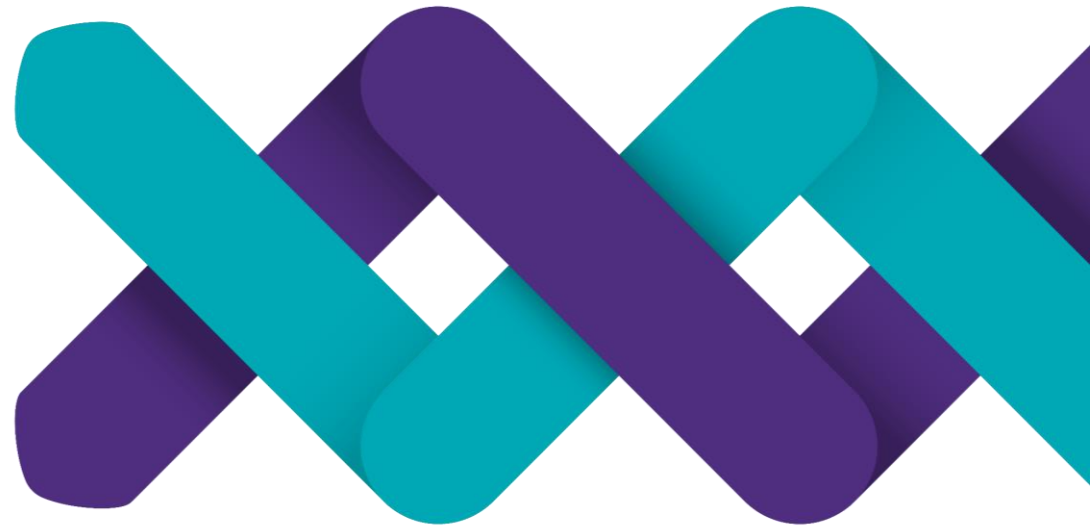


# The Case for Responsible Leadership

*- Understanding emerging trends and practices*

**Simon Lowe**

Consultant and Chair, The Grant Thornton Governance  
Institute



# Agenda

## Instruction from IRL

- Define responsible leadership
- Who are the stakeholders and how should they be engaged
- What are the benefits of responsible leadership and how are they measured
- What are the implications of not having responsible leadership

## My response

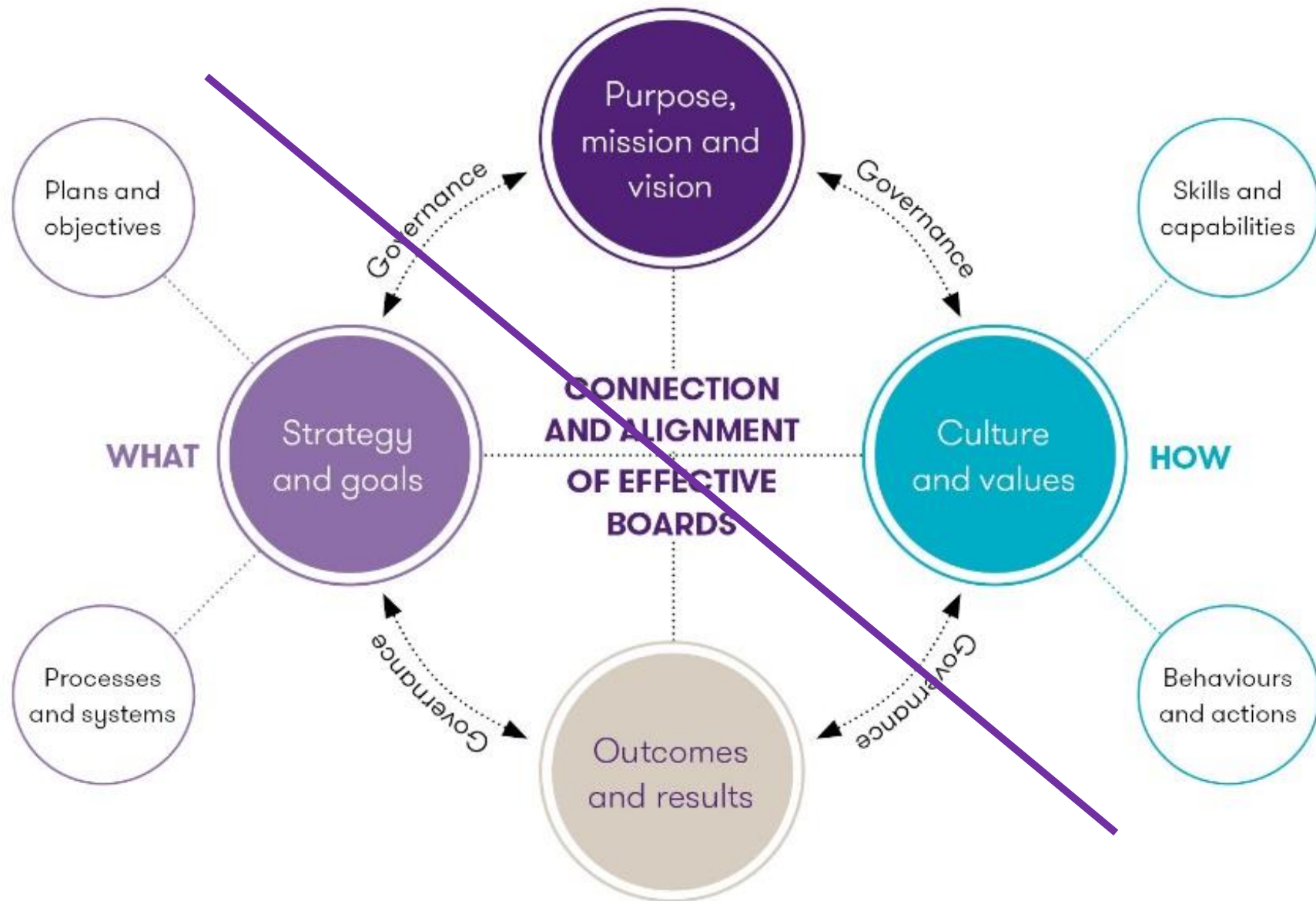
- Consider sources of good governance
- Explore the relationship of governance with value creation
- Reflect on what effective leadership is
- Explore what can be learnt from the best governed companies
- Assess emerging trends and practices

