BOARD OVERSIGHT IN DIFFICULT TIMES –

OUT OF COVID INTO WAR

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GOVERNANCE INDEX

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All Party Parliamentary Corporate Governance Group (APPCGG)

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FOREWORD BY RICHARD FULLER MP

The All Party Parliamentary Corporate Governance Group plays an active role at Westminster, covering a huge range of subjects aligned to corporate governance in UK companies since its formation in 2004. Its purpose is to develop and increase understanding of corporate governance and create the agenda for business, economic and social prosperity, encouraging a culture that is based on responsible leadership and investments.

As the Group's Chair, I am delighted to present Lintstock's latest study, its ninth for the Group, which addresses Board oversight in the era of Covid-19 and the war in Ukraine. The report reflects on the challenges that recent events have presented to Boards, and explores the key governance themes that Covid and the outbreak of war brought into focus, including risk management, employee engagement and ESG. Most pressingly for parliamentarians, it contains direct feedback on the UK business environment and the outlook for the future.

The report is based on extensive research, including commentary from over 150 Directors and Board representatives from FTSE 350 and Small Cap constituents; we are grateful to the participants for their time and their thoughtfulness in engaging in the exercise.

The APPCGG would like to thank Lintstock for carrying out this research on behalf of the Group, and I am gratified to present their findings, which I hope will be valuable to all those who have an interest in the success of UK plc.

Richard Fuller MP
Chair
APPCGG

INTRODUCTION

Crises are a fact of corporate life, and dealing with crises is an important part of a Board's oversight role. In large and complex organisations it is inevitable that business as usual will be disrupted by an unexpected problem or incident, which may even threaten the future of the business; in these situations it is incumbent on the Board to oversee the company's response, reassure investors and key stakeholders, and make sure once the dust has settled that the Board learns from the experience. Directors are aware of their responsibilities in this area when they sign up to serve on a corporate Board, and typically embrace this kind of challenge when it arises.

Nevertheless, the last three years have given rise to systemic shocks in the business environment that few of the current crop of Directors will have experienced in their Board tenures. Corporate Boards have been operating against a backdrop of insecurity for some time – a Lintstock report on reviewing Board performance in 2018 made reference to the ongoing uncertainty following the Brexit vote and an atmosphere of increasing scrutiny from politicians, regulators and the wider public – but the Covid-19 pandemic presented fundamental challenges to businesses around the world, which Boards were forced to respond to at pace and under considerable pressure, in conditions which were so unprecedented that the word 'unprecedented' itself was chosen as one of the Oxford English Dictionary's 'words of the year' in 2020.

The Russian invasion of Ukraine in February 2022 was another largely unexpected shock whose ongoing fallout continues to affect businesses on a global scale, and geopolitical instability – as well as a darkening economic outlook – continues to represent cause for concern; Boards are always subject to external circumstances, but corporates currently face headwinds of remarkable intensity and variety. The Collins Dictionary's choice of 'permacrisis' as their word of the year in 2022 seems apt.

Much in the same way as the global financial crisis of 2007-2008 had an enduring impact on corporate governance, the pandemic and the Ukraine war will change how companies are run in the future – though in contrast to the financial crisis, the crises that hit in 2020-2022 were notably non-financial in nature. Whereas the response post 2008 was principally focused on financial services companies and centred on financial risk monitoring and resilience, enforced by newly established regulators monitoring compliance with stringent standards of fiscal responsibility and financial reporting, the response to these non-financial crises will need to cover a much broader suite of governance topics where the pandemic and Ukraine highlighted gaps – these events exposed Boards to challenges in a multitude of areas, including risk monitoring and management, stakeholder engagement, ESG, supply chains and people oversight.

In many ways these challenges dovetailed with a trend that was already apparent pre-Covid of expanding Board oversight into the non-financial realm: expectations around Boards' monitoring and reporting on a range of non-financial areas were steadily increasing before 2020, including employee engagement and ESG concerns, particularly around climate and the environment. The events of recent years have highlighted the need to devote sufficient focus to non-financial matters – leaving Boards with the task of managing and prioritising increasingly packed agendas.

In a similar vein, Boards' risk oversight has also been broadening in scope, and Covid and Ukraine have brought a broader suite of risks to the fore. Having been focused historically on financial risk post 2008, now Boards find themselves open to – and expected to control – multiple buckets of different types of threat. For obvious reasons pandemic risk and geopolitical risk have risen to the top of the agenda, but Boards also face calls to pay greater heed to climate risk, people risk and supply chain risk to name but a few, with an underlying threat of reputational risk if they don't get it right.

The fallout from Covid and the Ukraine conflict continues to affect the corporate world; new variants continue to spread in spite of the WHO announcing the end of Covid as a global health emergency on 5th May 2023, and hostilities in Ukraine show no signs of ceasing over 18 months after the initial invasion. Along with dealing with the ongoing effects of these developments, as Boards look to the future they face questions around the lessons to be learned from the crises of recent years.

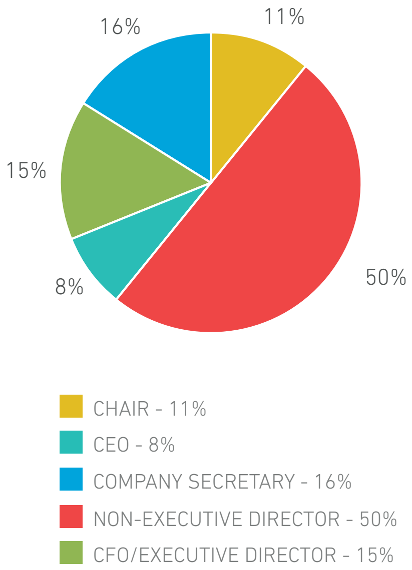
This study aims to explore the implications of Covid and the Ukraine war for corporate Boards. It will examine the extent to which these events will have a lasting effect on governance at the top of organisations, while also widening the focus to consider the consequences for Board oversight over the longer term.

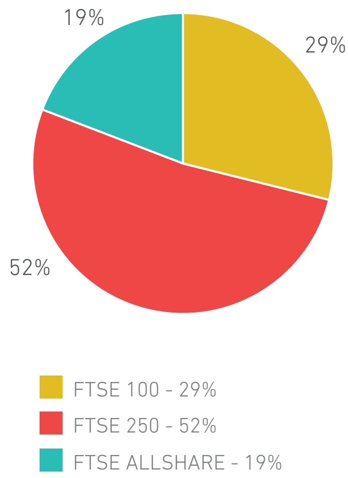
Philip Sidney
Senior Associate, Lintstock Ltd **October 2023**

METHODOLOGY

In order to gain a sense of the impact of the coronavirus pandemic and the Ukraine war at the top of UK corporates, we canvassed Directors and Board representatives in the FTSE All Share, seeking to harness the insights of those who had overseen the response to these events and are tasked with seeing their companies through the aftermath in the coming years. We were encouraged by the engagement shown, and are grateful to the participants for their candour – there is a clear sense that Boards recognise the need to learn from the hard-won lessons of the past three years.

BREAKDOWN OF RESEARCH PARTICIPANTS BY ROLE AND INDEX:





Our inquiry centred on three key areas:

- **Covid-19 and Ukraine** – the long-term implications of the pandemic and Ukraine, and how – if at all – the experience of Covid prepared companies for the outbreak of war;
- **Board governance** – the new governance practices that Boards adopted over the past few years, how relationships with top management and the wider workforce have developed and what lessons have been learned around risk management; and
- **Looking to the future** – the hallmarks of success for companies going forward, the top non-financial risks facing businesses and how Boards should develop looking ahead to 2030.

The chapters below examine the themes that stood out most prominently from the Directors' feedback, offering a window into corporate Boards' thinking as they look to push on from a period of significant upheaval. The commentary that we received presents a picture of battle-hardened Boards that have been energised by the recent crises, have banked the blander learnings – e.g. the widespread consensus that online meetings are here to stay but that hybrid meetings can be problematic – and have strong opinions about the future of British business and UK plc.

This word cloud, formed out of the data we gathered from participants in the study, gives an idea of some of the topics that repeatedly surfaced in Directors' observations, each of which were considered thoughtfully and from a range of different perspectives – there was plenty of diversity of thought here, and we hope that the spread of opinion provides Boards, fellow governance professionals, regulators and legislators with useful insight into where corporates are at the present time.

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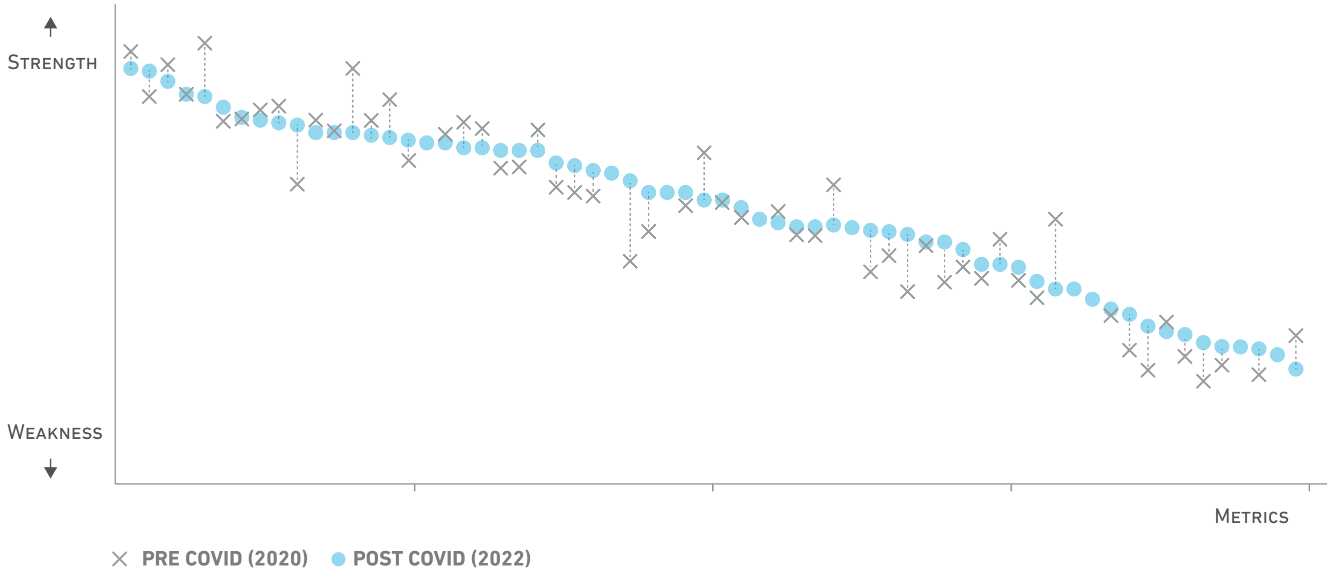
LINTSTOCK GOVERNANCE INDEX METRICS PRE COVID VS. POST COVID



As well as drawing on the perspectives of the study participants, this research will also harness insights from the Lintstock Governance Index. Established in 2020, the LGI is a collection of over 60 Board performance metrics, powered by data drawn from the 130-plus Board Review exercises that Lintstock conducts each year. Each Board is unique, but all Boards suffer from similar challenges; the Index enables Lintstock to compare the strengths and weaknesses of Boards, thereby putting Board performance in context. Through tracking the movements of each metric over recent years – particularly contrasting sentiment during the Covid year of 2020 with 2022's emergence from the pandemic and advent of Ukraine – it is possible to trace the focus of Boards' oversight in real time, and contrast the reflections of participants in our study with the data we gathered over this extraordinary period.

