap or plan to over the next three years.

44%

Expectations of an improvement in the global economy remain stable, with 44% anticipating an improvement over the next year, compared to 47% in 2023.

47%

Nearly half think the UK will become more competitive in the next five years. One quarter (25%) think there will be a decline.

53%

think the London Stock Exchange will decline over the next five years despite recent changes to listing requirements. A third (31%) think it will not.

74%

report their exposure to cyber risk will increase. 24% think it will remain the same.

91%

Global economic risk is the most cited major risk factor, selected by 91% of respondents. This was closely followed by cyber risk and reputation, tied at 88%.

100%

of those who have discussed the ethical use of AI have concluded they need policies and processes for its use.

92%

of boards are very or fairly well prepared to understand and take action on ESG issues.

94%

of boards have either published detailed plans for net zero transition or have plans in development.

47%

rate the quality of engagement by their institutional investors as excellent or good.

53%

of boards view rules and scrutiny over executive pay to be detrimental to hiring the right candidates. 29% do not.

86%

rated external board performance reviews as effective and nearly all (97%) use them to improve board performance.

The business environment

Economic outlook

Confidence in the global economic outlook remains in line with last year's results with most companies expecting some improvement (44%) or no change (25%) over the next 12 months. While this represents a slight dip since last year when nearly half (48%) thought there would be some improvement, there were also fewer boards expecting a decline (22%). This cautious optimism is consistent with economic forecasts which predict modest growth.

UK economic confidence

The picture is more positive for the UK economy where half (50%) of respondents predict a slight improvement over the next year. Apart from Summer 2021 when companies were confident of a post-pandemic bounce back, 2015 was the last time we found this level of confidence. As with the global outlook, the optimism is restrained, and in line with forecasts such as that of the IMF which predicts 0.7% of growth for the UK economy in 2024 and 1.5% in 2025.

When we separate out the FTSE 250 from the FTSE 100, the former tend to be more optimistic, particularly for economic growth in the UK (63% predict an improvement).

As the survey was open during the election, we can track how confidence improved after the election results and, again, after the King's Speech. Rather than indicating political support for one party over another in FTSE boards, this trend reflects boards' dislike of uncertainty over policy changes. So far it seems the new government's announcements have not frightened the horses.

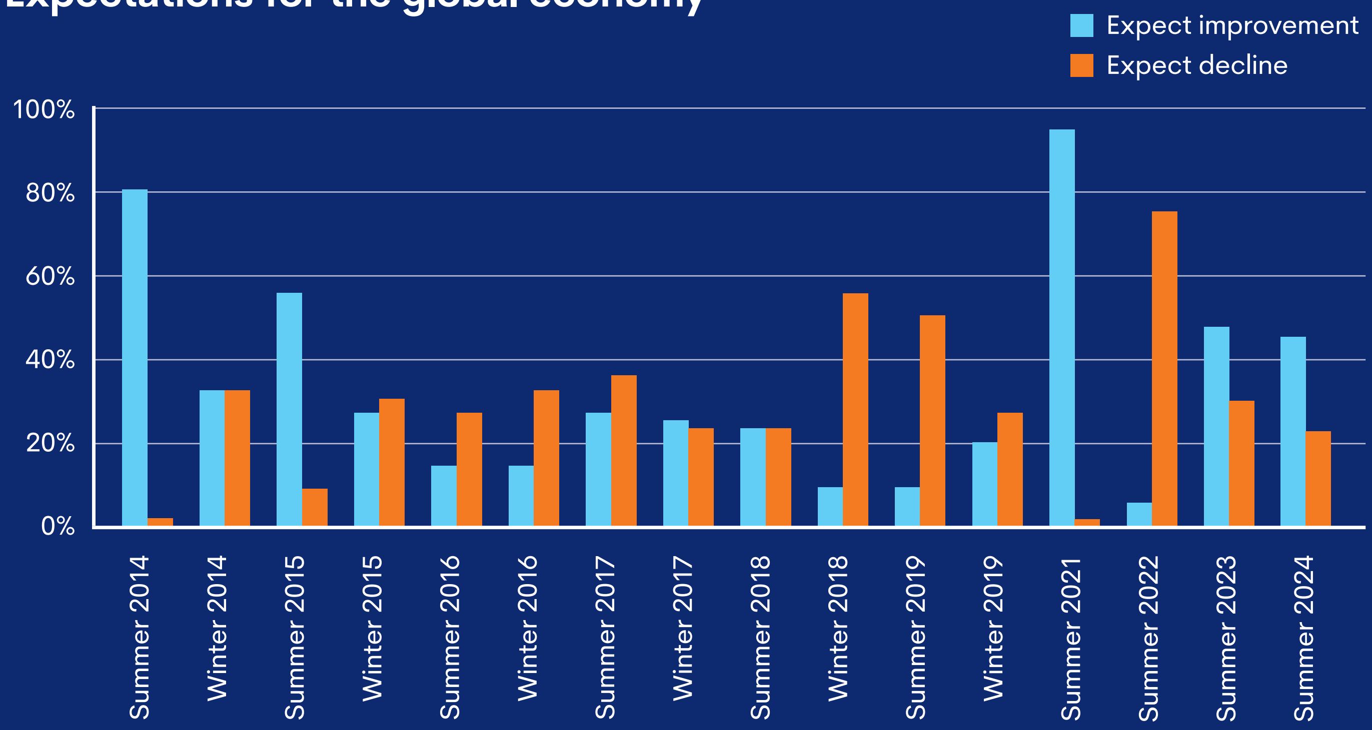
UK competitiveness

Labour's core campaign message was about growing the economy. Boards will take some convincing still on whether the government will achieve that ambition over the course of this Parliament.

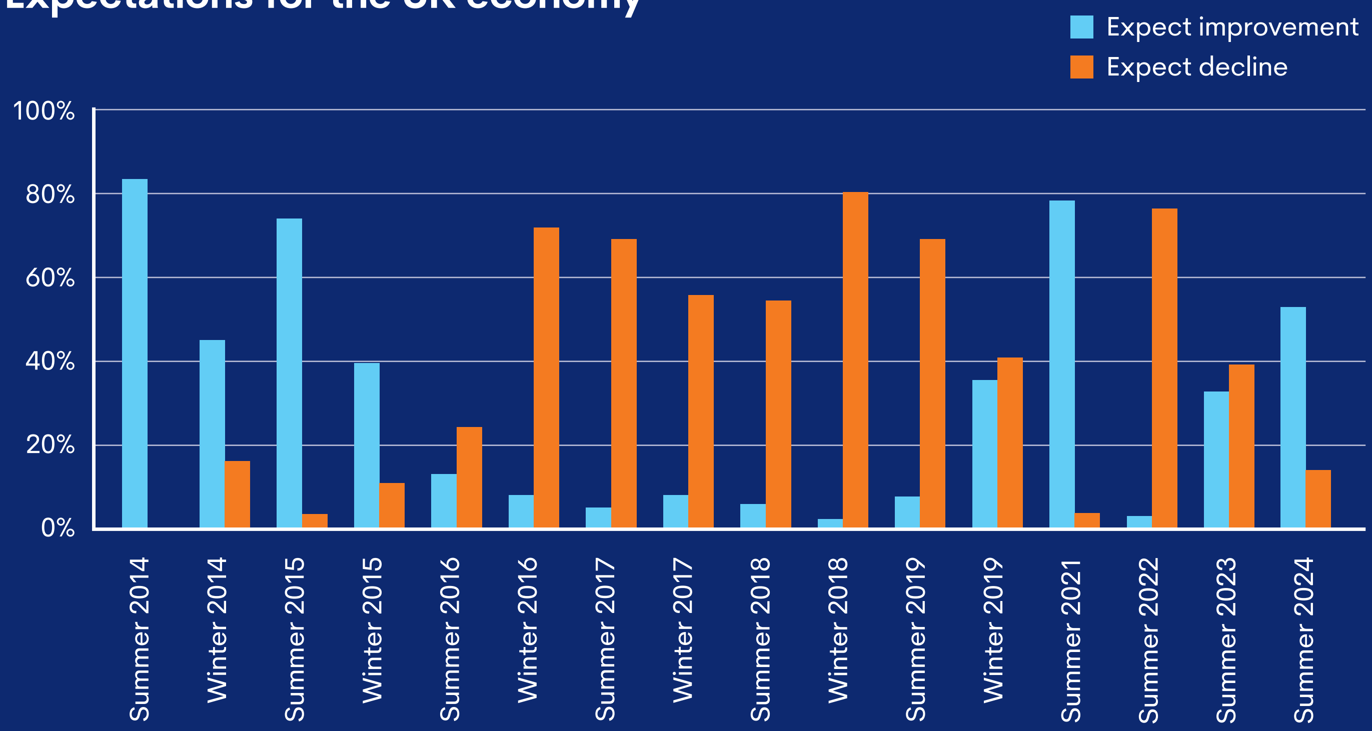
Nearly half (47%) thought there would be an improvement in the UK's competitiveness over the next five years, but hardly any believed it would be significant. Nevertheless, this is considerably more optimistic than last year when only 15% thought there would be an improvement and over half (56%) expected a decline. Last year, boards were concerned about the impact of inflation and the cost of living crisis on their employees and customer base. Since then, energy prices have levelled off and inflation rates have returned to around 2%, a marked drop from the same period last year when the rate was four or more times higher.