# 18th FTSE 350 Corporate Governance Review

- Comprehensive review of annual reports of the FTSE 350
- Application of the UK Corporate Governance Code and Companies Act requirements for narrative reporting
- Quality of governance reporting
- Capturing > 62,000 data points
- 18 years of data

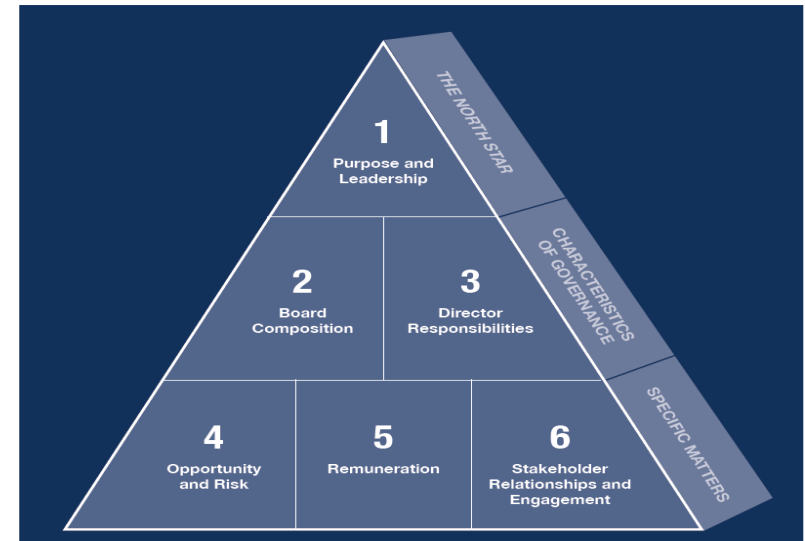
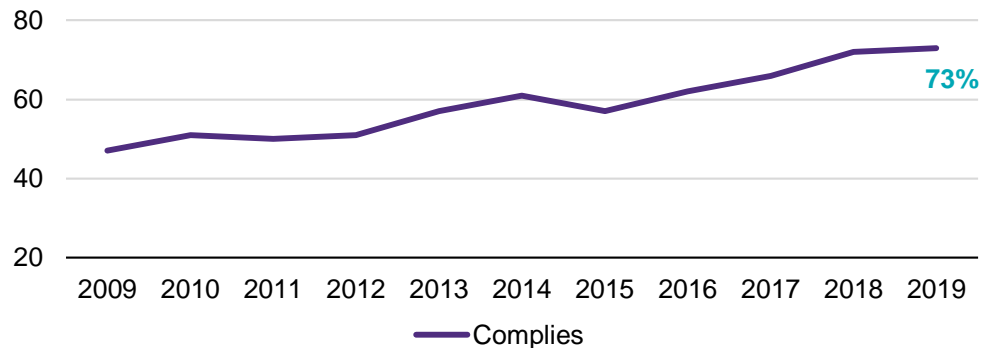