Think more intensely, more imaginatively and more thoroughly:

1. RISK OVERSIGHT AND SCENARIO PLANNING

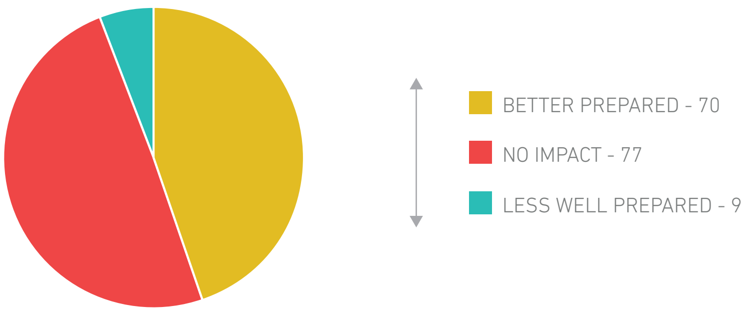
Risk was the most frequently raised topic in Directors' commentary, and Covid and the outbreak of war in Ukraine have clearly left Boards with much to think about from a risk perspective. Though a select few of our clients were lucky enough – or had sufficient insight – to have had both a pandemic and war in Europe on their risk register, the crises of the last few years caught most Boards off guard. Even companies in highly Covid-adjacent industries such as insurance and pharmaceuticals were blindsided by the pandemic, although in Board Review exercises in 2021 it was common to see Directors consoling themselves with the fact that other Boards had not spotted it either.

Recent events show that the ability to respond to an unexpected risk is just as important as the power of prediction, however, and Covid-19 supplied a real-life example of a catastrophic risk materialising. Boards generally feel that they and their companies rose to the challenge – the effectiveness with which companies' risk management arrangements had coped with Covid challenges was ranked in the top ten metrics in the Lintstock Governance Index in both 2020 and 2021. One of the key questions we wanted to explore with this study was what Boards had learned from the challenges they had faced, and whether there had been a lasting impact on their companies' operational or strategic thinking. Has the Covid era inaugurated a new sense of risk?

"Truth is stranger than fiction"

There is nothing like a good crisis to capture lessons, and it is encouraging that just under half of respondents indicated that the response to Covid left their organisation better prepared for the impact of Ukraine.

DID THE RESPONSE TO THE COVID-19 PANDEMIC LEAVE YOUR COMPANY BETTER PREPARED FOR THE IMPACT OF THE WAR IN UKRAINE?



The lasting lesson learned has been that companies need to widen the lens on risk, broadening the scope to consider more and different threats. When asked in Board Review exercises, respondents typically suggest that the most significant risk to their company is failure to deliver the strategy; it seems one lesson from Covid is to look beyond the business model when considering downside scenarios. There was a sense among some respondents that the pandemic had exposed limitations in Boards' focus on risk – it was suggested that some Boards had become overly inward-looking and too focused on the granular minutiae of their risk registers and risk matrices, creating a narrowing of oversight that left them ill-prepared for the impact of threats from an unexpected source. To accommodate a more expansive focus on risk, some respondents suggested that it would be beneficial for Boards to conduct more blue-sky discussions on this topic, taking a high-level view of possible threats rather than focusing purely on risk processes and the controls that are already in place. Rather than discussing whether a given risk ought to be third or fifth on the risk matrix, it may be more useful to think about the company's vulnerabilities in a broader sense.

> *Think the unthinkable and at least have a plan for it – truth is stranger than fiction.*
> **FTSE 250 Non-Executive Director**

> *The importance of a risk radar has continued to grow over the past few years – even seemingly impossible risks should be analyzed more closely […]*
> **FTSE 250 SID**

> *Both the Covid pandemic and the war in Europe exposed the limitations of silos and narrow definitions used when thinking about risks. Establishing a broader risk radar outside of traditional operational and hazard risks may have helped to capture the possibility of both events although not perhaps the magnitude.*
> **FTSE 100 CEO**

> *Risk management has become highly programmatic – risk registers, heat maps and action plans, often for similar risks on each board. Do we spend enough time thinking about bigger events that could create much more material risks for the business?*
> **FTSE Small Cap Chair**

> *We now must recognise the inherent uncertainties that businesses face and the need to be prepared to respond and deal with an ever-wider range of risks. Systematically identifying, assessing and managing risk is now absolutely essential.*
> **FTSE 250 Company Secretary**

> *Think more intensely, more imaginatively and more thoroughly.*
> **FTSE 250 Chair**

It was repeatedly suggested that Boards should 'expect the unexpected' and 'think the unthinkable' – given Covid and war in Ukraine were barely on most companies' radar, let alone their risk register, Boards are looking nervously to see where lightning might strike next. The air seems thick with the wingbeats of black swans. In particular Boards should take a step back to consider global and macro risks; in a highly interconnected world, where organisations are dependent on extended supply chain networks and digital infrastructure, corporates are vulnerable to shocks from unexpected quarters, and should ensure that they are aware of external threats.

"The wrong end of the telescope"

There was, however, a spread of opinion on whether Boards ought to attempt to identify the next catastrophic risk – many felt that Boards are not meant to be crystal ball-gazers, and were reluctant to commit too much resource to exercises they saw as attempting to predict the future. For these respondents, it was more important to focus on what can be seen and controlled.

> *War, pestilence and famine are obviously risks but I don't think companies can be blamed for not predicting them […] no-one can avoid these massive shocks.*
> **FTSE 100 Non-Executive Director**

> *I feel we look down the wrong end of the telescope on risk. Just as no-one sees the car that knocks them down, Boards are not crystal ball merchants. Suggesting with a straight face that we should be identifying pandemics and wars on our risk and viability-type material is an interesting concept. Why not add being hit by meteorites or the return of dinosaurs, or an outbreak of civil war.*
> **FTSE 250 SID**

> *[T]here would be limited value in trying to scenario model every conceivable world event.*
> **FTSE 250 CEO**

> *Predicting the future is a hazardous business […]*
> **FTSE 100 Non-Executive Director**

"Focus more on the impacts"

The best practice emerging among Boards in our experience is to focus less on individual risks than on responding to and mitigating risks when they materialise; respondents often stressed the need to ensure that the right systems are in place rather than establish the precise nature of the threat. Risks that seem disparate in nature will often test similar areas of the company – a terrorist incident, a natural disaster or a cyber attack would each require an organisation to ensure business continuity, safeguard the wellbeing of its employees, secure its supply chain and communicate internally and externally – and so it is arguably more effective, and a better use of the Board's time, to focus on the company's level of readiness than predict what may or may not be coming up in the lift.

> *The most important lesson is that the causes of stress are less important than their impacts; in other words, the specific risk (war, pandemic) would be difficult to predict but a risk approach that focuses on the impacts of crystallised risks (e.g. order intake, cost increases, liquidity, staff retention, etc) is more likely to be useful in the next (unpredictable) crisis.*
> **FTSE Small Cap CFO**

> *As Niels Bohr said, "Forecasting is very difficult, especially when it concerns the future." [. . .] The important thing is to have structures and processes in place to deal with crises.*
> **FTSE 100 Chair**

> *[B]y all means add more smoke detectors so that you reduce the risk of a fire – but do not then fall into the trap of saying "SO THE FIRE WON'T HAPPEN". Add fire extinguishers and make sure they are working, have the fire service phone number to hand, have accessible escape ladders – so that WHEN THE FIRE HAPPENS, you have a high chance of surviving.*
> **FTSE 100 SID**

> *You can't beat 'war gaming' a risk scenario, i.e. actually practicing what you would do in the event of it materialising, and getting the core and extended team of the board, executives and senior management involved in that 'rehearsal'.*
> **FTSE 250 Non-Executive Director**

"Hope for the best and always be prepared"

As Boards dust themselves off from the pandemic, we would expect their focus on risk to evolve. Regular consideration of risk means that the subject is kept top-of-mind, and that developing challenges can be closely tracked. There is greater rigour, too, in Boards' consideration of risk – with several major crises under their belt from the last few years, Directors are aware that each tabletop exercise could become a frontline exercise in short order. Risk is more tangible now, and while the achievement of 'zero risk' is neither possible nor desirable, readiness to absorb and respond to shocks is critical.

> *Boards also need to make sure that risk awareness and governance is really, truly embedded in their businesses and in how they themselves think and operate. In too many businesses it rises to the top when an issue emerges, but then is allowed to slowly recede in favour of more "exciting" aspects of running the business.*
> **FTSE Small Cap Non-Executive Director**

> *[R]isk registers must be a living tool that must be continuously assessed according to how different crises and situations evolve. Scenario planning and action plans must be frequently conducted.*
> **FTSE 250 Non-Executive Director**

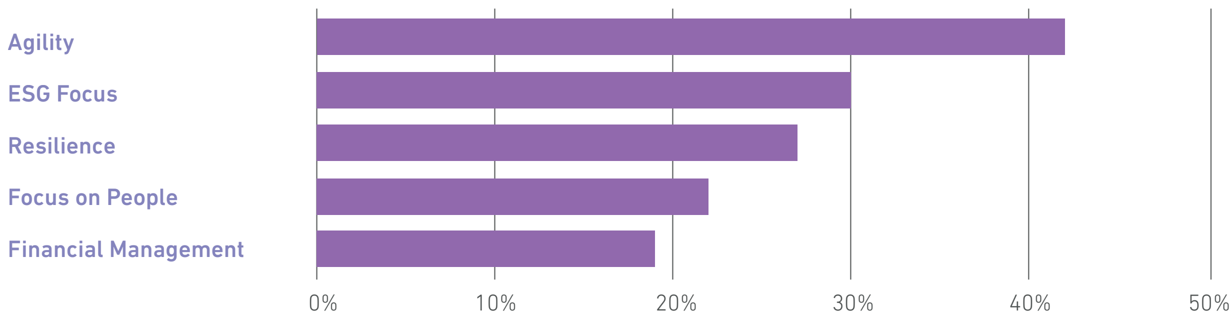
> *Hope for the best and always be prepared with plan B, C, D.*
> **FTSE 250 Non-Executive Director**

Build more resilience and flexibility than the status quo would require

2. AGILITY AND RESILIENCE

The swiftness and severity with which Covid impacted organisations has underlined the importance of agility and resilience for businesses. Both of these qualities featured highly in respondents' feedback on the hallmarks of successful companies going forward, and it seems that the pandemic has developed their capabilities in this regard: it was suggested that companies came out of Covid more flexible and with greater sensitivity to the resources available to them, which rendered them better prepared to respond to the Russian invasion of Ukraine.