While this optimism is welcome, it is not surprising that it is muted as companies will still be taking the measure of the new government, the first Labour administration in 14 years. Furthermore, the background to the election was not optimistic about the state of the UK with the campaigns focused on troubled public services, poor infrastructure and there being little fiscal headroom for change, responses to this year's Bellwether reflect these concerns.

Expectations for the global economy



Expectations for the UK economy



Capital expenditure plans

The increased in optimism regarding the economy has not yet been matched by plans to increase capital expenditure. Less than half (42%) said it would increase over the next twelve months and a third (36%) said it would remain unchanged. These figures are broadly in line with last year when 40% thought it would increase and 46% that it would remain unchanged. However the proportion of respondents contemplating a decrease is higher (20%) than usual. Continued high interest rates have made borrowing for capital investments less attractive in recent years and as rates are predicted to remain high for some time to come this is likely to continue to be an issue.

Calls for government investment

When asked about the key factors affecting UK competitiveness, the most common theme was the need for good government, one which was 'steady and stable' and 'decisive and cohesive' and would focus on the key issues.

Where then should the government prioritise their investment? The answer, it seems, is the UK's infrastructure.

'The government should not subsidise specific areas, instead it should focus on sorting out our basic infrastructure and making sure the country is set up to succeed.'

Numerous sectors were mentioned. A core theme was climate change and energy infrastructure including improving the electricity grid, green energy, and nuclear power. There were also calls for investment in technology infrastructure including digital and cyber resilience, AI, and green technology.

Improving public services is clearly a significant issue. Housing was commonly mentioned along with transport including rail travel. Many other areas were cited including health, social care, and education. Companies value having a workforce that is able to come to work on time and focus on their job performance rather than being distracted by financial worries or ongoing health concerns. These responses might be summed up as a call on government to invest in workers who are ready and able to do a good day's work.

The UK's trading relationship with the EU

One of the new government's election promises was to improve the UK's trading relationship with the EU and remove trading barriers. We asked what improvements would have the greatest impact for businesses.

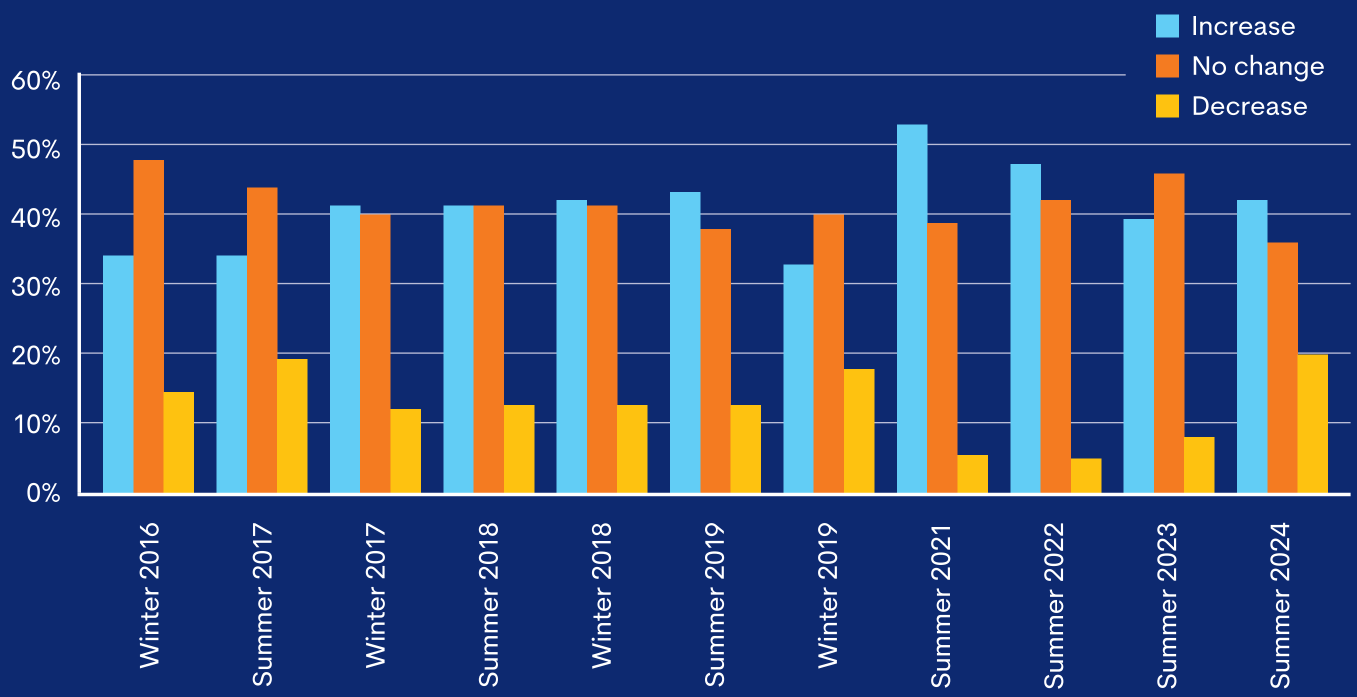
Respondents wanted to see regulation become more aligned and a reduction in regulatory duplication. Many companies have to comply with EU regulation to export goods, so a divergent UK regime would not be welcomed, and mutual recognition of standards is the preferred direction.

Businesses also want it to be easier for talent to come and work in the UK with some suggesting a return to free movement of skilled people. That seems too far a stretch given the limits of what can be renegotiated and against the backdrop of anti-immigration feeling in the UK. More generally companies wanted fewer barriers to the movement of goods and simpler administration which some viewed as continuing to worsen.

Prospects for the London Stock Exchange

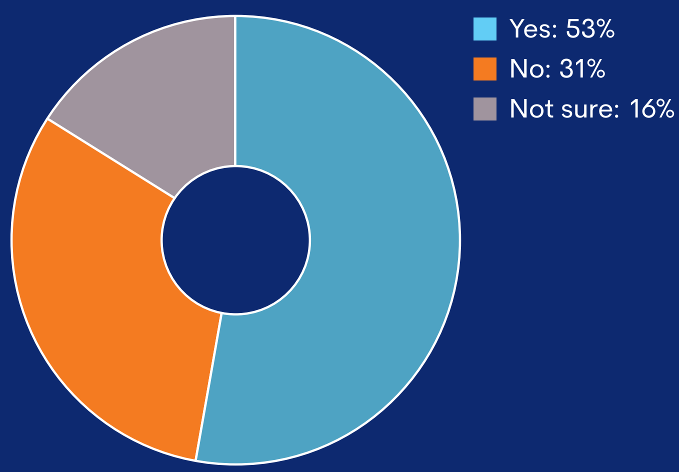
A vital part of any strategy to grow the economy will focus on attracting investment into the UK. The health or otherwise of the London Stock Exchange has received near daily press headlines over recent months and HM Treasury has more work to do before FTSE boards are convinced the government can turn this around. Just over half of boards (53%) believe the London Stock Exchange will continue to decline, experiencing further delistings and a worsening of its international position over the next five years. This view seems to persist despite numerous steps taken in recent months to make listing more attractive, including the measures taken by the Financial Conduct Authority to ensure the Exchange remains open and resilient, along with efforts to streamline the process for initial public offerings and reduce the administration costs of listing in the UK.

Will your capital expenditure increase or decrease in the next year?



There has been a gradual decline in the London Stock Exchange's share of the global market over the last two decades. However, it continues to rank just behind the US and China for market activity. The reforms mentioned, along with steps to focus more pension fund investment in UK firms, are still new and yet to fully play out. This is the first time we have asked this question, and it will be interesting to see if the proportion who believe the Exchange will grow (31%) increases over the next year. This was another response where optimism increased post-election.

Do you expect that the London Stock Exchange will experience further delistings, and a worsening of its international position over the next 5 years?



Diversity and inclusion

The journey towards greater diversity and inclusion at the top of companies has been a long one.

The Davies Review in 2011 and the Parker Review in 2017 respectively focused on increasing gender and ethnic diversity in the boardroom, reflecting the cultural importance of diversity in modern UK society. The previous government took various steps to tackle racial and ethnic disparities through its Inclusive Britain strategy, which included voluntary guidance for employers on measuring and reporting on their ethnicity pay gap.