# Rebalancing the board's focus



# Sources of guidance

- The Companies Act 2006 and 2018 Misc' Reporting Regulations
- The UK Corporate Governance Code
- The FRC's Guidance on board effectiveness
- Wates principles - voluntary set of CG principles for large private companies



**UK Corporate Governance Code 2018** (new)

- Leadership and Purpose
- Division of Responsibilities
- Composition, Succession and Evaluation
- Audit, Risk and Internal Control
- Remuneration

# The law

- ✓ **The fiduciary duty: the expectation is that you will act in good faith, and in the best interests of the organisation**
- ✓ Statutory duties imposed by company law, in particular renewed focus s171 to 177 of the Companies Act 2006

- ✓ To act within powers
- ✓ To exercise reasonable care, skill and diligence
- ✓ To promote the success of the organisation (s172)
- ✓ To exercise independent judgment
- ✓ Not to accept benefits from third parties
- ✓ To avoid conflict of interest
- ✓ To declare interest in proposed transactions

# Guidance

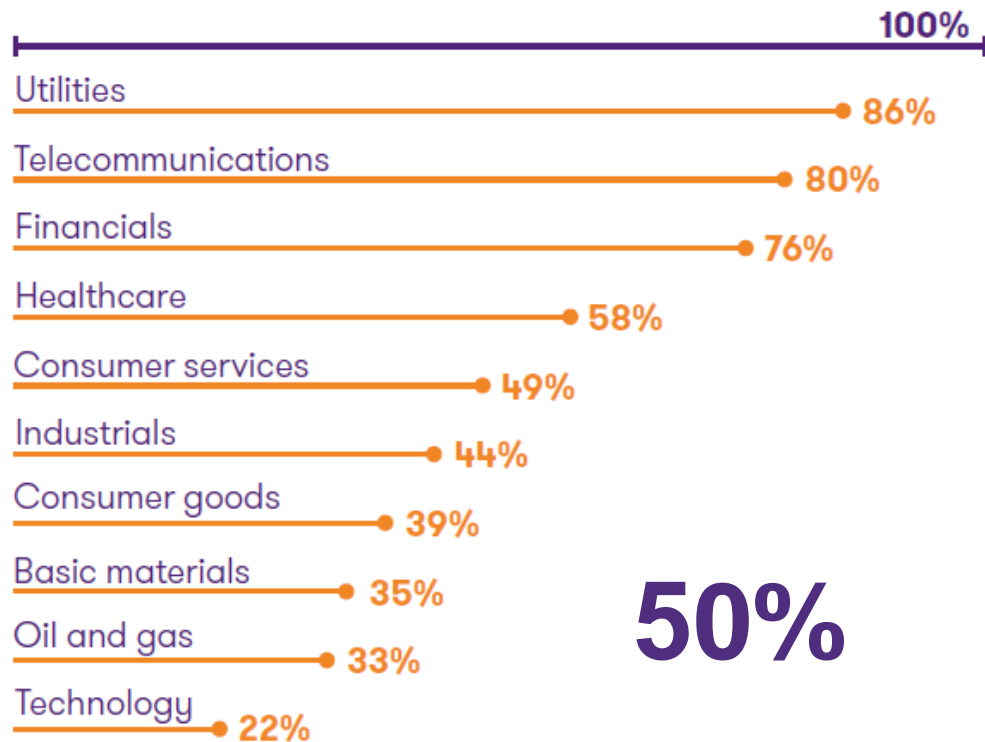
## Guidance on Board Effectiveness 2018, FRC

- The Role of the Board/Committee
- Decision Making
- Audit, Risk Performance Reporting and Monitoring
- Composition
- Evaluation
- Relationships with Stakeholders

# Business purpose

## -North star or strap line ?

### Do companies define their purpose?



*“In future reports we would like to see how and why the company arrived at its purpose and how the business will deliver the purpose by explaining how it drives their values and mission. An effective purpose should drive progress and is much more than a marketing tool or strap line.”*