HALLMARKS OF A SUCCESSFUL COMPANY



"Be adaptable and fast"

Increased agility was felt to be the primary benefit for companies coming out of Covid, and it is clear that organisations are now lighter on their feet having mobilised to respond to the demands of the pandemic and reacted to the imposition and lifting of lockdown restrictions across geographical regions. It became commonplace to make key decisions swiftly and implement them at pace: for some companies Covid enforced a step change in the efficiency of processes that would have been difficult to envisage, let alone implement, in the period before. We heard of one insurer where it took 6 weeks to agree a change in pricing before Covid, whereas their prices can now change 3 - 4 times a day.

The growing comfort with swift decision making, allied with the development of structures and processes for putting them into action, has built 'muscle memory' that organisations will be able to draw upon to respond to future crises.

> *Prior to COVID, business had operated in a relatively benign environment for quite some time. COVID forced companies to become more agile and adaptable and this was valuable when confronted with discontinuities such as arose with the onset of the war.*
> **FTSE Small Cap Chair**

> *Those that were able to stay flexible came out on top.*
> **FTSE 250 Non-Executive Director**

The ability to flex and adapt has been an important attribute for businesses for some time, particularly as technological developments have both made day-to-day operations more frenetic and threatened companies' business models through disruption. Nevertheless, the rapidity with which Covid and Ukraine overtook corporates – suspending operations and reshaping the market landscape almost overnight – has reaffirmed the need to be watchful and nimble in order to minimise risk and capitalise on opportunities. The events of the past few years have demonstrated conclusively that companies must be prepared to act swiftly in a crisis and possibly conduct an entire reorganisation of their working practices.

Being agile, creative and flexible in response to major external events [is the hallmark of a successful company].
FTSE Small Cap SID

[Boards need to] focus on being nimble to deal with whatever the new crisis is; be adaptable and fast.
FTSE 100 Non-Executive Director

Boards have to be able to be swift of foot. Technology, social change etc. are moving fast, sometimes too fast, but Boards need to have the ability and expertise to respond.
FTSE 250 Non-Executive Director

Agility and the ability to reconfigure will become more important and may create opportunities for smaller firms to steal a march on sector "champions".
FTSE 100 Non-Executive Director

Agility and innovation matters more than ever. Regulation and processes that slow companies down or provide greater compliance burden do the opposite of what they intend.
FTSE 100 Non-Executive Director

"Businesses that appeared robust are now finding themselves in trouble overnight"

Resilience is also a key concern for companies going forward. The pressure exerted on companies' resources by the pandemic and the war in Ukraine has underscored the need to ensure that organisations have a broad enough base – financially, logistically and organisationally – to withstand a substantial shock. The supply chain problems caused by Covid exposed companies' dependencies and made it necessary for them to rethink how and where they sourced key materials, and further problems in this area arose from the war in Ukraine. Companies are therefore increasingly moving from a 'just in time' to a 'just in case' approach to their supply chain; whereas efficiency was the main focus before the pandemic, there is a new awareness of the risks of being over-lean.

The past few years have posed challenges to the resilience of human resource as well, and the value of possessing a team with the strength to manage through crisis conditions was highlighted, as was the need to ensure that the team has sufficient opportunity to recharge after a kinetic period – individual executives' resilience can only go so far, and companies need to be careful not to burn through their reserve of human capital.

Resiliency and redundancy come to the fore. Critical dependencies deliver efficiencies, but create risk exposures.
FTSE 100 Non-Executive Director

We should be aware that there are events every 5 or 10 years that will seriously challenge businesses and Boards and therefore it is important to have financial and resource bandwidth to cope with such challenges.
FTSE 100 CFO

[D]iversification has become more important than single source supply, efficiency and cost optimisation.
FTSE 100 CFO

Those that had executives that were able to stay in role and could weather the uncertainty and constant change without fatigue came out on top.
Top management everywhere is fighting crisis fatigue. Half of the CEOs on my 6 boards are retiring much earlier than planned and most companies are fighting unexpected openings in their senior executive teams.
FTSE 250 Non-Executive Director

Financial resilience was prioritised in particular, and balance sheet management and cash generation were frequently identified as key ingredients for success. The collapse of Silicon Valley Bank in March 2023 will have been top of mind for some respondents, but the importance of liquidity was underlined for many by the shock of Covid, which hit some businesses with a considerable drop in revenue and a simultaneous need to invest in technology and safety measures. Companies are more conscious of their financial exposures and warier of debt and gearing; many are rescoping their stress testing to accommodate extreme scenarios, not wishing to catch a cold when the next crisis comes around.

The war has highlighted that stress levels such as energy prices can move well outside of ranges previously considered in stress tests. Going forward I would expect companies to consider more extreme possible events and to see how they might respond.
FTSE 100 Non-Executive Director

Perform regular resilience analysis to look at key downside scenarios – SVB collapse, B of S collapse should not have happened had the boards performed robust resilience analysis and scenario planning.
FTSE 250 SID

One can forget in the good economic times that balance sheets can be squeezed very quickly when macro-economic turmoil arises […] Banks want to lend when one doesn't really need the money, and rarely when one does need the money.
FTSE Small Cap CEO

The gearing that exists around specific aspects of a business model are now more exposed and firms need to think about the points of concentration as businesses that appeared robust are now finding themselves in trouble overnight.
FTSE 100 Company Secretary

"The mindset has changed to 'do not expect a return to lasting stability'"

It was noticeable that many respondents paired agility and resilience together as twin hallmarks of success for a company, which seems somewhat counterintuitive given building up redundancy will impact companies' ability to pivot at short notice; that said, when correctly balanced the two are complementary attributes that respectively enable companies to withstand and then respond swiftly to an external shock.

While it will always be challenging to ensure that a given business has sufficient flexibility to move quickly when needed, but also benefits from sufficient financial, material and human resources to ride out the storm, both are vital in dealing with the current atmosphere of uncertainty. For as long as the external environment remains volatile, companies will need to be capable of absorbing significant hits to their bottom lines, supply lines and workforce at the same time as being able to react speedily and decisively – both weathering change and being alert to the opportunities it affords.

Build more resilience and flexibility than the status quo would require.
FTSE 100 Non-Executive Director

Agility and resilience are more important than ever.
FTSE 100 Non-Executive Director

Resilience, strategic focus, speed of decision making, nimbleness have all helped strengthen businesses.
FTSE 250 SID

[C]ompanies now need to be able to plan and execute against more volatile environments including climate impacts […] these impacts happen more often and with greater severity.
FTSE 100 Non-Executive Director

The main lesson [from the past few years] is that businesses need to be set up and operated in a nimble manner, providing flexibility and the mindset and attitude of the individuals in these roles needs to be similarly flexible […] businesses should be dynamic and be prepared to be early change adopters when faced with new circumstances.
FTSE 250 CFO

Competitors without an online presence went to the wall:

3. TECHNOLOGY AND AI

Technology change [will be] both good and bad.
FTSE 100 SID

It is not news to note that Covid profoundly impacted companies' digital capabilities and use of technology. Technology transformation and the implementation of new systems was already a key concern before 2020, but the challenges of the pandemic exposed organisations' lack of IT firepower (and indeed the country's – the use of Microsoft Excel to manage contact tracing caused Public Health England to lose track of 16,000 positive test results for Covid, with some officials resorting to tabulating case numbers by hand).

Very quickly technological capability became a matter of survival as companies dashed to move operations online and set up lines of remote communication with employees and customers – in many cases within days.

Had [Covid] happened only 5 years earlier the result would have been very different as technology was less developed and reliable.
FTSE 100 Non-Executive Director

The pandemic undoubtedly led businesses to accelerate the technological revolution in ways of working – Boards and executive teams were forced into adopting practices that enabled communication to be done remotely and at pace.
FTSE 250 Non-Executive Director

Covid has had a huge positive impact. We were forced to upgrade our technology infrastructure and our communication mechanisms.
FTSE 250 Executive Director

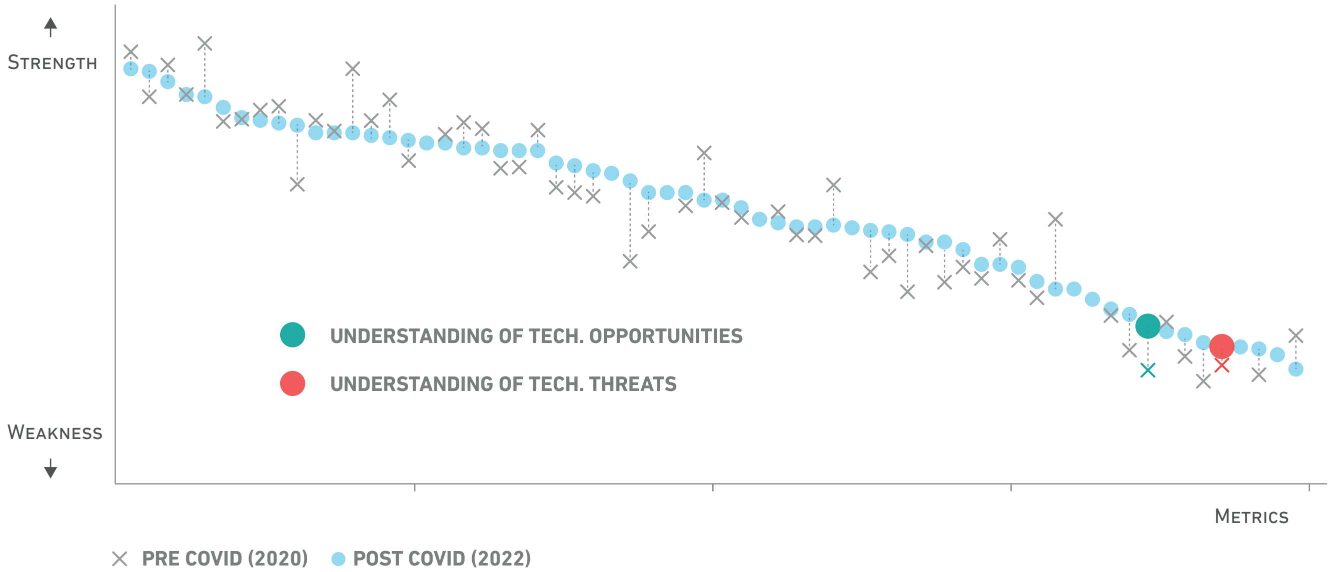
[During the pandemic there was a] Huge bonus from our Internet offering which managed to keep turnover (and cash flow) very strong. Not surprisingly, several of our competitors without online presence, went to the wall.
FTSE 100 Non-Executive Director

"A growing dependency on IT and digital"

Nowadays it is more than ever the case that technological capability is the hallmark of a successful company – the advancement in digitisation that the pandemic enforced has become embedded, and investment in tech has brought undeniable efficiencies. Online meetings are now second nature to most, and businesses are embracing the opportunities of being able to reach customers on a global scale – the shop window is now much larger. There is also appreciation of the environmental benefits of reduced travel and paperless working.