The Financial Reporting Council has been a strong advocate for diversity. It continues to encourage companies to consider how best their boards can reflect a wide range of perspectives and experience through the UK Corporate Governance Code and other initiatives.

Board gender diversity

Boards have been encouraged to report on gender diversity for many years. For the first time ever, all respondents reported that their boards were gender diverse. Three quarters thought them very gender diverse and the remaining quarter somewhat diverse.

This is not surprising given the change in representation seen over the last decade. The results of this year's FTSE Women Leaders Review reported that women now hold over 40% of board positions in the FTSE 350 and one third of all leadership roles. The debate has progressed to look at the extent to which representation at board level has translated into power with focus moving to the number of women in the position of Chair, SID, CEO and Finance Director.

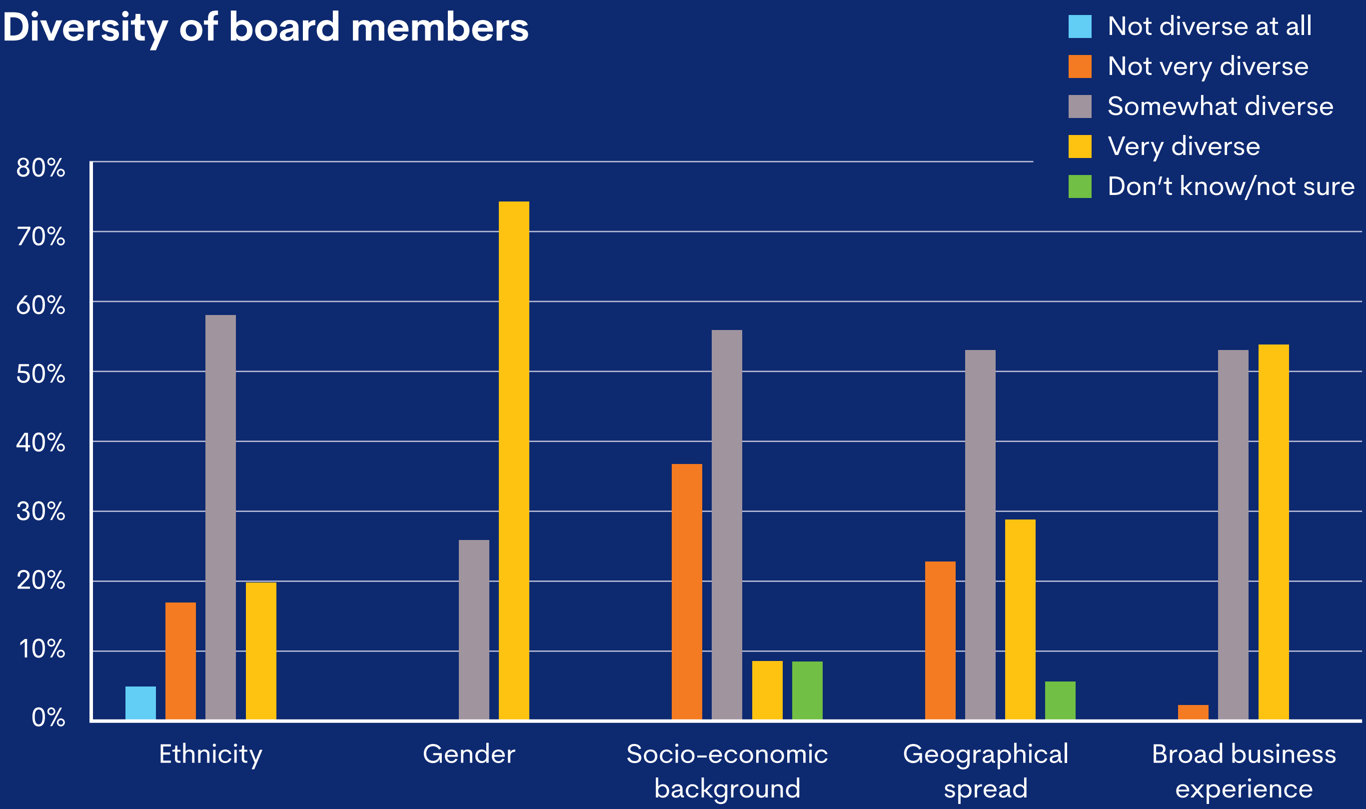
A recent study of global attitudes conducted by The Global Institute for Woman's Leadership with King's College London found that most of the UK public have no preference over the gender of their boss (61%). Indeed 7 in 10 state they have experience of working for both male and female bosses. Of those who do have a preference, men tend to prefer male leaders and women prefer female leaders. However, the same study found that nearly half of the UK population believe that women's rights have gone 'far enough', a jump of nearly 20% since 2019 and a trend which is not isolated to the UK.

Whilst it is encouraging to know that all FTSE boards now see themselves as being gender diverse, we must guard against complacency. It's important to articulate clearly the practical advantages that a diverse range of perspectives can offer to businesses, rather than assuming that workplace equality will automatically be seen as beneficial by everyone.

Ethnic diversity

There is no overall change since last year in boards reporting that they are ethnically diverse (77%). Three quarters of responses this year reported their board to be somewhat (57%) or very (20%) diverse. The most notable change is that only 6% of respondents thought their board not at all ethnically diverse, down from 18% in 2023, suggesting a reduction in minimal representation. This may be the result of boards responding to the targets set in the Parker Review. In March, the Review reported that 96% of FTSE 100 companies had met the target of having at least one ethnically diverse board member. Our findings indicate that many are on track to reach the Parker Review target for representation on FTSE 250 boards by the deadline of December 2024.

Diversity of board members



Three quarters of boards (76%) are satisfied that their company policies and guidelines about ethnic minorities in the workplace are fit for purpose. This shows a marked improvement from last year (56%) and 2022 (45%). FTSE 250 companies are slightly more likely to report they are satisfied (82%) compared to FTSE 100 companies (70%).

However, only half (48%) currently report on their ethnicity pay gap (34%) or have plans to do so (14%). The Labour government has announced plans to implement legislation to make larger companies report. However, our results suggest that they may meet resistance or calls for delays from many FTSE companies with half (46%) believing they would find this difficult.

Last year 19% already reported and 19% planned to. It could be concluded that those who have decided to report are getting on with it but those who have decided not to are unchanged.

This suggests that government might do well to consider a phased implementation of any reporting legislation, starting with the FTSE 100, then rolling out to the FTSE 250 at a later time.

Socio-economic diversity

When we asked about socio-economic background, over half (55%) believed their board to be somewhat diverse (46%) or very diverse (9%) while 37% thought it not very diverse. None thought it was not at all diverse. This has remained consistent with last year's finding when 51% thought their board somewhat or very diverse.

There seems to be a cooling on this area of diversity. Only a third of boards (34%) have discussed the socio-economic diversity of their workforce and decided to implement policies and processes. Of those, very few have begun to implement them. A quarter have the intention to discuss (23%) and 42% have either decided they do not need policies or simply do not intend to give the topic time at board level (31%), an increase from 18% last year.

Other forms of diversity

Three quarters (72%) thought their board members somewhat diverse (43%) or very (29%) diverse in geographical spread. As with socio-economic background, this shows no real change since last year when 81% thought them somewhat or very diverse.

Boards are universally confident that their board members have wider business experience from different sectors or professions, with 97% believing their board to be somewhat (43%) or very (54%) diverse in this respect.

Companies have made great strides forward in recent years to understand their board members better and to make appointments which reflect the evolving nature of UK communities. It is to be expected that a Labour government will continue to press forward with plans for more transparency around diversity in the workplace and in leadership roles. However, while most of the population are in tune with or relaxed about diversity progress, there is increasing pushback from a substantial minority which believe that changes have gone far enough. Given boards' sensitivity to reputational issues and risks, this will remain an area worth tracking.

Ethnicity pay gap reporting

Risk

Boards have a critical role in overseeing risk to ensure the sustainability of the company. Boards set the risk appetite, understand existing and emerging issues, and oversee how well their strategy and systems for mitigating those risks are functioning.

Little has changed in regard to perceptions about risk exposure over the last twelve months with roughly half (56%) responding that it is increasing compared to 50% in 2023; just over a third (38%) reported no change.

Cyber risk

For the fifth time in eight years, cyber risk was ranked highest as a 'very important' driver of risk (59%) and nearly nine in 10 overall (88%) thought it was a risk contributor. This is hardly surprising given businesses' reliance on digital infrastructure for their operations. Artificial intelligence has captured public attention over recent years and hackers are no exception, with large language models being used to speed up attacks and create ever more convincing false communications and deep fakes. The impact can be profound, leading to data breaches and threats to critical infrastructure.