*David Styles, Director of CG, FRC*

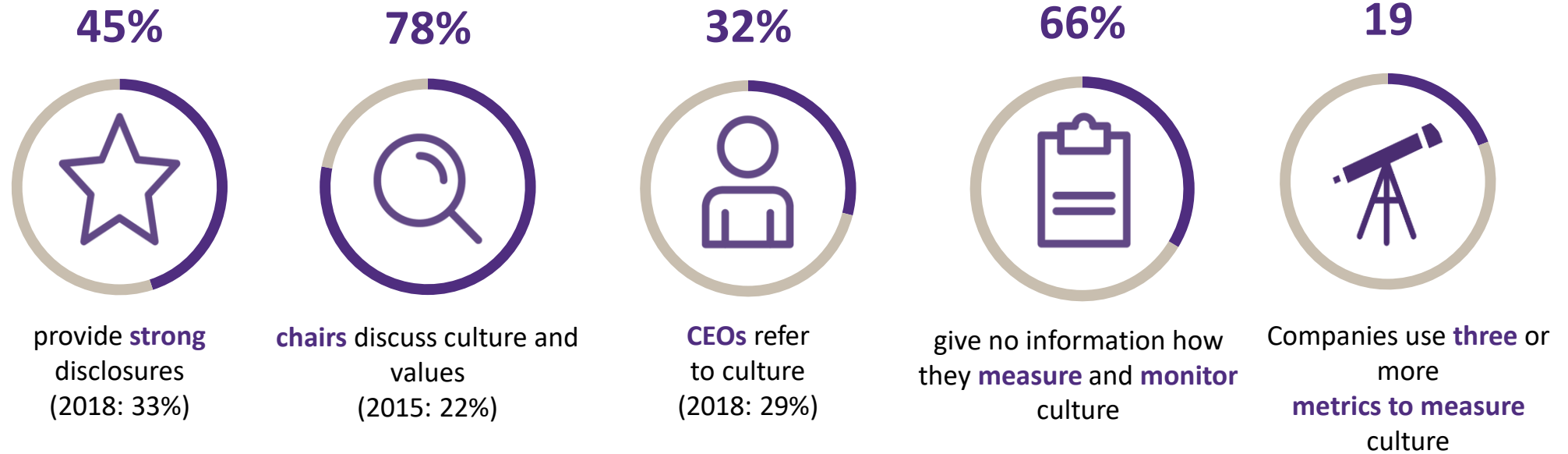


Companies cite an average of 9.5 KPIs, five financial and 4.5 non-financial



# Culture

## – values and behaviours



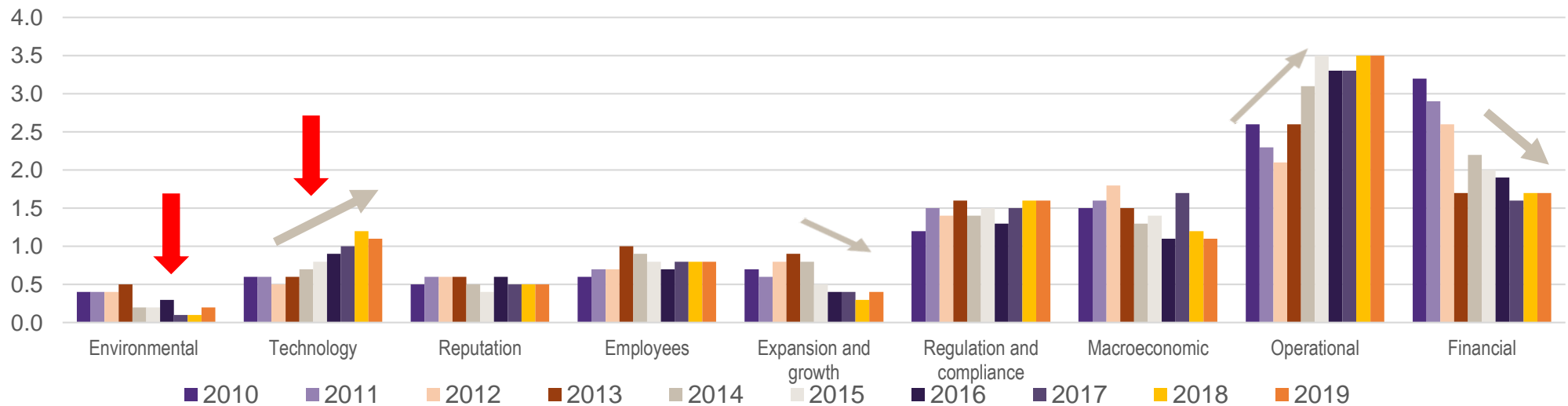
# Remuneration

*-alignment to purpose, values and strategy*



# Strategic reporting and principle risks

*“The board should carry out a robust assessment of the company’s emerging and principal risks...”*  
 The UK Corporate Governance Code 2018