Nevertheless, companies' growing dependence on technology brings risk implications with it, and Boards are increasingly vigilant in this area: the understanding of technological threats is one of the most improved metrics in the Lintstock Governance Index in recent years, and it seems that Boards now have greater confidence in their understanding of threats than in their understanding of opportunities in the tech space, although both metrics remain in the bottom quartile of the Index. Boards are conscious of their deficiencies here, and the addition of well-directed technological or digital expertise is regularly a key recommendation in the Board Reviews we conduct – former CTOs and CIOs have never been in greater demand.

Chief among the challenges is that, having plugged into the digital revolution, companies now need to keep up – dependence on tech means that they are subject to Moore's Law, and are thus required to keep upgrading their systems and capabilities as technology develops or risk falling behind. It is no longer enough to 'innovate



inno-ventually' – the speed of technological change compels businesses to continually invest to keep ahead of the pack. Fuelled by social media, crises unfold at greater speed in the digital world, and companies need the connectivity and capability to head them off at the pass.

> *Falling behind on technology evolution [is a significant risk]*
> **FTSE 100 Non-Executive Director**
>
> *The ability to operate effectively remotely requires significant and ongoing investment in technology.*
> **FTSE 100 CEO**
>
> *[R]isks today may not be the risks of the future [... Companies need to be] prepared for faster pace of change in a digital world in which current governance structures and formalities will need to adapt.*
> **FTSE 250 CEO**
>
> *Continued volatility means corporates […] are consistently pulled into managing either events or longer term volatility [… A] growing dependency on IT and digital and the need to try and "keep ahead" of cyber criminals [and] the disproportionate impact of social media/influencers […] exacerbate this issue.*
> **FTSE Small Cap Non-Executive Director**
>
> *Risk that businesses cannot adapt their business model and operations to a more digitised world. The risk arises from the difficulty in hiring and retaining software engineers, the level of legacy systems as these can't be quickly changed.*
> **FTSE 100 CEO**
>
> *[Boards should] overlay digital and social media accelerators onto historic risks (eg SVB and the speed of a run on money).*
> **FTSE 100 Chair**

"Cyber-security […] will always be a risk faced by all businesses"

The movement of operations online brings greater threat alongside greater connectivity: just under a quarter of respondents cited cybersecurity as a significant risk, and the profusion of cyber attacks and data breaches – the UK government's Cyber Security Breaches Survey this year estimated that there had been 2.39 million instances of cyber crime over the past year – clearly represents cause for concern, not least from a reputational point of view. Customers who have grown used to seamless service online are less tolerant of downtime and increasingly sensitive to how their data is handled – and more willing to voice their frustrations on social media if their experience is less than satisfactory. Correspondingly there is greater incentive for a range of malicious actors – at state level as well as in criminal circles – to disrupt digital operations, harvest consumer data and hold companies to ransom.

> *[C]yber-security […] will always be a risk faced by all businesses, not only technology businesses.*
> **FTSE 100 CEO**

> *Cyber risk is growing in importance as businesses become increasingly digital and the crime becomes ever more sophisticated.*
> **FTSE Small Cap CEO**

> *Cyber attack and two-way cyber attack – holding data for ransom and a separate charge to prevent public distribution [are significant threats].*
> **FTSE Small Cap Non-Executive Director**

> *More sophisticated cybercrime, including the deployment of AI [is a significant risk].*
> **FTSE 100 CFO**

"Artificial Intelligence […] could represent the greatest risk and opportunity"

A number of respondents identified AI as a significant risk, which among other things illustrates the swiftness with which certain risks can rise up the Board agenda. We had heard very few Boards raise AI as a risk until recently, but the news flow on this topic – in particular the release in March 2023 of an open letter from the Future of Life Institute, signed by Elon Musk among others, that requested a six-month pause in the development of AI systems so that it could be ascertained that the risks they pose will be manageable – has concentrated Boards' minds on this topic.

Respondents recognised the opportunity as well as the risk that AI presents, and there is a combined sense of excitement and nervousness around the potential of this technology that is not yet fully understood. One Company Secretary we spoke to expressed disquiet at the computer algorithm that their company introduced during Covid to manage pricing levels: while it was necessary to implement it for the survival of the business, they told us that its risk implications are terrifying. Such commentary underlines the need for Boards to ensure that they benefit from sufficient expertise – or access to expertise – to be able to properly understand the possibilities around technologies such as AI, both to see off potential risks and to ensure that the technology is used responsibly.

> *Artificial intelligence is now at an inflexion point and could represent the greatest risk and opportunity.*
> **FTSE 100 CFO**

> *AI changing the business paradigm [is a significant risk].*
> **FTSE 100 Non-Executive Director**

> *Need to address the shortage of Board level IT/Cyber skills, and to make sure that they really understand their businesses' capabilities and vulnerabilities.*
> **FTSE Small Cap Non-Executive Director**

"

The second bottom line:

4. ESG AND CLIMATE

"It is no longer enough to focus on operational and financial performance."

The increase in focus on ESG was one of the most frequently cited governance developments of the past few years. While environmental, social and governance issues have been rising up the agenda for some time – particularly around the environment, with the Task Force on Climate-Related Financial Disclosures being created in December 2015 – they have come to the fore in recent years, dovetailing with the push for companies to be good corporate citizens that serve wider society and communities rather than existing for the benefit of shareholders and employees.

For many Directors, a focus on sustainability is now a hallmark of a successful company. The criteria of success are changing – 'value' is increasingly being overtaken by 'values' as shareholder returns and operational and financial performance give way to ethical considerations around climate, social justice and employee welfare.

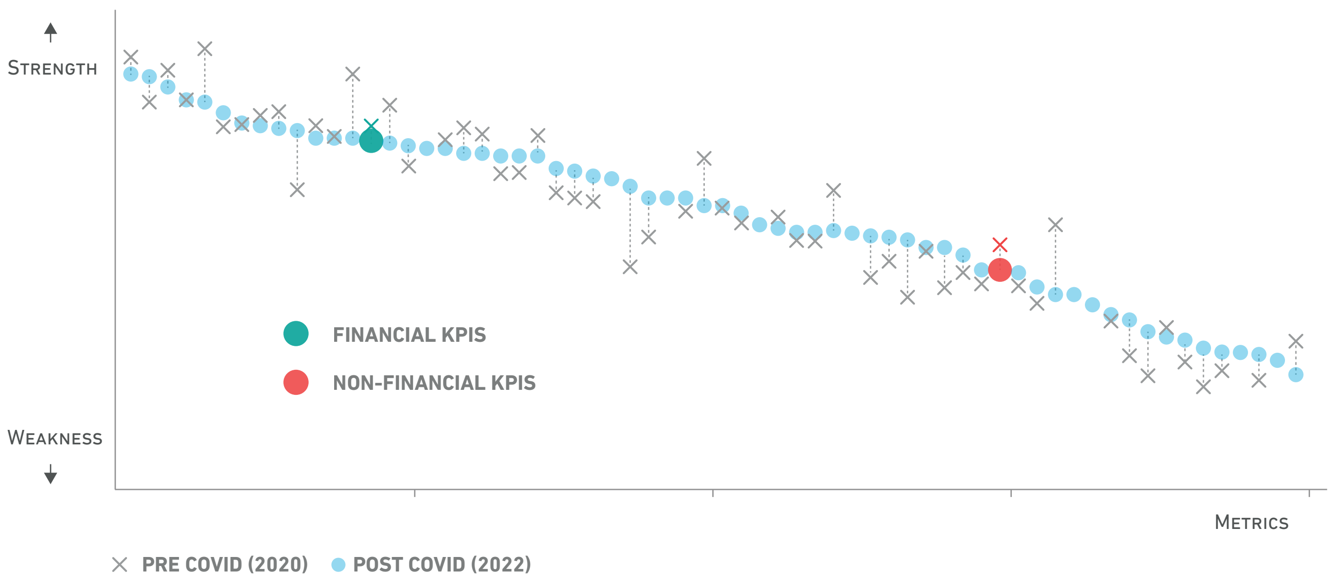
> *ESG has become the second bottom line (a very good thing) at an accelerated pace [. . .] It has moved from CSR/CR/Sustainability etc and often a supplementary issue in the world of governance, to core on the board agenda (another good thing).*
> **FTSE 250 Non-Executive Director**

> *Sustainability has rightly taken centre stage.*
> **FTSE 250 Chair**

> *It is no longer enough to focus on operational and financial performance. Companies must have strong ESG and DE&I credentials and present them in a transparent and compelling way to be successful.*
> **FTSE 100 CEO**

The pandemic and the outbreak of war have further sensitised companies to the need to focus on non-financial as well as financial performance, and in our Board Review exercises we are seeing greater focus on non-financial measures both as KPIs for the business itself and as criteria in executive remuneration plans. Boards consistently rate the non-financial KPIs that they are provided with less highly than the financial KPIs, with the latter invariably outperforming the former in the Lintstock Governance Index.

THE GAP BETWEEN FINANCIAL AND NON-FINANCIAL



Success [is] not purely measured by financial measures; of equal importance is that commercial success is sustainable & limits any negative impacts on society and planet.

FTSE 250 Non-Executive Director

More than ever, success should be measured across a broader range of metrics, with less emphasis on the financial results. These metrics should focus more on society, the environment and people in organisations.

FTSE 100 CFO

Success is measured against a much more sustainable set of criteria – a solidly managed company is increasingly preferred by shareholders versus brittle short term success.

FTSE 250 SID

"A greater weight on being compassionate, and a good citizen"

Associated with this renewed focus on sustainability is a consciousness of the broader stakeholder universe, and many felt that engagement with stakeholders is a key criterion of success for businesses today. As businesses reassess their relationship with society (and find themselves under considerable social and political scrutiny), there is clearly value in being seen as a net contributor that benefits the whole of society rather than just shareholders. It is becoming apparent that companies do not automatically have a license to operate, and reputational risk has serious commercial as well as PR implications.