Reputational risk

Reputation was ranked next as a very important driver of risk by 50%, though 88% do consider this a risk factor. Reputational damage can drive away consumers, stakeholders and shareholders leading to a loss of market value. Over recent years, for example, Tesla has taken a reputational hit over the views of its CEO Elon Musk and controversy over the working practices of Shein has led to much coverage on whether a listing on the London Stock Exchange would be a suitable fit at this time.

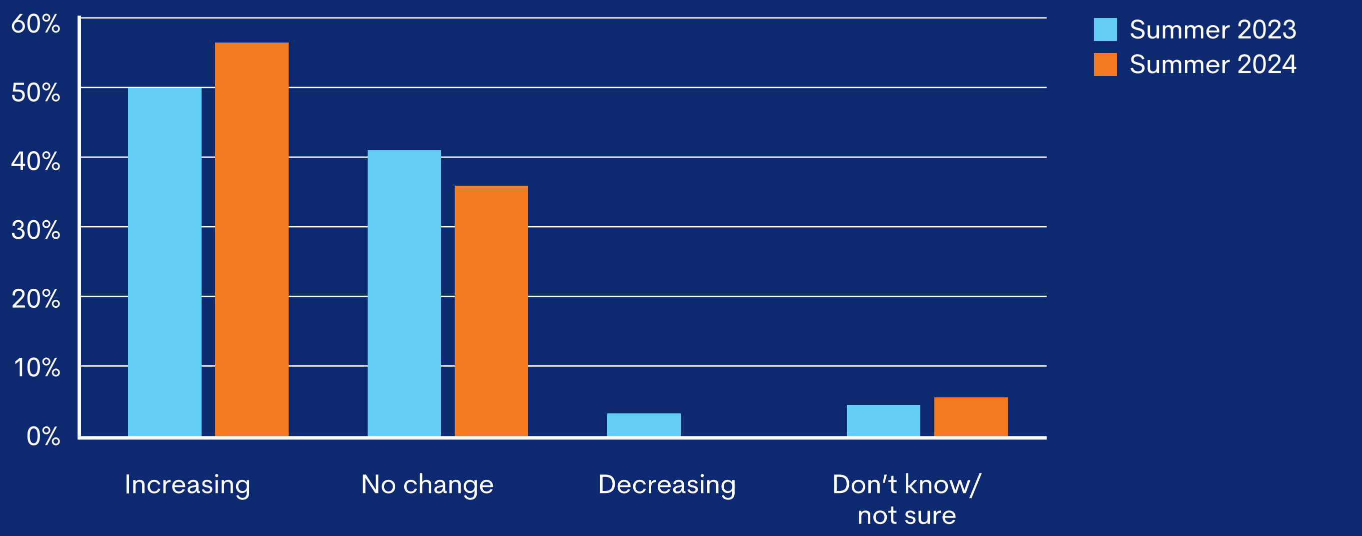
Global economic risk

Two fifths (41%) thought global economic risk a very important driver of risk and, when combined with those who ranked it fairly important, it was the most common driver of risk overall (91%). This is reflective of continuing high interest rates and low levels of growth in many countries including in the EU. Respondents cited worry over global recession and increasing market volatility driving up interest rates and impacting the availability of sustainable finance.

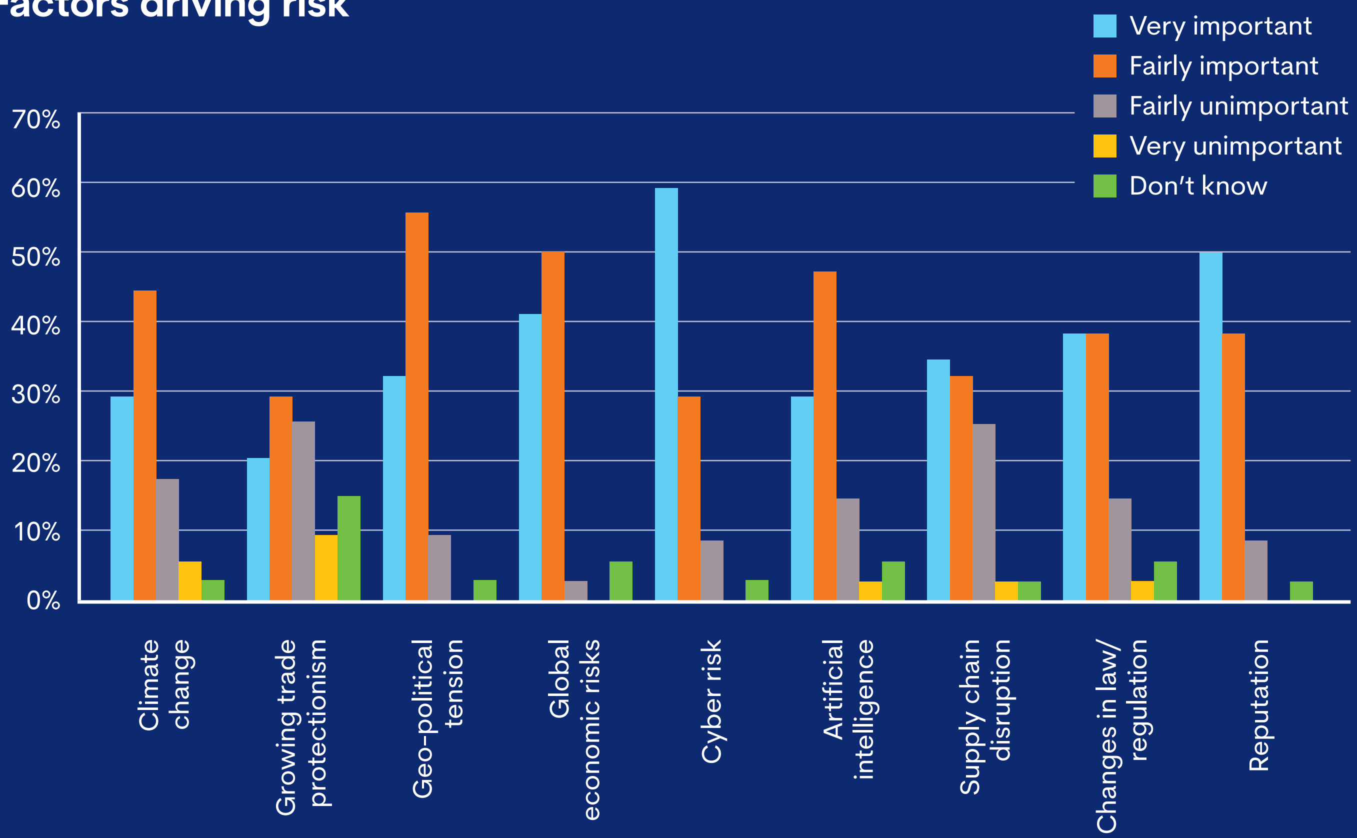
Change in law and regulation ranked next as a very important driver of risk (38%), with three quarters (76%) rating this factor as a risk driver. There were differences between the FTSE 100 and 250 in relation to risk from changes in law/regulation. This was rated as important overall by 82% of the FTSE 100, based on 53% rating it as very important and 39% fairly important. By comparison, in the FTSE 250, law/regulation changes were rated as important overall by 71% of respondents, with 24% rating it as very important and 47% fairly important.

In an election year with a new regime, laws and regulations can change rapidly. Business likes stability and it is expected that potential instability would be a concern. Levels of regulation are always a subject of debate, with some viewing increased regulation as negatively impacting their competitiveness while others see it as a strength to provide assurance over business practices. Over the data-collection period, responses became more positive after the UK election.

Risk exposure



Factors driving risk



Supply chain disruption was ranked very important by a third (35%).

Since our last report, the Israel-Gaza conflict has escalated severely, the war in Ukraine continues and there are other potential conflicts which could impact global supply chains and cause market disruption. Longer term, there is brewing discontent amongst nations in the global south over the impact of climate change and continued grievances over the historical impact of colonialism. With Western nations' resources stretched and the prospect that the USA will become less engaged in global political issues following this year's election, there is potential for power vacuums to develop in parts of Africa and Asia leading to further conflicts and disruption. Despite this, supply chain disruption was one of the lower ranked risk issues overall, with two thirds (67%) rating it as a driver of risk, and one third (29%) considering it unimportant. This may be due to changes in practice which have developed during the pandemic with companies holding more stock to minimise the risk of disruption or operating more diversified supply chains to build in resilience.

Geopolitical tension also remains a key factor with no significant change from last year. This year it was ranked as very important by 32% although it is still seen as a driver of risk by 88%, slightly down from last year (91%).

