

## The Wates Corporate Governance Principles for large private companies



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### Headlines

- A set of six high level principles of corporate governance issued to help the largest private companies (more than 2,000 employees OR a turnover of more than £200 million and a balance sheet of more than £2 billion) meet the new legislative requirement to report on their corporate governance arrangements for periods commencing on or after 1 January 2019.
- A voluntary framework which adopts the “apply and explain” approach.
- Launching the principles James Wates, Chairman of the Coalition Group, said, “The Wates Principles provide a tool to help large private companies look themselves in the mirror, to see where they have done well and where they can raise their corporate governance standards to a higher level”.
- Guidance is provided with each principle, not as requirements, but to help companies understand how they can apply the principles.

### Background to the development of the principles

In June 2018 the Government introduced secondary legislation (The Companies (Miscellaneous Reporting) Regulations 2018) which requires all companies of a significant size (more than 2,000 employees OR a turnover of more than £200 million and a balance sheet of more than £2 billion), that are not currently required to provide a corporate governance statement, to disclose their corporate governance arrangements.

The Coalition Group was asked to prepare principles to help those companies which are subject to the thresholds comply with the new reporting requirement. There is no obligation on companies to adopt these principles but the intention is that the Wates Principles provide an approach to corporate governance that offers sufficient flexibility for a diverse range of companies without being too prescriptive.

### Extract from The Companies (Miscellaneous Reporting) Regulations 2018

26. (1) The directors' report must include a statement (a “statement of corporate governance arrangements”) which states:

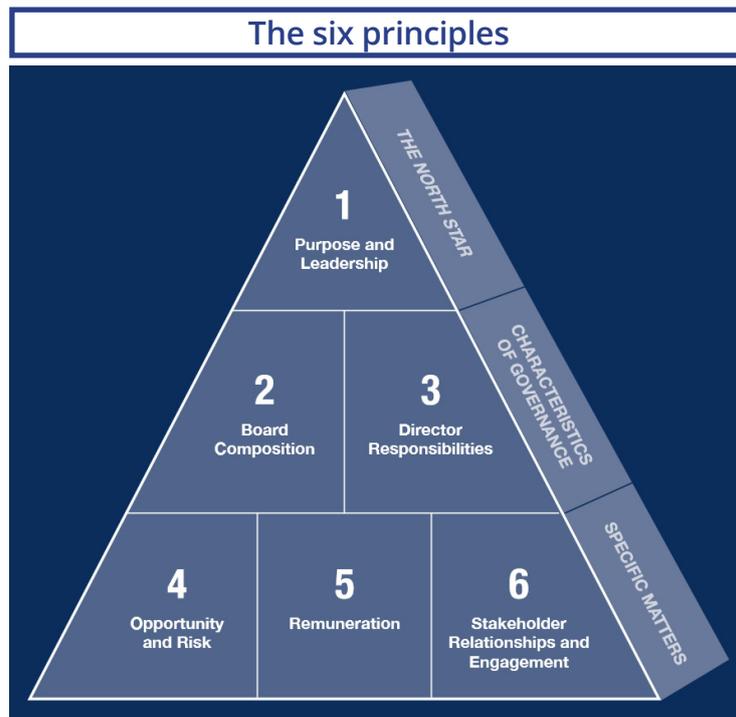
- (a) which corporate governance code, if any, the company applied in the financial year,
- (b) how the company applied any corporate governance code reported under sub-paragraph (a), and
- (c) if the company departed from any corporate governance code reported under sub-paragraph (a), the respects in which it did so, and its reasons for so departing.

(2) If the company has not applied any corporate governance code for the financial year, the statement of corporate governance arrangements must explain the reasons for that decision and explain what arrangements for corporate governance were applied for that year.

### How to report on the principles

A company which chooses to adopt the Wates Principles should follow them using an “apply and explain” approach in a way that is most appropriate for their particular organisation. Boards should be able to explain, in their own words, how they have addressed each of the principles in their governance practices.