The sense of collective national effort that arose from efforts to tackle the pandemic (at least in its early stages) made companies keen to show themselves to be good corporate citizens – and many companies will have felt an additional obligation in this regard having benefited from government support in the form of furlough payments or similar. There was a sense among respondents that the pandemic had provided organisations with an opportunity to contribute at a societal level, and it was felt that this sense of purpose will persist over the longer term.

[The events of recent years have] highlighted the importance of stakeholder (and not just shareholder) capitalism and the need to operate as a responsible business that reflects societal values.

FTSE 100 CEO

[C]ompanies will be judged by both their reputation and performance. The overall contribution to society and the impact thereon will become increasingly important to all stakeholders, including investors, employees, governments, consumers, etc.

FTSE 100 Company Secretary

Medium/long term success can only be achieved through meeting the needs of a broader group of stakeholders including our employees, our Investors (shareholders) and the communities in which we operate.

FTSE Small Cap CEO

"Environmental risks […] will be a significant headwind"

Response to the environmental challenge is a key issue for Boards. Companies are under the gun in this area given the UK's legal commitment to achieving Net Zero by 2050, and the ability to demonstrate their climate contribution to customers, government and other key stakeholders will be crucial, but respondents also expressed concern around the short-term operational impacts of climate change such as extreme weather events and flash flooding alongside the longer-term catastrophic implications of global temperatures continuing to increase.

The war in Ukraine has also sharpened anxieties around energy: rising costs and increasing concerns around energy security have reinforced companies' commitment to generating renewable energy that reduces dependence on oil and gas from unpalatable sources.

Climate change [is a key risk], including the risk of significant social disruption due to a drastic economic and societal adjustment if we don't act sooner.
FTSE 100 Non-Executive Director

Climate is obviously a significant risk – but its impacts will be various and idiosyncratic.
FTSE 100 Non-Executive Director

Climate change impacts (super storms affecting office operation, electrical supply etc.) [pose a significant risk].
FTSE Small Cap Non-Executive Director

Environmental risks from extreme weather will be a significant headwind over the next 10 years.
FTSE 250 CFO

The Ukraine conflict has [made] UK consumers – and the country – poorer as a result of a reliance on foreign tyrants for cheap energy.
FTSE 250 SID

"The climate change requirements are absolute rubbish"

Nevertheless, there was concern among some respondents that actions to mitigate climate change could themselves incur risk. Implementing the Net Zero agenda will involve considerable change, and the danger of going too far, too fast was remarked on, including the implications for energy security. The UK government's recent rollback of the ban on selling new petrol and diesel cars from 2030 to 2035 hints that some environmental measures may not be as practicable, or as politically palatable, as first thought.

A few respondents questioned the achievability of the drive for Net Zero, and suggested that some of the measures would prove counterproductive – while not wishing to downplay the importance of being environmentally friendly, it was felt that the prescribed means of doing so, and the pressure placed upon companies to comply, are not solutions-oriented.

The climate change agenda is driving huge change and societal benefits, [although] the unfolding of consequences (negative or positive) is a known unknown.
FTSE 100 Non-Executive Director

[D]islocations created by the necessary dash to renewable energy [pose a risk].
FTSE 250 Non-Executive Director

Complete lack of a UK energy strategy and no way to achieve Race to Zero target [are significant risks].
FTSE 250 Non-Executive Director

Reducing domestic security of supply, whilst pivoting to more expensive sources of energy and driving to net zero without understanding the impacts on domestic energy grids is high risk.
FTSE 250 SID

[There is significant risk in] the ridiculous "green agenda" such as the lemming-like charge to EV with their lack of infrastructure, their WORSE environmental impact (particulates, CO2 much higher in production, lack of recycling potential etc. etc.).

The climate change requirements are absolute rubbish, badly thought out and pointless. Saving money and saving the planet go hand in hand anyway. LCD lights, biofuel, waste recycling etc. are good practice and money saving. We don't need to be lectured on initiatives such as Green targets, that NO ONE voted for!
FTSE 100 Non-Executive Director

"Over-engineered ESG requirements [...] monitored by out of touch compliance teams at institutional shareholders"

The concerns around the drive to Net Zero reflect a wider discontent around ESG in general among the Directors who participated in the study. There was a pronounced degree of resistance on the part of some respondents, who questioned the relevance and usefulness of prioritising this area over and above financial performance and operational excellence.

There were questions raised over who is served by the focus on ESG, which echoes feedback we have had from clients: we have conducted several Board Review exercises with Investment Trusts who have committed significant time and resources to covering ESG issues, but had not heard any of their investors make explicit comments on the topic.

ESG is an elusive category that covers a vast number of topics, and in the absence thus far of agreed measures for ESG performance, there is a risk of companies engaging in 'greenwashing', whether deliberately or inadvertently. Boards will need to keep a close eye on sustainability reporting as this area matures, ensuring that they are measuring themselves against the most relevant and meaningful standards for their own assurance and that of shareholders.

> *Executive management are deeply cynical of governance practices […]*
> **FTSE 100 Chair**

> *The capital markets have been fixated on ESG matters for some years […] when push comes to shove such considerations turn out to be cosmetic rather than substantive: the entire investment community redefined ESG to comprise security of supply, conveniently ignoring the carbon impact.*
> **FTSE Small Cap CFO**

> *The imposition of over-engineered ESG requirements and the monitoring of same by out of touch compliance teams at institutional shareholders [pose a significant risk].*
> **FTSE 100 Chair**

> *ESG reporting continues to raise questions about value vs effort to complete.*
> **FTSE 250 Non-Executive Director**

> *Carbon disclosures are beyond the ability of public companies to reliably calculate and will ultimately be unusable by investors in making investment/divestment decisions.*
> **FTSE 100 Non-Executive Director**

> *Most governance practices are completely useless box ticking exercises […]*
> **FTSE 100 Non-Executive Director**

A strong sense that we are all in this together:

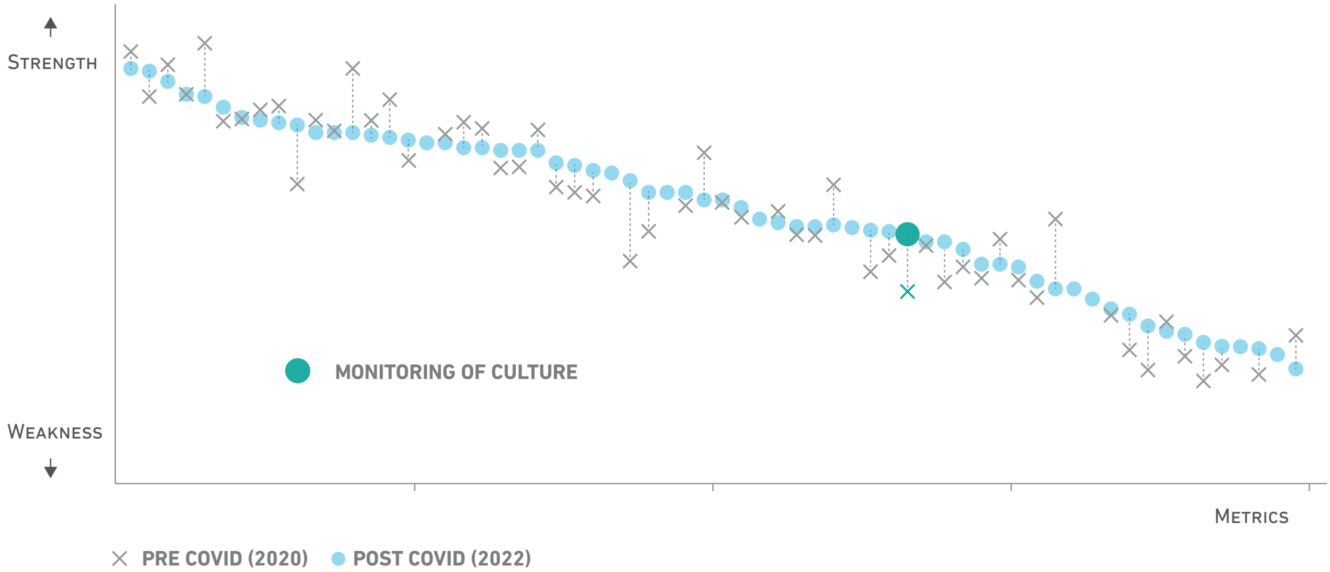
5. REDRAWING THE WORKING CONTRACT

The importance of the organisation's people [is a lasting lesson from the pandemic].
FTSE 100 Company Secretary

"There's nothing like a crisis to pull people closer together."

One key outcome of the pandemic has been its development of the relationship between organisations and their employees. Undergoing the challenges of the pandemic together has built trust and brought the Board and the workforce closer, resulting in a changed attitude on both sides and a louder employee voice at Board level. In spite of the difficulties of interacting with employees given Covid restrictions, the monitoring of culture was one of the most-improved metrics in the Lintstock Governance Index between 2020 and 2022 – this speaks to the real efforts made by Boards to stay in touch and safeguard the maintenance of employee morale and wellbeing during a stressful and uncertain time.

GETTING CLOSER TO CULTURE



Boards were highly concerned with staff welfare during the pandemic and demonstrated real interest in and focus on how employees were coping – one FTSE 100 Company Secretary told us they had never seen their Board as animated as they were on this topic. Boards were conscious of the sacrifices employees made on behalf of the company, and took their duty of care as employers seriously; we know of one Board that began meetings with a moment of silence for staff who had died in the pandemic, as a reminder that they were dealing with people and not metrics. In turn, staff are grateful to Boards for their support and concern both through Covid and the subsequent cost of living crisis.

There was a strong sense that we were all in this together. For example, management decided to donate a portion of our salaries to charity and the NEDs followed suit.

FTSE 100 Company Secretary

[T]here's now a huge desire for all employees, the Executive and the Board to work even more closely together towards our common purpose as most people have worked out that they enjoy working with their colleagues.

FTSE 250 Chair

We are definitely more appreciative of each other's skillset and contribution. The cost of living crisis in particular has introduced a more caring perspective into our pay negotiations.

FTSE Small Cap Non-Executive Director

Good acknowledgement from the board of the difficulties that employees have been facing. Some board visibility at sites was appreciated.

FTSE 250 CFO

Employees are more vocal about things that matter to them and we are more willing to listen/dialogue.

FTSE Small Cap Non-Executive Director

We listen more intensely into what the wider employee base has to say.

FTSE 250 SID

"The last few years have reinforced the importance of doing the right thing"

It was clear early on in the crisis that companies' treatment of their people during the pandemic would be subject to intense scrutiny: on 9th March 2020 Tim Ryan, the Chair of PwC US, suggested that the response to the coronavirus 'will be remembered. There's a short-term cost and none of us knows whether that will [last for] a quarter, six months or longer, but talent has a long memory and we are short of that talent.' Covid required Boards to devote serious focus to ensuring that their employees remained in good health, and engaged and connected with the company.