Only one in ten (9%) viewed artificial intelligence as a very important driver of risk in 2023. That has tripled over the year to 29% and nearly half of respondents view it as fairly important (47%). In addition to Generative AI's influence on the sophistication of cybercrime, its impact is not fully scoped, 'AI is an unknown unknown' and 'difficult to develop at pace while managing ethical issues.'

Climate change risk

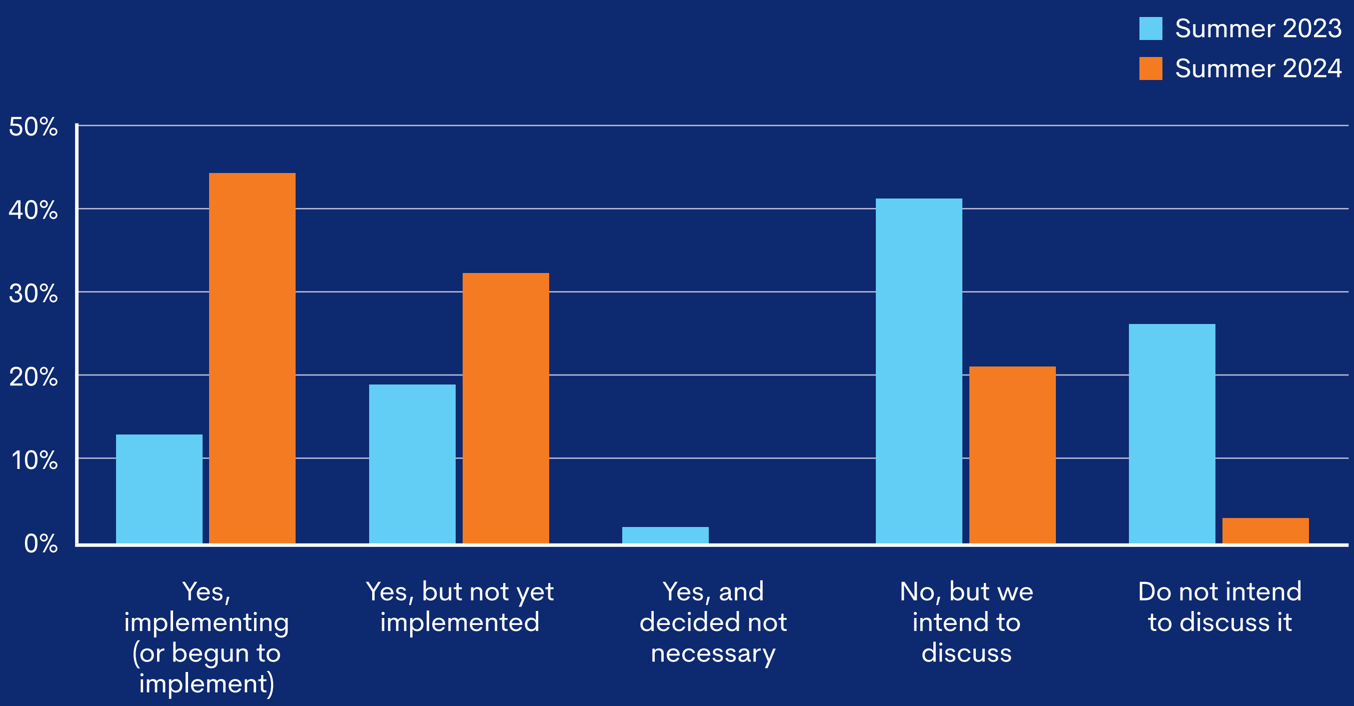
Climate change was ranked relatively low this year with 29% considering it a very important driver of risk and three quarters (73%) ranking it important. This is a drop from last year when 45% rated this a very important risk. One quarter (24%) thought it was not an important risk, perhaps reflecting the growing certainty on how companies approach the issue. For some companies, climate change is viewed as an opportunity to differentiate themselves from the competition, which is not that far removed from the ambitions of the Labour government to be a world leader on climate change initiatives.

Ranked lowest was trade protectionism, least likely to be considered very important (21%) and with half of respondents ranking it unimportant (50%). This is despite the point being made by one respondent that it is particularly difficult for multinationals to operate in key markets and geographies on a level playing field with local competitors.

AI policies and processes

Boards have increased their focus on artificial intelligence over the last year in response to the emerging applications for Generative AI. Three quarters have discussed the need for policies and processes on its use and nearly half are now implementing the approaches agreed upon. This contrasts with the attitude of boards last year when more than half had decided there was no need to develop polices and a quarter did not regard it as a board level topic for discussion at all.

Adoption of AI policies and processes



ESG

Over half (51%) of boards have discussed issues relating to climate change more than four times in the last year; and for 15% of boards, this topic has arisen eight times or more. There are now no FTSE boards which have never discussed climate change in our responses. This is in stark contrast to just five years ago, when almost 1 in 5 boards (17%) had not discussed it at all, and a third (34%) had only discussed it once.

Climate change and the issues arising from it are increasingly understood by boards as a business driver. Alongside the physical risks posed by a warming world, companies also face risks around how they manage their transition to a net zero economy as well as the potential for new legislation. Taken together these factors might restrict or threaten a company's business model or license to operate. The boards which engage with climate change most effectively consider not only the risks it poses, but also the opportunities it may present – whether for new products and services or for reputational change and impact.

Board confidence in ESG knowledge and skillset

We asked how well-prepared boards were with the necessary skillsets to understand, oversee and act on ESG-related issues. The results were very positive with 94% believing their board to be well prepared, reflecting the regularity of these discussions at board level.

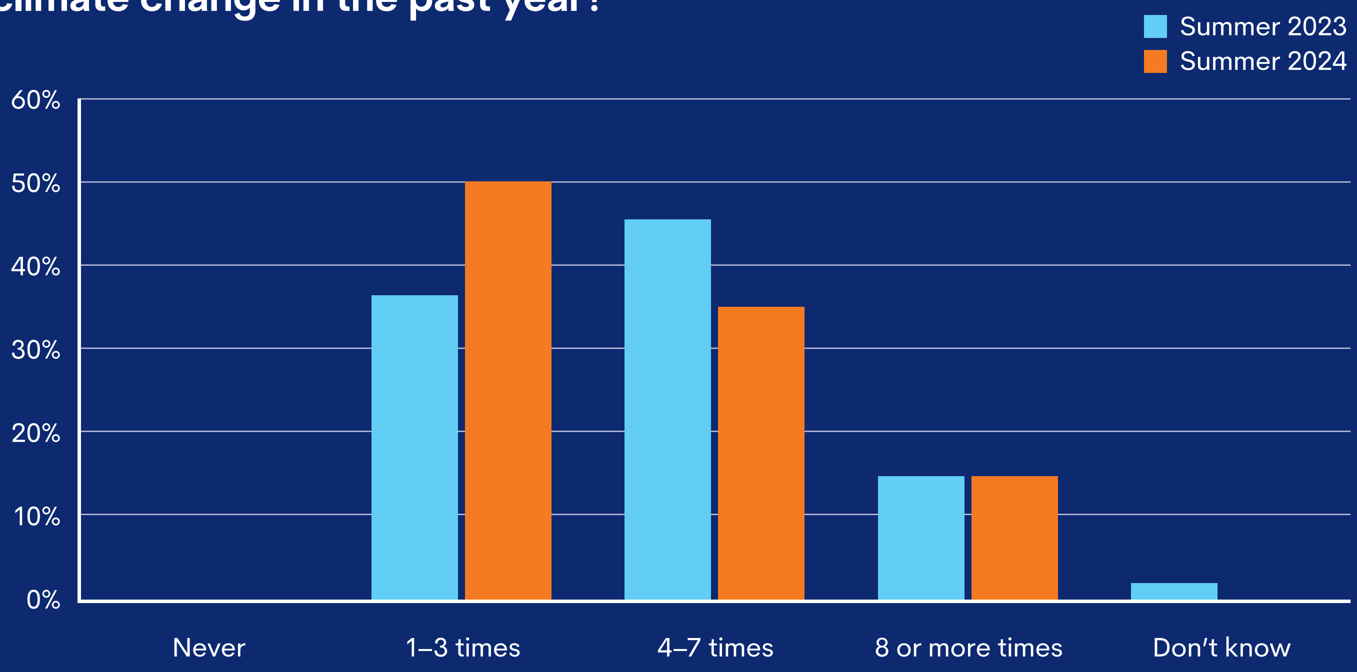
None thought they were very unprepared.

Amongst the FTSE 100, almost a third (31%) feel very well prepared, in contrast to the FTSE 250 where it is less than one in ten.