**78%** show linkage between risks and strategy

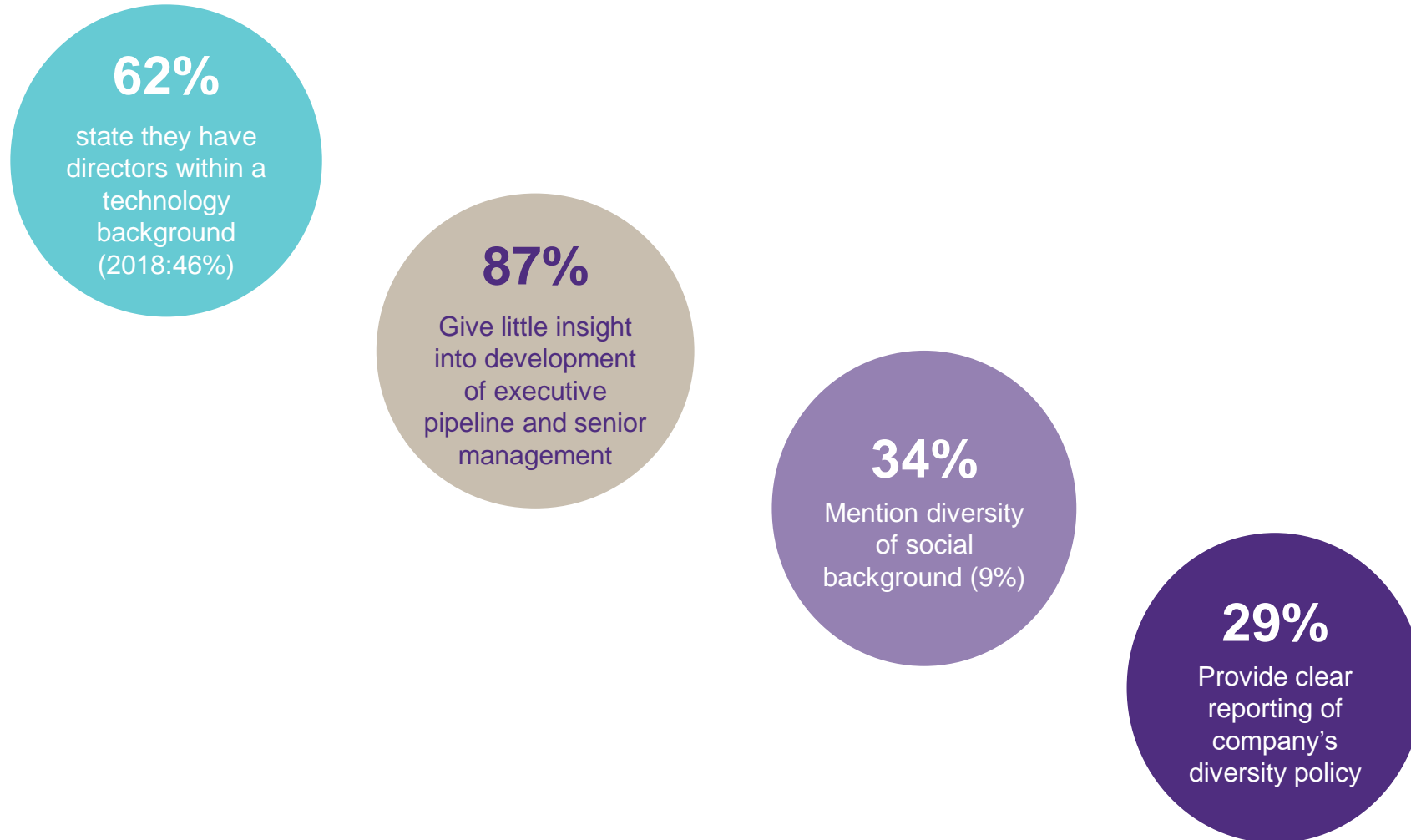
• **85%** provide quality **risk disclosures**

**64%** of companies mention **emerging risks**

**62%** state they have directors with a **technology** background. (2018: 46%)

# Meeting the needs of the future

## - *the expanding role of the nomination committee*



# A growing focus on stakeholders

## - *an increasing responsibility*

### Section 172 Companies Act 2006

Duty to promote the success of the organisation...[and] have regard for:

- the likely consequences of any decision in the long term,
- Interests of the **company's employees**,
- business relationships with **suppliers, customers** and others,
- impact on **community and the environment**,
- maintaining a reputation for high standards of business conduct, and
- the need to **act fairly as between members of the organisation**

# Stakeholder engagement



18% explain how their stakeholders' interests and the matters set out in s172 influenced board decision making