The pandemic seems to have reaffirmed companies in their duty of care towards their employees and sharpened their interest in staff welfare and wellbeing; issues such as work-life balance and mental health have risen up the agenda, and there is greater willingness at the top of companies to listen to employee concerns and support those undergoing hardship. In some ways this is simply an acceleration in the direction in which British business was already going, following the 2018 update to the Corporate Governance Code mandating Boards to engage more with employees, but there is no doubt that Covid has rewritten the contract between companies and their workers.

[W]orking together in times of fragility has bonded people […] the Board has been more thoughtful about the huge pressures on our lower paid staff and has encouraged management to act to relieve those pressures (e.g. pay rises, mental wellbeing investments).

FTSE 100 SID

Staff wellbeing has become engrained as a strategic driver of business sustainability – it was already becoming critical, but it moved right to the top and now it is embedded. It now sits alongside Health and Safety as a group risk to be governed, managed and tracked as such.

FTSE 250 Non-Executive Director

We have ensured that due to uncertainty in the market, and therefore pressure on the business, that employee wellbeing is a real focus for us.

FTSE 250 Executive Director

In line with their support for employees during Covid, companies took their obligations to their Ukrainian workforce seriously when war broke out in February 2022. Support for colleagues in Ukraine was a cause of cohesion across companies, with staff pulling together to show solidarity and offer donations in aid of those affected.

We employ over 700 team members in Ukraine – the crisis management team did a magnificent job, looking after the team, relocating families, financial support for employees, supporting communications, raising money. The wider 7,000 team members are proud of the Group's humanitarian reaction.

FTSE 250 Non-Executive Director

"The days of spending 5 days a week in the office are over"

While there are clear benefits to greater openness and engagement between employees and businesses, it can give rise to challenges – there was a sense among respondents that rewriting the contract with the workforce has also rewritten expectations on the part of employees. In particular, tensions have arisen around the return to the office and how much time employees are expected to spend in the office as opposed to working from home.

Many workers are reluctant to give up the greater flexibility and work-life balance that remote work affords. One of our clients conducted an employee engagement survey in 2020 which found that around 90% of its staff did not want to return to the office once the Covid crisis had passed. Although they recognise the benefits of home working in terms of employee satisfaction and wellbeing, some companies suspect that the effect in terms of productivity is somewhat less positive – one of our financial services clients found that an overwhelming majority of their employees felt that they were more efficient when working from home, whereas an objective analysis of their actual output indicated the opposite.

Employees have had a much more fragmented relationship with the workplace, including expectations around working from home and what the underlying implicit employment contract is – it has felt much harder to get employees back to agreed routines.

FTSE Small Cap Chair

The balance of power has shifted and it now seems that all staff and potential hires feel they have the right to dictate when they want to come to the office and when they want to work remotely based on their own life arrangements rather than prioritising clients and shareholders. [….] We need people back in the office.

FTSE 250 Executive Director

There is now an expectation on many organisations from colleagues to provide a greater degree of flexibility and work life balance.

FTSE 250 CEO

"Newer generations are not being socialised in the standard workplace cultures"

Perhaps the most worrying concern that Directors raised around employees was the impact of remote work on talent, and particularly on the training and development of younger employees. It was felt that working from home does not set new employees up for success; a lack of immersion in the company culture, as well as reduced opportunities for mentoring and peer learning, may have impacted the education of future talent.

[Ongoing remote work] has a negative impact on team work, internal communication and team efficiency (less impromptu meetings and over-hearing colleagues conversations getting informal access to useful info). This has a negative impact, particularly for younger/more junior members of staff who really benefit working alongside more experienced colleagues, observing and learning as they do.

FTSE 250 Non-Executive Director

COVID and hybrid working has resulted in a demonstrable 'gap' in early talent. Through our service providers in particular I notice that their people with 4 years or less in the work force have clearly suffered from not having close counsel from more experienced colleagues they would previously have been physically next to in the office.

FTSE 250 Executive Director

With the rapidly changing nature of work and skills there is a risk that our workforce is not equipped with the skills required for a new environment.

FTSE 100 Company Secretary

The newer generations are not being socialised in the standard workplace cultures – I fear there will be a material knowledge and productivity gap.

FTSE Small Cap Chair

"The war for talent has become an arms race"

The change in working practices and in employees' relationship with their work has had a significant impact on the labour market, which many respondents identified as a key risk going forward. In spite of the efforts of organisations to engage and retain their workforce, the demands of the pandemic have caused some employees to re-evaluate their priorities. Covid and its after-effects have taken a toll on the human as well as the financial resources of companies.

The pandemic significantly reduced the amount of people in work in the UK (one respondent suggested that around half a million people left the workforce), and Brexit has also made an impact in this regard; equally, the normalisation of remote work has opened the labour market up to international competition, making it harder to recruit the best and the brightest. Moreover, the new generation of workers is more discerning about the values and practices of the companies they choose to work for, leaving some businesses in less favoured industries with a relatively dry potential talent pool.

Attracting and retaining talent typically topped Boards' lists of HR priorities prior to the pandemic, and the pressures on the labour pool – particularly in sought-after areas such as tech – will only have sharpened the urgency in this area.

Shortages in the labour markets as people have evaluated choices and retired early or gone part time or self-employed have all caused salaries to increase.

The extended periods of lockdown (lock in) have definitely caused some people to reevaluate life choices generally and have subtly tilted the workplace dynamics in favour of employees.

FTSE 250 Chair

Productivity [is a key concern] – in the pandemic people became lazy and re-prioritised their leisure and family time and many people in their 50s and 60s retired.

FTSE 250 SID

Securing talent requires a shift in mindset of corporates around what talent is, how it needs to work, and how long it stays.

FTSE 250 Non-Executive Director

Workers now have a freer choice over where they go to work, and millennial and Gen-Z staff are keen to make sure that they work for a company whose values align with their own – there is an incentive for employers to get on the front foot in areas such as sustainability in order to reach the best candidates.

FTSE 250 Executive Director

Employees of today are far more discerning and corporate values, environmental responsibility and the lived experience/culture/behaviour of leaders is right up there, exposed and fragile for many large corporates who have not moved with the times.

FTSE 250 Non-Executive Director

The backdrop of the UK is rapidly worsening

6. UK ENVIRONMENT AND POLICY

Brexit and the mindset that enabled it, has created far more systemic, strategic and sustained barriers to successful business that is HQd or listed in the UK than anything the pandemic or the war is doing.
FTSE 250 Non-Executive Director

The fortunes of British business are inseparable from the government of the day, and recent years have seen the impact of government decision making on UK companies become starkly apparent. Even before the pandemic, the uncertainty surrounding Brexit was affecting businesses' operations and strategic planning, and political instability arising from the swift turnover of Prime Ministers (especially the fallout of Liz Truss's short-lived mini-budget) has also had a negative impact.

Directors' commentary showed that the UK government's response to Covid – in both its negative and positive aspects – has also made Boards more conscious of the impact that its policies can have on their business. Some of the participants in our study were not impressed by the government's handling of the pandemic, and despite taking pride in looking after employees and stakeholders in combatting Covid, there were some who felt that their companies – as stakeholders in a broader sense – had been let down by policymakers.

Loss of faith in government by business leaders is a lasting consequence of the pandemic.
FTSE 250 Non-Executive Director

Liz Truss and Kwasi had more of a profound effect on governance than any other event [. . .]
FTSE 250 CFO

[There is] diminished confidence in UK regulation supporting business.
FTSE 100 Non-Executive Director

The British government failed the British people dramatically during Covid.
FTSE 100 Chair

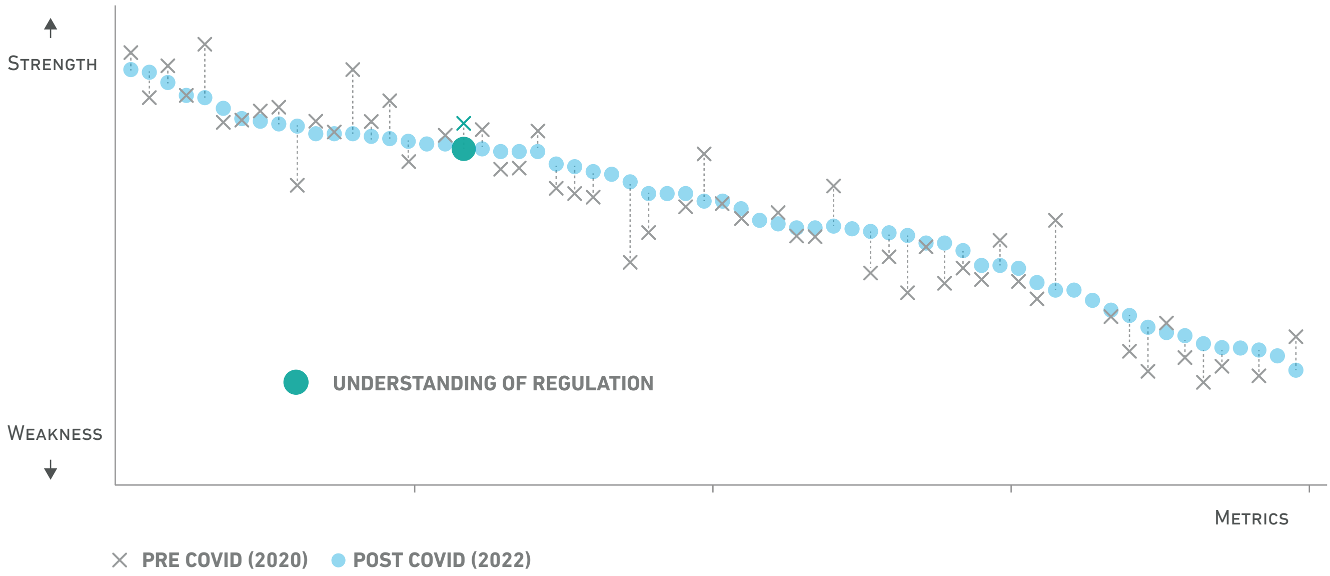
"'I'm from the Govt and I am here to help' is the most frightening thing you can ever hear."

Throughout the commentary there was widespread frustration about government and regulatory interventions, and the compliance burden that businesses are required to shoulder. While accepting the need to oversee good governance as part of their Board service, it was felt by many respondents that the volume of regulation is excessive, and some suggested that UK plc as a whole is made less competitive by the amount of compliance that companies are required to undertake. The understanding of regulators' views ranks fairly high in the Lintstock Governance Index, but was one of the metrics that deteriorated materially between 2020 and 2022 – the sense is that Boards are struggling to maintain a good relationship with regulators but are bewildered by the overburdensome requirements in this area.