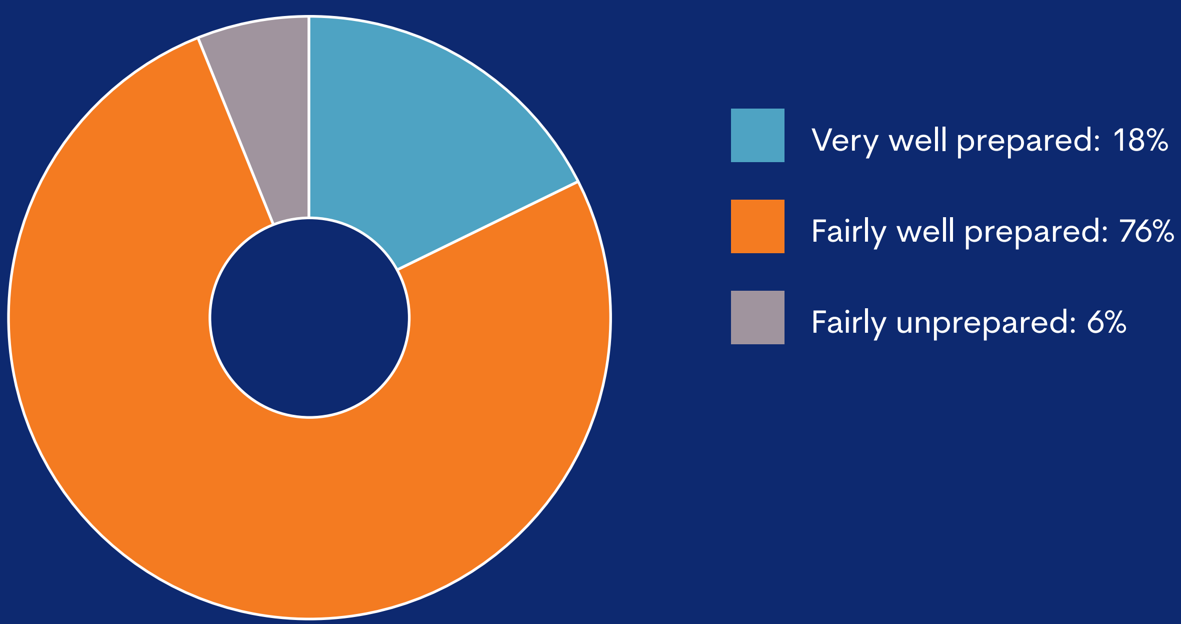
This is a positive indicator of the momentum behind ESG-related activity and reporting within the upper echelons of UK business. Whilst ESG has faced pushback – some of it significant, such as the diminishing levels of support for ESG-related shareholder resolutions – it appears that the UK's largest companies are quietly getting on with it.

Much has been made of the variety and scope of ESG-related changes and challenges, coming from both regulatory and investor corners. This year's results suggest that these challenges are becoming more manageable for FTSE companies. As the reporting regime around ESG matures and develops, companies are now able to draw on significantly more guidance and examples to inform their approach. Companies' confidence in responding to ESG-related issues will continue to depend on regulatory clarity, increasing interoperability between different frameworks and reporting standards, and sufficient time and guidance during phase-in periods for any new requirements.

How often has your board discussed issues relation to climate change in the past year?



How well prepared is your board to understand, oversee and act on ESG-related issues?



Net zero transition planning

A net zero ambition or pledge is often no longer seen as sufficient by key stakeholders of the FTSE 350. Investors and standard setters alike are looking for more in-depth net zero transition plans, with tangible actions and milestones. This expectation has played its role: 94% of this year's respondents have transition plans, equally split between those who have completed plans (47%) and those who have plans in development (47%). This compares to 80% of last year's respondents (when 43% had completed plans and 39% had plans in development).

The work of the Transition Plan Taskforce, which has published a disclosure framework, guidance, and case studies on building a credible net zero transition plan, has no doubt been instrumental in supporting companies with this process. The Taskforce's materials have now been taken over by the IFRS Foundation, which will use them in its development of further ESG-related reporting standards.

In this year's responses, there was a notable difference between the FTSE 100 and FTSE 250, with the latter lagging behind the top 100 companies in their development of net zero transition plans. Amongst the FTSE 250, 12% of companies still don't have a net zero pledge, let alone a plan, and only 35% have completed their transition plan – with 53% still in development. By comparison, all the FTSE 100 respondents have published a pledge, and 56% already have a completed transition plan. The Labour party's pledge to mandate the preparation and disclosure of credible transition plans amongst the FTSE 100, then, should not in itself pose too much of a challenge. The Labour manifesto suggested that these plans will need to be compatible with the Paris Agreement goal of limiting global warming to 1.5°C, which may require some adjustments to be made. Any companies who have yet to begin the preparation of a net zero plan may find themselves needing to expedite the process to get ahead of regulatory change.

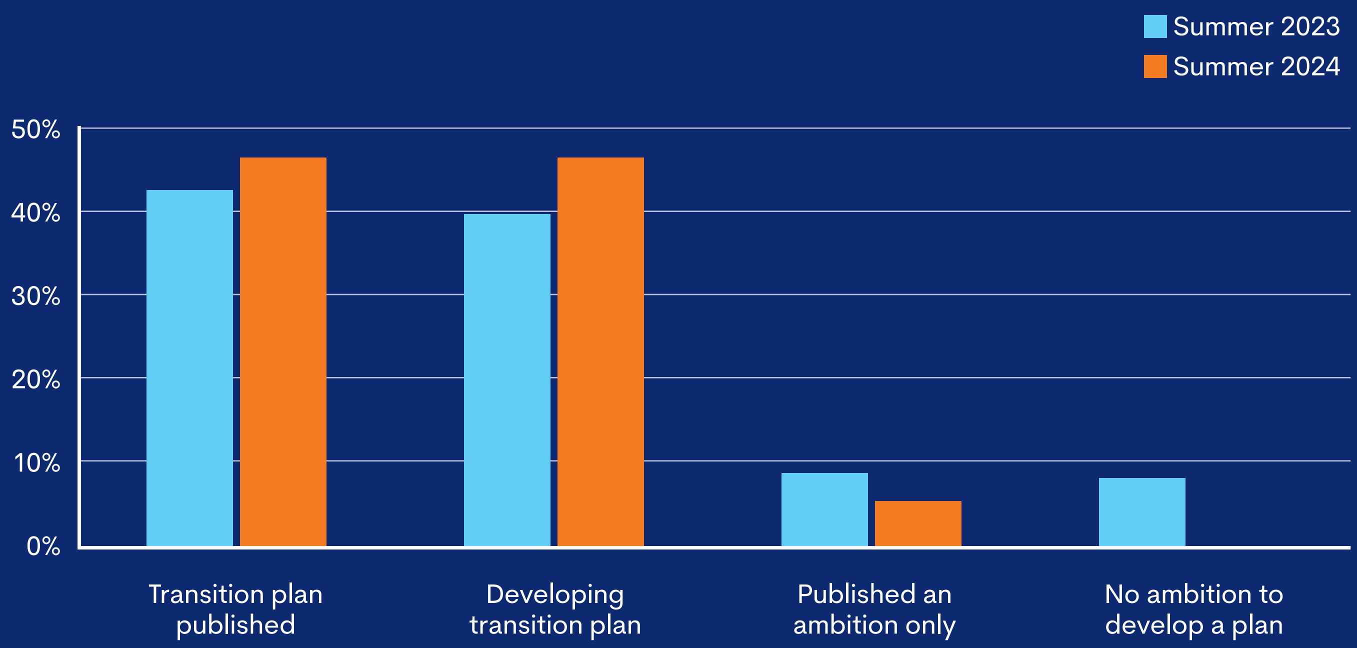
Nature and biodiversity loss

Climate change is only one of many environmental issues towards which companies are being asked to turn their attention with nature and biodiversity loss now firmly established as another environmental priority. 41% of respondents feel their board is fairly well prepared to deal with both action and disclosures relating to nature and biodiversity. An additional 15% state they are very well prepared. Overall, this is a promising development, with significantly more boards feeling prepared than last year (38%).

Nevertheless, knowing how to tackle biodiversity continues to pose difficulties. Over a third of respondents are either not very well prepared or not at all prepared. Around 1 in 10 are not sure – which implies that biodiversity and nature are not enough of a priority for some companies to have spent time establishing what they need to be doing on these issues and how the board can oversee this.

In much the same way as companies play a role in the decarbonisation of the economy, they are also increasingly expected to play a role in the economic shift from nature-negative to nature-positive. In recognition of this, and to facilitate the disclosure of such activities, the Taskforce on Nature-related Financial Disclosure (TNFD) published its framework in September last year and continues to encourage companies to voluntarily adopt it. This framework will also be used by the International Sustainability Standards Board (ISSB) to inform its research on biodiversity, which may, in time, result in a further standard to complement the ISSB's existing standards on climate- and sustainability-related disclosures.