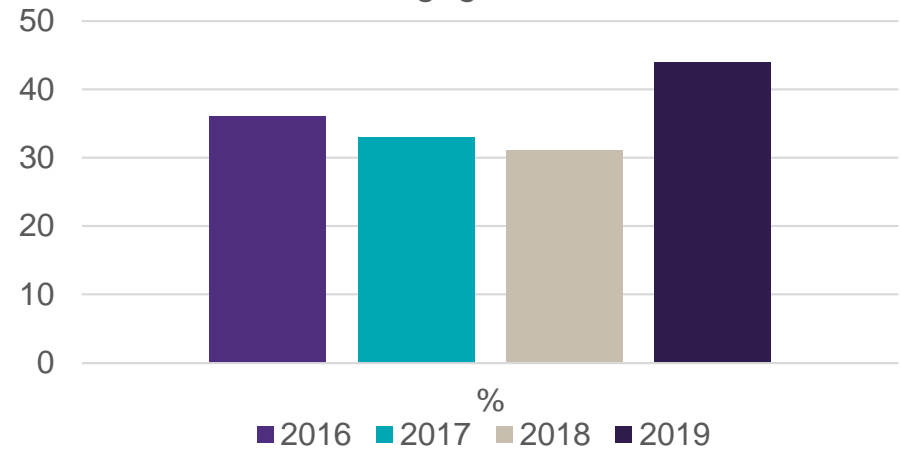
*"Boardroom discussions have changed, there's a much greater feeling of connectivity with the mood across the organisation, decision taking is made with a much more tangible consideration of the impact on our employees and their families."*

Pamela Coles, CGO, Rolls-Royce Plc



3 employee directors  
37 workforce advisory panels  
71 NEDs with responsibility for engaging with employees

Good disclosures on shareholder engagement



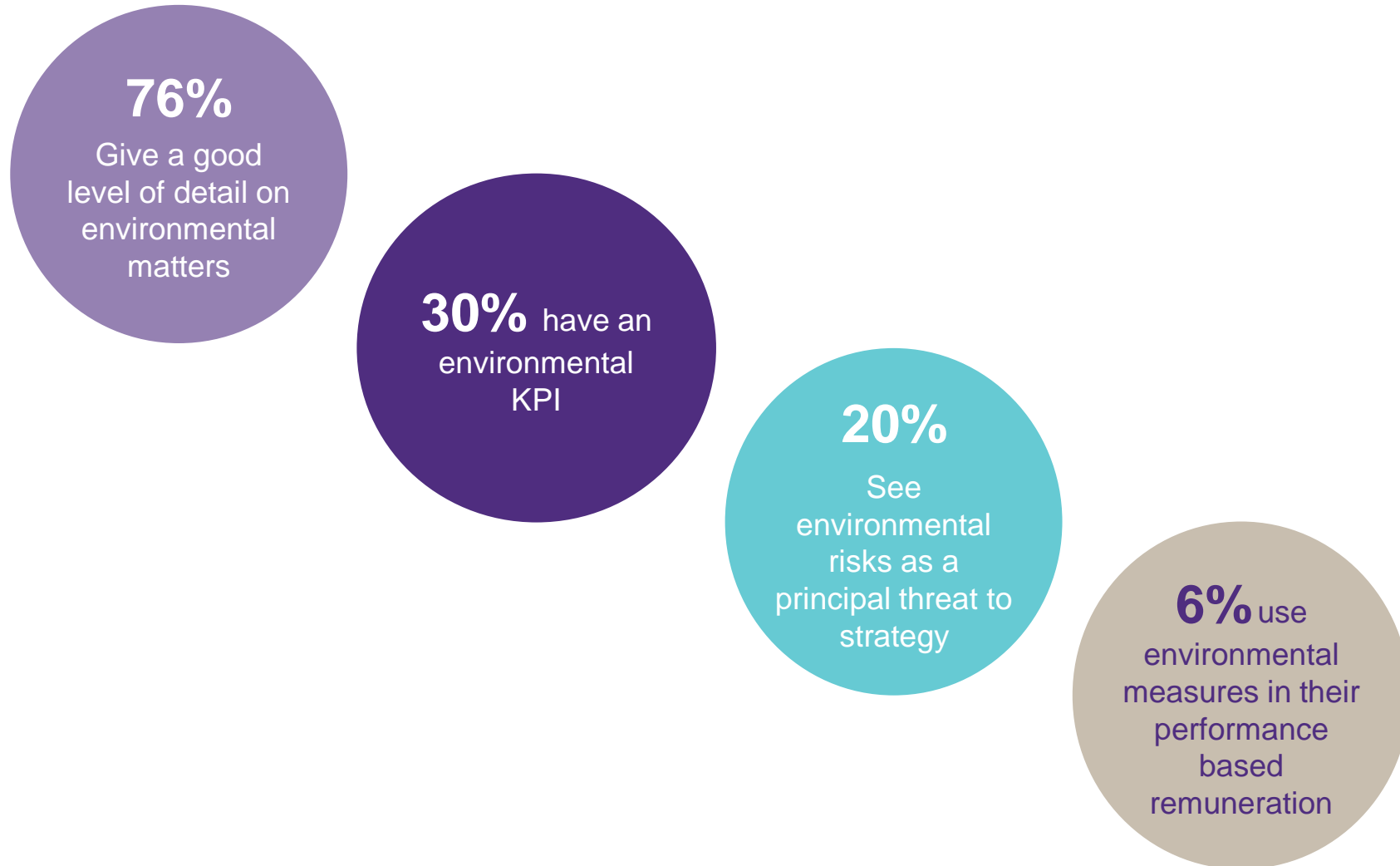
59% state that their chair met with shareholders