There is a clear and growing conflict with the direction that regulators, corporate governance zealots and the press want to drive businesses [in] and the ability to grow the business, profits and create wealth.
FTSE 100 Non-Executive Director

Overall, the U.K. continues to have a governance environment that discourages companies from taking prudent risk to grow their businesses. [. . .] Either trust Boards to properly exercise their fiduciary responsibility to represent stakeholders or continue down the path of increasingly telling Boards what to do – if the latter then the only people who will want to join Boards of U.K. plcs will be risk-averse box tickers.
FTSE 100 SID

GRAPPLING WITH REGULATORY REQUIREMENTS



Concern was also expressed that policymaking is often oriented towards short-term political gain rather than effectiveness or commercial reality – for example the windfall taxes imposed on companies in certain sectors. It was felt that frequent new initiatives, as well as the general level of instability caused by frequent U-turns and the revolving door installed in Downing Street, make it difficult to plan for the future – if being able to look ahead is a hallmark of a successful company, the amount of changes in direction do not serve British businesses well.

> *"I'm from the Govt and I am here to help" is the most frightening thing you can ever hear. Recent examples of using Corporate Britain as a bottomless pit of cash when it suits them. [There has been] nonsensical meddling in areas such as board composition. Just leave us alone to get on with it! The free market works just fine.*
> **FTSE 100 Non-Executive Director**

> *Governance initiatives have become infused with political issues that are driven at companies from regulators and investors caught up in the tide of popular political trends. The importance of these initiatives to the health of businesses are not supported by empirical data and are a distraction for regulators and boards alike.*
> **FTSE 100 Non-Executive Director**

> *[C]orporates cannot plan for the long term given regulatory uncertainty. For example: windfall taxes on energy and banks, uncertainty over "green" subsidies.*
> **FTSE Small Cap CFO**

> *Constantly changing government policies and priorities with a lack of consistent leadership [pose a significant risk].*
> **FTSE 250 CFO**

> *[W]hat companies and people want is the ability to plan over a long period: the last 20 years are littered with thoughtless game-changing policy leaps (Brown and ACT, Osborne and annuities etc.) which overnight blow up business models.*
> **FTSE 100 Non-Executive Director**

“UK governance and culture is not energetic or intense enough to win”

The state of the British business environment in general attracted a large volume of commentary, much of which makes for uncomfortable reading for legislators and policymakers. Directors made reference to challenges around productivity that are being exacerbated by the volume of regulation and tax burden imposed upon UK companies; worryingly, there were many who felt that the UK was becoming a less attractive place to invest and work, and some recommended exiting the UK public markets altogether.

> *The rapidly declining importance of the UK as a financing centre, market and international influencer [poses a significant threat].*
>
> **FTSE 250 Chair**

> *The macroeconomic backdrop of the UK is rapidly worsening, with tax levels unlike any we have seen in peacetime. […] How this unrolls is going to be the biggest challenge over the next 10 years for UK businesses.*
>
> **FTSE 250 SID**

> *We are witnessing the slow decline of the London capital markets and long-term, possibly irreversible, damage will be done by 2030 unless the investment management sector, regulators and government do not take concerted action.*
>
> **FTSE 100 Non-Executive Director**

The recent abandonment of the Birmingham-Manchester leg of HS2 is both a timely example of the level of policy churn and uncertainty for investors, and an illustration of the infrastructure challenges in the UK. The country’s dwindling transport and energy capacity, coupled with low growth, a shortage of skills and frequent labour disputes, were felt to make it a weak candidate for attracting talent and investment. Few were willing to sing the praises of UK plc, and there is clearly food for thought in the commentary – some of it very direct – on how the UK works at present.

> *The number one challenge is the ability to attract and retain strong talent. The UK is becoming less competitive in this regard. It is no longer seen by many as a particularly “friendly” environment for business. Political instability, changes in tax laws with little warning, corporate governance and D & I requirements “creep”, constant focus on executive remuneration, etc. all have an impact and in today’s world of increased flexibility to choose from where one physically works, the UK is losing out on talent.*
>
> **FTSE 100 Company Secretary**

> *[Regulation] is in danger of stifling the supply of talent towards boards, as well as stifling innovation and opportunity of companies.*
>
> **FTSE 250 Non-Executive Director**

> *Delays in building out the required infrastructure for energy and water to sustain growth [pose a significant threat]. The issues around the energy infrastructure are of particular concern in respect of businesses being able to deliver against their TCFD commitments.*
>
> **FTSE Small Cap SID**

> *We see today a country with a first world energy infrastructure like South Africa facing rolling blackouts on a daily basis. the idea that it couldn’t happen in the UK is ignoring what is going on right now […]*
>
> **FTSE 250 SID**

> *Continuing haphazard and volatile infrastructure plans in the UK [are a significant risk].*
>
> **FTSE 250 Chair**

> *[T]he 2022/23 train strikes have impacted the visibility at offices just as much as Covid did in 2020/21 […]*
>
> **FTSE Small Cap Chair**

“A worrying future”

EPILOGUE: LESSONS FOR BOARDS

As corporates recover from the pandemic and the initial fallout of the war in Ukraine, their Boards face a complex and interconnected set of challenges. In this era of non-financial crises, they are expected to oversee their organisations’ preparedness for a wide variety of threats while continuing to ensure strong financial and operational performance, as well as monitoring their wider environmental and societal impact. They operate under ever-increasing scrutiny from regulators, politicians and an increasingly vocal and social media-enabled public. Ensuring adequate oversight of the many and varied potential risks is becoming a thankless task.

> *[Risks facing corporates include] Instability caused by global aggression, supply chain failures, distrust in transparency of global activity (virus experimentation), dependence on other countries’ resources, climate change, political conflicts within countries – a worrying future which demands flexibility and wider-ranging strategic thought.*
> **FTSE Small Cap Non-Executive Director**

> *There is a bewildering range of risks from demographic changes to healthcare challenges arising from an aging population to the environmental impact of climate change and ecosystem risk. More pressing risks seem to come from geopolitical shifts that challenge supply chains and the essence of globalisation.*
> **FTSE 100 Non-Executive Director**

How, then, are Boards to position themselves in relation to this environment, and allow themselves and their companies to accommodate the risks and make the most of the opportunities?

“Depth and breadth of skills must be key”

Much of the feedback we received on how Boards should orient themselves for future success centred around composition. It is perhaps unsurprising that the main consideration was to ensure that there is sufficient relevant experience and knowledge of the business on the Board to provide sufficient oversight, though it was also felt the Board’s collective expertise should be oriented towards the future development of the company and more forward-looking skillsets. Given the multiple pitfalls facing businesses in the current environment, the ability to pose and successfully land challenge is a key skill.

> *Ensure that the board has the right composition – with the vision, skills and talents to navigate successfully in an ever-changing landscape.*
> **FTSE 100 Non-Executive Director**

> *Depth and breadth of skills must be key providing they relate and align with the business’s core values and objectives.*
> **FTSE 250 Chair**

> *Boards will need to continue to focus on the skills and experience needed of board members to support companies through current evolving challenges such as continued digitalization, usage of artificial intelligence and workforce skills of the future.*
> **FTSE 100 Company Secretary**

In line with the broadening remit of Boards, there were some suggestions that specialist expertise ought to be recruited, much of which was noticeably non-financial in nature. ESG knowledge in particular was felt to be desirable, with international and geopolitical experience also prioritised owing to the widespread uncertainty across the globe. Given the increasing emphasis on Boards engaging with employees, it is understandable that respondents also felt HR experience would be additive for Boards going forward.

[Boards should] continue to look at their composition, with a view to building a range of diverse experiences and expertise. There will be increasing need for business people that have experience in understanding and integrating ESG concepts into the BaU of businesses. In addition, there will continue to be a need to bring specialist skillsets and perspectives to the Boards.

FTSE 100 Company Secretary

I am often surprised at how little international experience is present on FTSE boards.

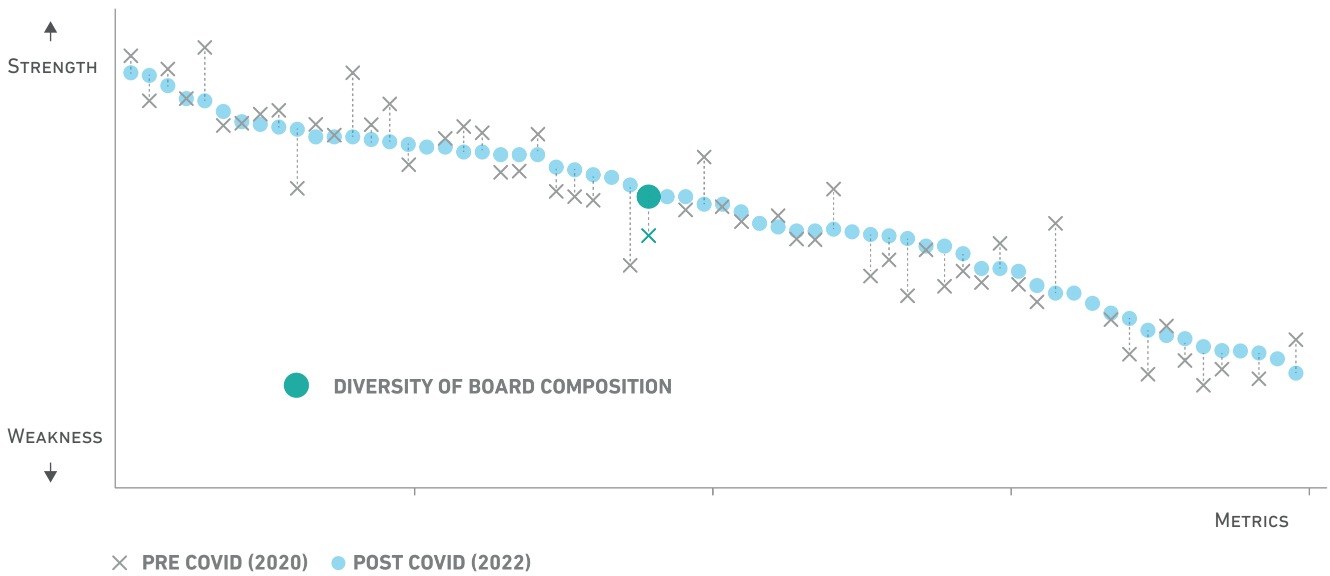
FTSE 250 Non-Executive Director

[Boards should include] increased HR/talent/workforce expertise.

FTSE Small Cap Non-Executive Director

Diversity was identified as a key facet of the Board of the future, and there is a continued desire to embrace the undoubted benefits in this area – Board diversity being one of the most improved metrics in the Lintstock Governance Index between 2020 and 2022.

MAINTAINING MOMENTUM ON DIVERSITY



Boards that reflect the diversity of their companies' customers and workforce will be more effective stewards of their businesses […]

FTSE 100 CFO

There was a noticeable development in Directors' focus on diversity, however – the feedback was less focused on diversity of representation than on diversity of skills and experience. There was a sense among respondents that while no-one wishes to roll back the progress that has been made in achieving greater gender and ethnic diversity on corporate Boards, there is value in ensuring sufficient diversity of viewpoint and expertise as well.