By providing broad principles with supporting guidance, the intention of the Wates Principles is to move beyond a tick box approach to describing and explaining how the company's governance practices achieve the principles and demonstrate the desired outcomes. This approach offers increased transparency for stakeholders and links to the other new reporting requirement on how the directors have discharged their section 172 duty. Cross-referencing is encouraged – there is no need to duplicate information.



## Principle

## Matters to consider in applying the principle

### Purpose and leadership

*An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.*

- How does the board ensure that it understands the views of shareholders?
- How does the board build relationships with all stakeholders?
- Does dialogue with the workforce and wider stakeholders demonstrate a clear sense of purpose and collective vision?
- How does the board embed the desired culture in the organisation?
- Is there a clearly articulated strategy for the organisation?
- Is there an effective mechanism in relation to raising concerns about misconduct and unethical practices?
- How are conflicts of interest managed?

### Board composition

*Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.*

- Is there clarity on the roles of the Chair and Chief Executive?
- How do appointments to the board demonstrate appropriate consideration of the combination of skills, backgrounds, experience and knowledge?
- How does the size and structure of the board facilitate constructive challenge and effective decision-making?
- What mechanisms exist to support the ongoing professional development of the board and the identification of the strengths and weaknesses of board performance?

### Director responsibilities

*The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge.*

- Are there clear lines of accountability and responsibility which support effective decision-making throughout the organisation?
- How does the board confirm that governance processes remain fit for purpose and identify initiatives to strengthen the governance of the company?
- Where responsibilities have been delegated to a board sub-committee, are the terms of reference of that committee clearly established?
- How does the board ensure that systems and controls are operating effectively and that the quality and integrity of information produced is reliable?

Principle	Matters to consider in applying the principle
<p><b>Opportunity and risk</b></p> <p><i>A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, establishing oversight for the identification and mitigation of risks.</i></p>	<ul style="list-style-type: none"> <li>• Is there a clear articulation of how the company creates and preserves value over the long-term?</li> <li>• Which processes support the identification of future opportunities for innovation and entrepreneurship?</li> <li>• How does the board ensure that there is appropriate oversight of risk and accountability to stakeholders?</li> <li>• How does the risk management and internal control framework provide an effective platform to enable the board to make informed and robust decisions? What is the approach to reporting, including frequency of reporting and the points at which decisions are made and escalated?</li> </ul>
<p><b>Remuneration</b></p> <p><i>A board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company.</i></p>	<ul style="list-style-type: none"> <li>• Is there clear alignment between the remuneration of directors and the performance, behaviours, purpose, values and strategy of the company?</li> <li>• How do remuneration policies take account of the pay and conditions of the wider workforce?</li> </ul>
<p><b>Stakeholder relationships and engagement</b></p> <p><i>Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.</i></p>	<ul style="list-style-type: none"> <li>• How does the board consider how the company's activities may impact both current and future stakeholders, which, for example, could include impacts on the environment?</li> <li>• What stakeholder engagement mechanisms exist to help the board to understand the effects of the company's policies and practices, predict future developments and trends, and re-align strategy?</li> <li>• How does the board ensure that information presented to all stakeholders represents a fair, balanced and understandable assessment of the company's position and prospects?</li> </ul>

### For further information:



The Wates Principles are available at: <https://www.frc.org.uk/getattachment/31dfb844-6d4b-4093-9bfe-19cee2c29cda/Wates-Corporate-Governance-Principles-for-LPC-Dec-2018.pdf>

Governance in brief: BEIS issues legislation to deliver key corporate governance reforms – <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/audit/uk-gib-beis-regulations-june-2018.pdf>

### Deloitte view



- We welcome the flexibility this principles-based approach allows. It is for boards to determine how best to apply the principles and to explain their policies and practices in their own words.
- We hope that boards can see this new reporting requirement as an opportunity to shine a light on existing governance arrangements, to ensure that they remain fit for purpose in the current environment.



## How we can help

Deloitte Private is focussed on the needs of private businesses. We believe that all businesses (and their stakeholders) benefit from strong and effective standards of governance, but recognise the importance of adopting an approach which is proportionate, practical and appropriate for your business.

If you would like to have a conversation to consider the health of your existing arrangements and how they compare to our experience of good practice, please approach any of the Deloitte Private contacts below.

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