Plans for net zero transition



Regulation

Levels of regulation

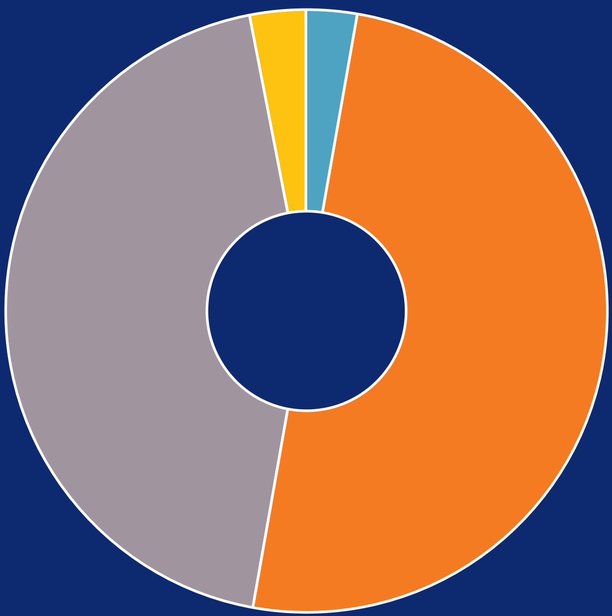
The debate over the extent of company regulation is a perennial one, with some advocating that companies could be more competitive with fewer rules and standards to follow, and others valuing the data collected and reported on. The previous government's consultation in March 2024 led to a white paper on smarter regulation and proposed updating the guidance on the growth duty, originally set out in the Deregulation Act of 2015. Although the general election halted its progress, Labour has indicated plans to build on the groundwork which led to the draft legislation.

Of our respondents, half (50%) thought the amount of regulation of their business was about right whereas 44% thought it too much. Only a handful thought it too little (3%). There was little difference between the FTSE 100 and 250 on this, although outliers who thought their business should have more regulation were from FTSE 100 companies.

Use of Generative AI in reporting

The potential for Generative AI to streamline reporting is an emerging area where we can expect to see rapid change. Most (85%) were already experimenting with AI tools or planned to do so. Two fifths (41%) were using AI tools to support data capture, analysis, and reporting for non-financial and ESG disclosures, however most were only using it occasionally and non extensively (32%).

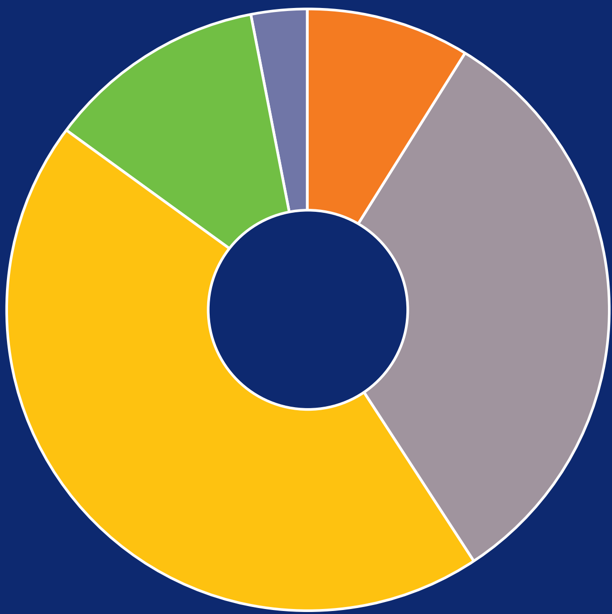
Level of government regulation



- Too little: 3%
- About right: 50%
- Too much: 44%
- Not sure: 3%

Use of AI to support non-financial reporting

- Moderate use: 9%
- Occasional use: 32%
- Plan to in the future: 44%
- No plans to use: 12%
- Don't know/not sure: 3%



Corporate governance

Executive pay

As we emerge from the cost of living crisis, average pay for a FTSE 100 CEO has risen to £4.2m. Half of our respondents (53%) thought rules and scrutiny over executive pay to be detrimental to hiring the right candidates for board and senior management. This was higher amongst FTSE 100 (65%) whereas 59% of FTSE 250 did not find it a problem or it was not significant enough of an issue for them to be aware of it.

We are promised an Autumn Budget which will 'deliver short-term pain for long-term gain' and the Prime Minister has emphasised the perilous nature of the country's finances. Against that background, it may be difficult for companies to weather the reputational impact of higher remuneration for their top appointments.

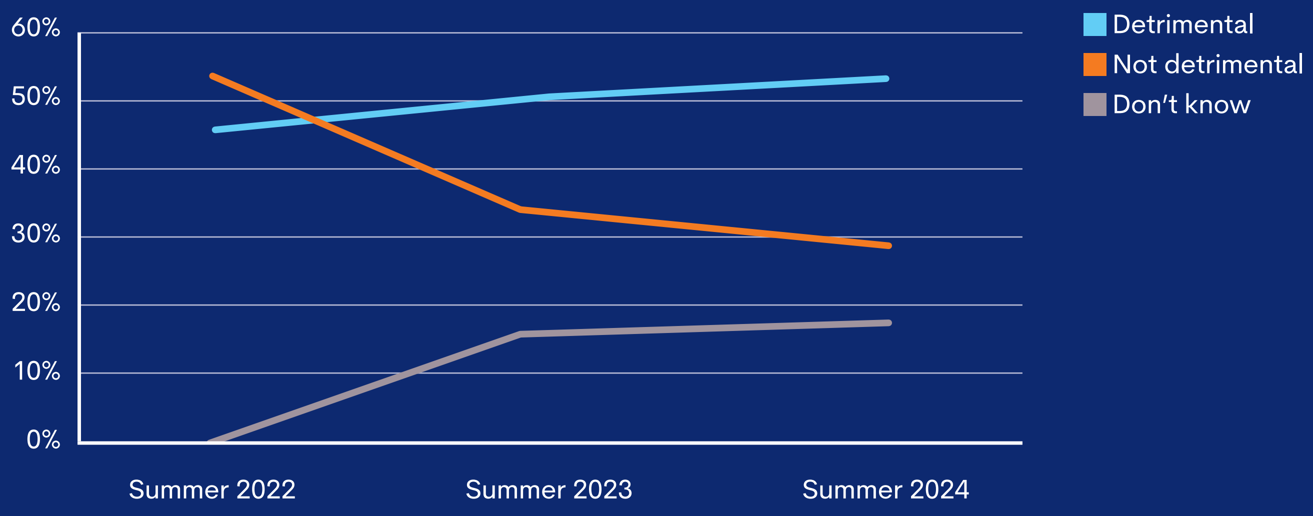
Aside from matters of remuneration, most (60%) are not having difficulty recruiting board members with the necessary skills. While that may suggest a vibrant talent pool, there is still room for improvement with over a third (37%) experiencing difficulties, rising to half (47%) of the FTSE 100.

Engagement with institutional investors

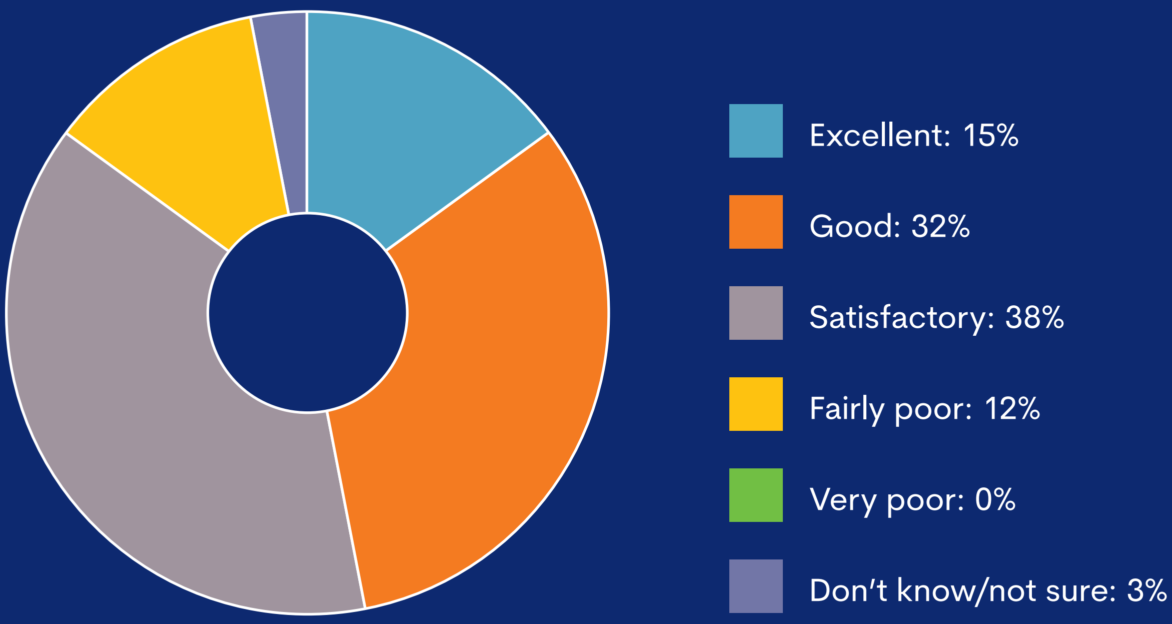
Good relations with investors are vital for companies as investors provide the potential for increased investment and share value as well as strategic insight. Growing and maintaining these relationships can be resource intensive and require some of Solomon's wisdom for reconciling differing expectations and priorities.