Keep looking for a breadth of diversity on boards in all forms – I have been a FTSE board director for 9 years and the environment in the boardroom has changed significantly (for the positive) in that time. But there is way more to do and we need to keep evolving the board constituency to align and get ahead of the constantly changing and accelerating external context.

FTSE 250 Non-Executive Director

Focus on real diversity in skills not protected characteristics.

FTSE 100 Non-Executive Director

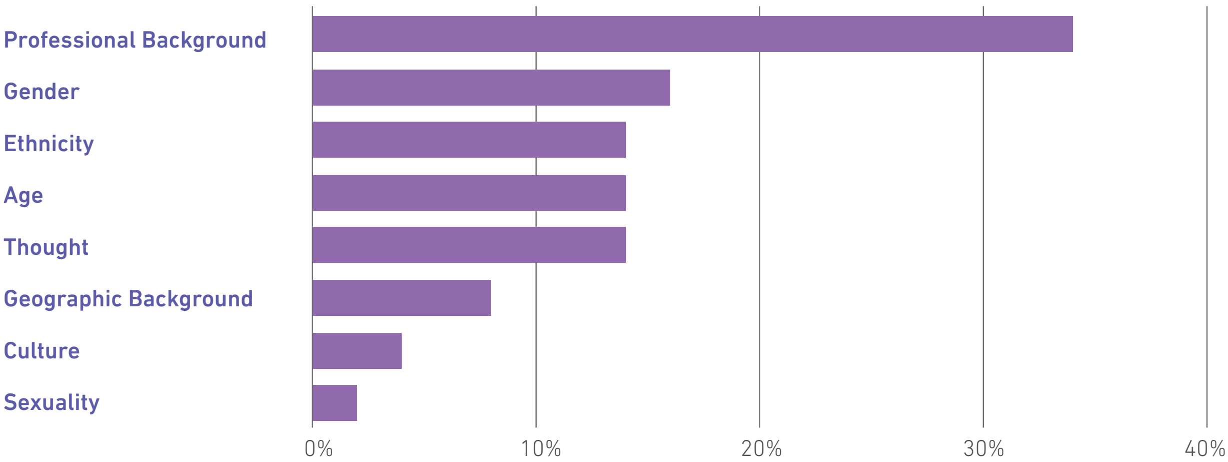
Diverse thinking, skills and experience will be key to addressing the challenges of the future. This may not necessarily be represented by gender or race diversity. While these will remain important factors in the construction of Boards, wider experience and diverse thinking are more important.

FTSE 250 CFO

[Boards need] great diversity of experience and thought – the diversity question has been very focused on diversity of representation, which is important, but the challenge that comes from different professional backgrounds and expertise brings a richness to Board discussions that shouldn't be overlooked.

FTSE Small Cap Non-Executive Director

DIMENSIONS OF DIVERSITY SOUGHT BY BOARDS



There was consensus among respondents of a need to widen the focus on diversity beyond gender and ethnicity, and generational diversity was prioritised in particular. Boards are also increasingly looking beyond 'visible diversity' to consider categories such as socio-economic status, disability, neurodiversity, educational background and parental status.

Boards would benefit from hearing from younger voices, but current practice is also in danger of prematurely losing the benefit of experience. For example, there's a narrow, mature demographic that has experienced the impact of high inflation on business before.

FTSE Small Cap Non-Executive Director

[Boards should focus on] how to get diversity of thought into the boardroom – not just the normal measures of diversity (gender/ethnicity) but sexuality, background and age.

FTSE 250 Non-Executive Director

"Do not get blown off course"

Boards now operate in a highly kinetic environment, facing a constant stream of information and a succession of challenges that can be on their desk in an instant given the connectivity of the digital environment. Given their limited time, Boards face difficulties in deciding how best to direct their focus and prioritise the truly needle-moving issues, confronted with an enormous amount of material on their ever-expanding agendas. The days of simply monitoring financial and operational performance are over – Boards now need to keep track of a kaleidoscope of internal and external issues from people to climate to geopolitics to tax.

Examples of changing emphasis may include recognition of the shifting expectations of employees now home working is established, climate change agendas in the younger members of society, less stable and predictable health outcomes, political pressures to provide society's expectations from government [… all may] contribute to shifting governance and innovation priorities.

FTSE 100 Non-Executive Director

[Boards'] focus and expertise should include being able to deal with a high level of uncertainty and change.

FTSE 250 Non-Executive Director

Nevertheless, many respondents stressed the importance of Boards maintaining focus on the long-term future and success of their company. Having come through the short-term operational pressures and fire-fighting of the past few years, there was a feeling that now is the time for Boards to begin to take a step back and consider the broader strategic trajectory of their organisations. The most successful Boards will be those with the agility to tackle emerging issues whilst keeping their eyes on the prize and maintaining focus on their ultimate strategic goals.

[Boards should] Maintain their unwavering focus on what drives success for the business, taking care to avoid being distracted by popular issues of the day despite the tidal wave of pressure to do so.

FTSE 100 Non-Executive Director

Do not get blown off course by external events. Focus on what is important for your business, and not what the latest "fashion" is (e.g. in Sustainability).

FTSE 250 SID

"Looking ahead is something of a craft – not an art, not a science – and by the time you get there, it is very different"

It was suggested by a number of respondents that the Boards of the future will need to be closer to the business and its people, including wider stakeholders. Certainly Boards will wish to take advantage of the increased engagement and closer relationships built over the pandemic, and the lines of communication and systems for remote interaction that some companies established during Covid will make this process easier.

As well as their obligations around engaging with the business, the growing size of Boards' agendas, the complexity of their remit and ever-present regulation and scrutiny encourage them to commit themselves further in order to ensure adequate oversight, and many respondents noted that this has implications for the scope of their role and the amount of time they are required to spend carrying out their duties.

Boards need to be more engaged and connected to how business is being conducted inside the organisation and not stay or be kept at high level governance and results […] Boards need to take extra steps and drive deeper due diligence on culture, leadership behaviours and corporate values/norms to ensure they don't have an unknown problem brewing.

FTSE 250 Non-Executive Director

Board members should be prepared to devote more time and be more flexible in what is required of them.

FTSE 250 Non-Executive Director

As complexity increases, NEDs will need to have a deeper knowledge of the business and how risks manifest themselves. This probably requires a greater time commitment.

FTSE 100 Non-Executive Director

It is difficult to imagine a role with more wide-ranging responsibilities and obligations than a modern Non-Executive Director, and events have shown how challenging and complicated a position it can be in testing times. While the bar for Non-Executive performance is inevitably – and rightly – set very high, our experience of Boards' stewardship over the period of Covid and the outbreak of war in Ukraine gives us confidence that they are well equipped to deal with the next thing that the world throws at them – whatever that may be.

APPENDIX – LIST OF STUDY PARTICIPANTS

In total we received 157 individual responses from:

27 Chairs:
5 from FTSE 100 companies
8 from FTSE 250 companies
4 from FTSE Small Cap companies

12 CEOs:
5 from FTSE 100 companies
3 from FTSE 250 companies
4 from FTSE Small Cap companies

26 Company Secretaries:
13 from FTSE 100 companies
9 from FTSE 250 companies
4 from FTSE Small Cap companies

79 Non-Executive Directors:
28 from FTSE 100 companies
41 from FTSE 250 companies
10 from FTSE Small Cap companies

23 CFOs and Executive Directors:
7 from FTSE 100 companies
11 from FTSE 250 companies
5 from FTSE Small Cap companies

Respondents from the following companies in the UK FTSE All Share participated in the study:

AJ Bell
Anglo American
Aptitude Software Group
Associated British Foods
Auction Technology Group
Auto Trader Group
Babcock International Group
Barratt Developments
Bodycote
Bunzl
Burberry Group
Bytes Technology Group
Centrica
Chesnara
CMC Markets
Compass Group
Crest Nicholson Holdings
Devro
Diageo
Dignity
Drax Group
Empiric Student Property
Esken Ltd
Essentra
Ferrexpo
FirstGroup
Forterra
Foxtons Group
Frasers Group
Funding Circle Holdings
Grainger
Haleon
Harbour Energy
Hargreaves Lansdown
Harworth Group
HSBC Holdings
John Wood Group
Jupiter Fund Management
Just Group
Kin And Carta
Law Debenture Corp
Legal & General Group
Liontrust Asset Management
Londonmetric Property
Lookers
Luceco
Macfarlane Group
Man Group
Marshalls
Marston's
Me Group International
Melrose Industries
Metro Bank
Mitchells & Butlers
Mitie Group
Molten Ventures
National Grid
Paragon Banking Group
Pearson
Pennon Group
Pershing Square Holdings Ltd
Persimmon
Petrofac Ltd
Phoenix Group Holdings
Playtech
Pod Point Group Holdings
Premier Foods
Quilter
Rank Group
Rathbones Group
RELX
Renishaw
Rentokil Initial
Rightmove
Safestore Holdings
Schroders
Serco Group
Severfield
Severn Trent
Shell
Sig
Smith & Nephew
Smiths Group
Spectris
Spire Healthcare Group
SSP Group
St James's Place
Standard Chartered
Syncona Ltd
Taylor Wimpey
TBC Bank Group
Trifast
Trustpilot Group
TT Electronics
Unilever
Unite Group
United Utilities Group
Virgin Money UK
Vistry Group
Volution Group
W.A.G Payment Solutions
Watches Of Switzerland Group
Weir Group
Whitbread
Wincanton

ABOUT THE APPCGG AND LINTSTOCK

The APPCGG

The All Party Parliamentary Corporate Governance Group was formed in 2004. We seek to provide a forum for legislators, companies and financial institutions to discuss developments in corporate governance in Westminster.

Our focus is to promote responsible leadership of business, representing the interests of shareholders and other stakeholders.

Committed to supporting business growth, the Group's aim is the promotion of best practice in corporate governance. There is no cast-iron template applicable to every business but the Group recognises there are many ways for companies to create prosperity for their employees, shareholders and stakeholders.

www.appcgg.co.uk

Lintstock

Established in 2002, Lintstock acts as retained advisor to the Boards of over 120 companies across five continents, specialising in Board effectiveness reviews. The firm undertakes leading-edge research into topical governance issues – as well as its work for the All Party Parliamentary Corporate Governance Group, Lintstock recently published *Evidencing the Contribution of Gender Balance to Board Effectiveness* in partnership with the 30% Club.

Lintstock regularly hosts seminars on Board effectiveness and best practice at its offices in Borough Market, and conducts webinars and workshops for Directors, Company Secretaries and governance professionals around the world.

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