26% of SIDs met with shareholders

# Environmental reporting

## *-rhetoric or reality?*



# The impact of strong governance

## - *empirical evidence*



Uses 74 governance measures against 20 financial indicators



Over a 10-year period, our study population included 2,300 company entries



Our study tracks 506 individual listed companies over 10 years



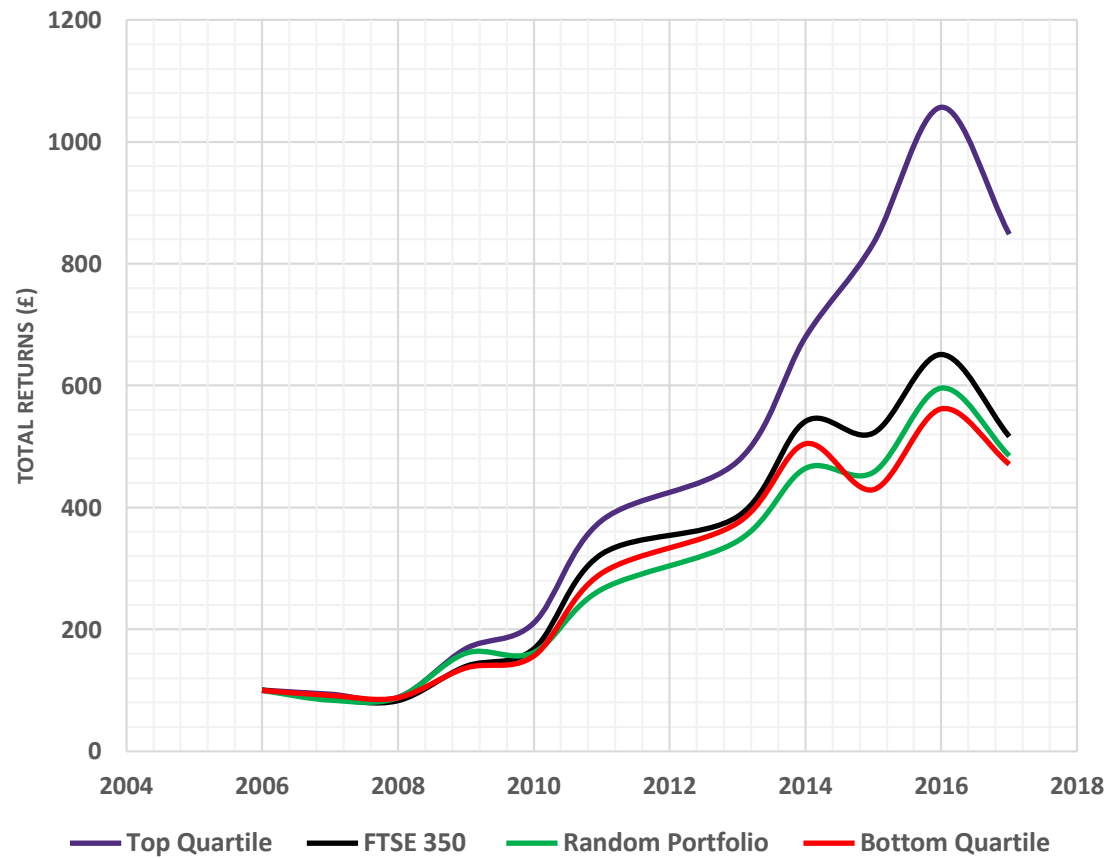
# The value of responsible leadership

Companies with superior governance have:



# The value of stronger governance

## Total Shareholder Returns



## Returns by Size

Top Quartile vs Bottom Quartile	EBIT Margin	EBITDA Margin	Free Cashflow	Free Cashflow for Firm
FTSE 1 - 50	Higher	Higher	Higher	Higher
FTSE 51 - 100	Higher	Higher	Higher	Higher
FTSE 101 - 150	Higher	Higher	Higher	Higher
FTSE 151 - 200	Higher	Higher	Higher	Higher
FTSE 201 - 250	Higher	Higher	Higher	Higher
FTSE 251 - 300	Higher	Higher	Higher	Higher
FTSE 301 - 350	Lower	Lower	Higher	Higher

## Returns by Sector

Top Quartile vs Bottom Quartile	EBIT Margin	EBITDA Margin	Free Cashflow	Free Cashflow for Firm
Basic Materials	Higher	Higher	Higher	Higher
Consumer goods	Higher	Higher	Higher	Higher
Financials	Higher	Higher	Higher	Higher
Health care	Higher	Higher	Higher	Higher
Oil & Gas	Higher	Higher	Higher	Higher
Technology	Higher	Higher	Higher	Higher
Telecommunications	Higher	Higher	Higher	Higher
Consumer services	Lower	Lower	Lower	Higher
Industrials	Lower	Lower	Higher	Higher
Utilities	Higher	Lower	Lower	Lower

# Strengthening governance improves performance

When companies improved their governance, each quartile resulted in:



↑  
**10%**  
Operational efficiency



↑  
**44%**  
Operating cashflow

# What does strong corporate governance look like?

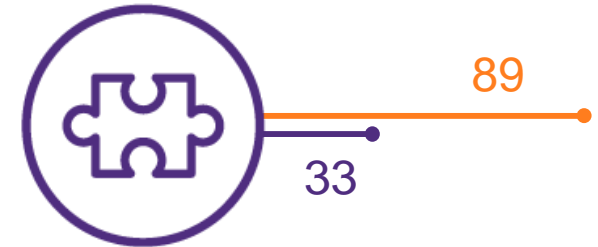
Business model clarity and connectivity



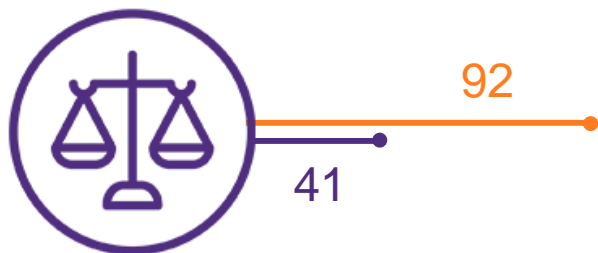
Succession planning



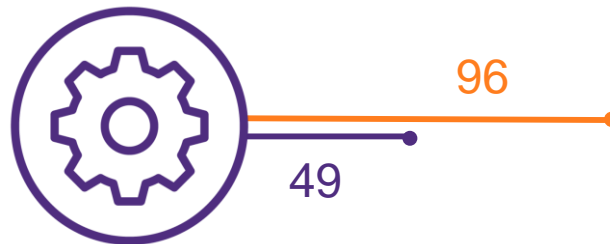
Culture and value integration



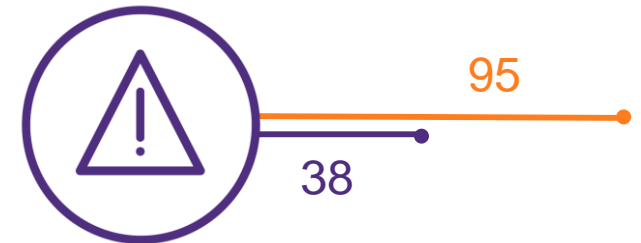
Board effectiveness evaluation



Risk management



Internal control



— % Top-quartile companies  
 — % Bottom-quartile companies

# A path to responsible leadership?



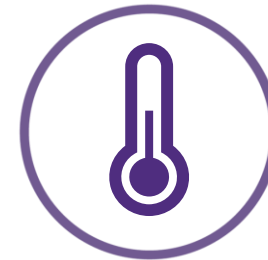
Business purpose



Culture



Stakeholder engagement



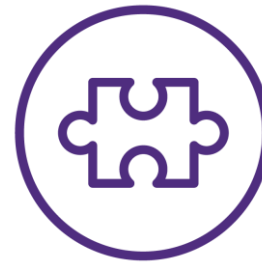
ESG



Emerging risks



Evaluating and developing boards for the future



Making the most of a different perspective



Alignment of incentives

# Questions



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