Nearly half (47%) rate the quality of engagement by their institutional investors as good or excellent whereas 50% rate it poor or merely satisfactory. This reflects a growing unease resulting from a lack of alignment between company objectives and those of their shareholders, for example the desire for short-term gain by some investors as opposed to the need for sustainable investment by companies. Proxy voting agencies are a particular bone of contention with some suggesting their standards should be raised through a code of conduct overseen by a regulator.

Do rules over executive pay make hiring harder?



Quality of engagement with institutional investors



Stewardship code

There is an opportunity to review these issues and revise expectations through the Financial Reporting Council's imminent consultation on the Stewardship Code.

There certainly seems to be room for improvement in applying the Code. Half (53%) do not believe it has increased meaningful engagement between the board and the company's owners. Only one third (33%) think it has made a positive difference, with most showing tepid enthusiasm. There is speculation that revisiting the Code may lead to reduced regulation rather than improved relations. If the intention is to further lighten the Code, that could run the risk of making it even less relevant.

Board performance

Board members face ever increasing pressure on their performance and higher expectations of their knowledge. Most (79%) believe that they carry a higher reputational risk than five years ago. Ever-evolving regulation must be kept on top of and – as we have seen earlier in the report – areas of risk are perceived as increasing and stakeholder relations need constant effort. It is vital that board performance is well supported.

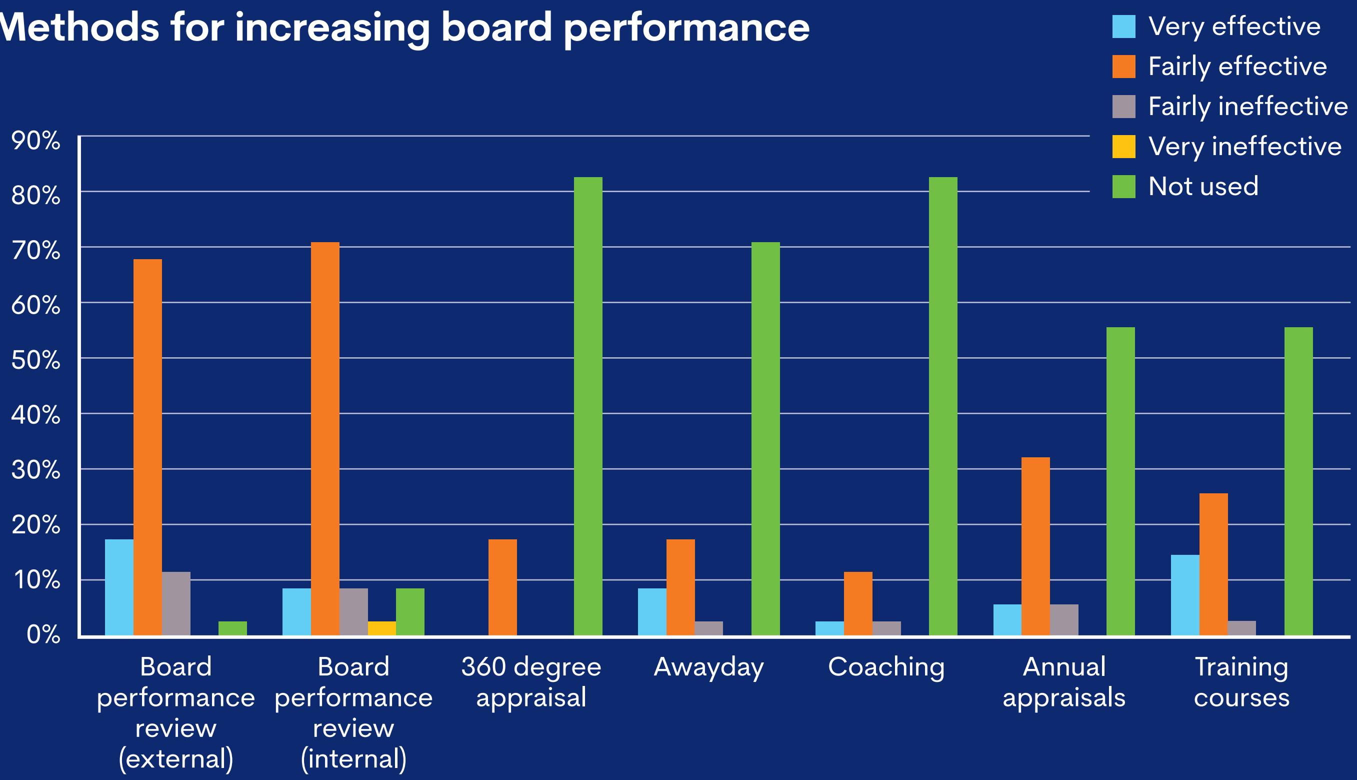
Board performance review was the most used method of improving board performance with 97% utilising external consultants and 85% also using internal teams. It was also rated as the most effective approach, although those carried out by external consultants are rated slightly more effective (86%) than reviews carried out internally (80%).

While board performance reviews are the standard approach, a mix of other methods are used with less frequency. Of those who offer training courses (41%) a third rank them very effective and it will be interesting to track whether their use becomes more common. Two fifths (38%) offer annual appraisals and a quarter utilise awaydays.

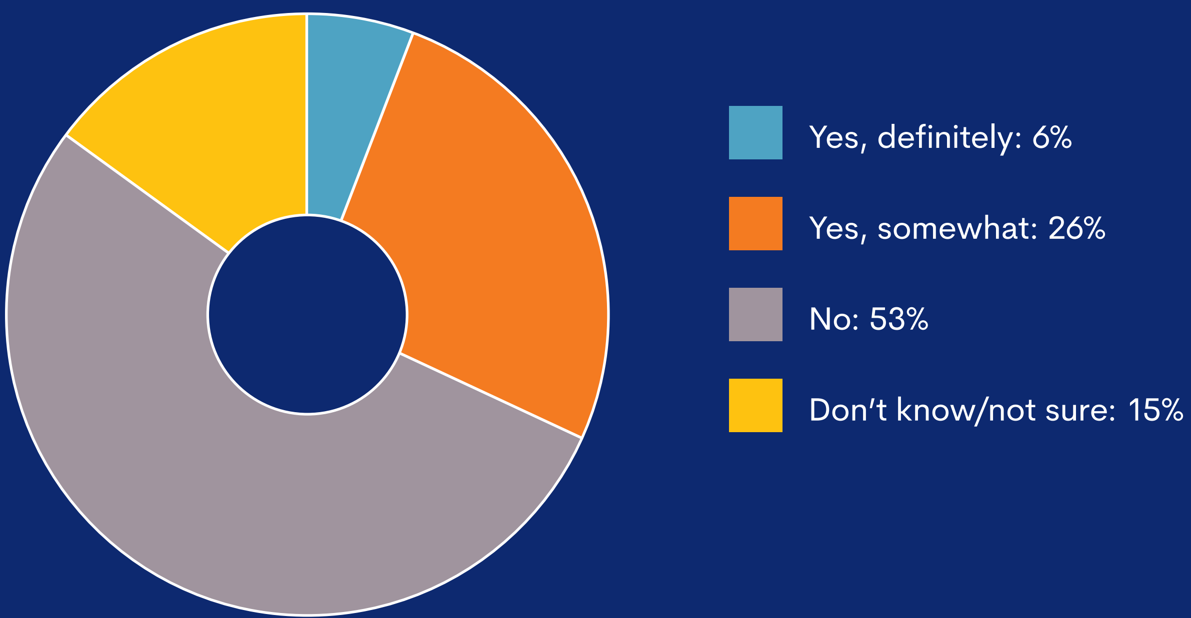
The least effective methods were 360 degree appraisals (18%) and coaching (15%).

The size of governance teams varied, with the largest being over 200. This was exceptional however, and half of respondents had teams of either two or three. Half also reported that they found it difficult to recruit skilled governance professionals with nearly one in ten (9%) stating it was very difficult. Less than one third (30%) found it easy.

Methods for increasing board performance



Does the stewardship code encourage an increase in meaningful engagement?



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