



Financial Reporting Council

THE WATES CORPORATE GOVERNANCE PRINCIPLES FOR LARGE PRIVATE COMPANIES

DECEMBER 2018

With thanks for the participation and assistance of our coalition partners



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1 FOREWORD



I believe that good business, well done, is a force for good in society. While not always recognised for it, business creates the jobs, economic growth, and tax revenue that society so desperately needs. Although most business leaders have an intuitive moral compass that guides them towards delivering this value, these Principles provide them with a framework for ensuring that their companies are well managed and aligned behind a clear purpose.

The Wates Corporate Governance Principles for Large Private Companies 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. This can in turn result in better engagement with their stakeholder base and ultimately build trust.

Many companies are justifiably proud of what they are doing already. They have extensive processes in place to engage with the broad range of stakeholders that are integral to the company's success, and in particular to ensure that workforce concerns are addressed at board level. The Wates Principles offer a structure for reporting on corporate governance that not only helps them fulfil their legal requirements, but also allows them to shine.

My hope is that a wide range of companies – and not just those included in the new legislative requirement to report on their corporate governance arrangements – will use the Wates Principles. Accordingly, we have kept them flexible and high-level, with guidance provided not as requirements, but to help companies understand how they can apply the Principles. After all, good corporate governance is not about box-ticking. If we are to increase the public's confidence in business, then surely, we cannot achieve that through a regulatory regime that uses somebody else's words. It can only be achieved if companies think seriously about why they exist, how they deliver on their purpose, and then explain – in their own words – how they go about implementing the Wates Principles. That is the sort of transparency that can build the trust of stakeholders and the general public.

The Wates Principles and its supporting Guidance are the result of 12 months of concerted effort by a Coalition Group of diverse organisations representing a cross-section of interests related to private business, with secretariat support from the Financial Reporting Council. The Wates Principles draw from a deep pool of experience and insight into what works. This effort was complemented by a consultation process that ran for three months, as well as meetings with an Executive Sounding Board consisting of representatives from privately-owned businesses. These consultations elicited pointed and constructive feedback from numerous organisations and individuals and have strengthened the output considerably.

I am pleased that the Coalition Group and the FRC have signalled their willingness to continue to work as a team to promote the Wates Principles, ensure an appropriate monitoring system is in place, and to adjust them as needed in the future. We will only start seeing the first reporting against these in 2020, and it will take some years to develop an understanding of reporting trends and a body of good practice, so this is a long-term effort, and the release of the Wates Principles is but a start.

I would like to extend my sincere thanks to all the members of the Coalition Group, the Executive Sounding Board and especially the FRC for their efforts in delivering what I feel to be an outstanding body of work.



James Wates CBE
Chairman

2 INTRODUCTION

The case for corporate governance reporting from large private companies

Strong, successful businesses generate value for their owners and wider society. Throughout the UK, large private companies contribute to productivity, generate employment, and provide vital goods and services. Many large private companies are established and run in accordance with a clear purpose and strategy that enables them to generate value for the communities in which they operate.

Nevertheless, several large-scale corporate failures have not only drawn public attention to the need for improved transparency and accountability, but also highlighted the risks to wider stakeholders, including the workforce, suppliers and customers, when problems arise.

In the [response](#) to its [Green Paper on Corporate Governance Reform](#) the Government stated that it believed the case had been made for strengthening the corporate governance framework for the UK's largest private companies, noting 'the conduct and governance of large companies, whatever their legal status, has a sizeable impact on the interests of employees, suppliers, customers and others'.¹ In addition it was in the interests of businesses themselves to have strong corporate governance, stating: 'It provides confidence not just to shareholders, but to other key stakeholders including the workforce, customers, suppliers, pensioners and the environment, that a company is being well run'.²

The Government invited the FRC to work with a variety of partners to develop a set of corporate governance principles for large private companies. By explaining the application of the Principles, large private companies will be able to meet their obligations under new regulatory requirements.

Development of the Wates Corporate Governance Principles for Large Private Companies

In January 2018, the Secretary of State for Business, Energy and Industrial Strategy, the Rt Hon Greg Clark, appointed James Wates CBE as Chairman of a Coalition Group, with FRC membership and secretariat support. Membership of the Coalition Group consists of the British Private Equity and Venture Capital Association, the Confederation of British Industry, the Climate Disclosure Standards Board, the Institute of Business Ethics, ICSA: the Governance Institute, the Institute for Family Business, the Institute of Directors, the Investment Association, Mark Goyder, and the Trades Union Congress.

Under the Chairman's leadership, the Coalition Group has developed the Wates Corporate Governance Principles for Large Private Companies (Wates Principles) following an extensive work programme and public

¹ Department for Business, Energy and Industrial Strategy, *Corporate Governance Reform: the Government response to the green paper consultation* (2017), p.40.

² *Ibid*, p.44.

consultation. This included analysis of existing national and international corporate governance codes, a series of roundtable discussions with stakeholders, and additional input from an Executive Sounding Board consisting of senior executives from large private companies.

The Wates Principles offer all companies that are not subject to a formal corporate governance code an opportunity to consider their approach to governance and aspire to meet the Principles. The Wates Principles offer companies, even those not subject to the regulation, an opportunity to demonstrate good practice and how they achieve long-term success of the company.

Background

In large private companies the relationships between shareholders, directors and senior management can vary considerably. Large private companies are not a homogenous group and are established under a variety of differing ownership and legal structures, including family businesses, private equity-owned businesses, sole-owners and subsidiaries.

Private companies benefit from the privileges of limited liability status, but are not subject to the same level of reporting and accountability requirements as publicly listed companies. The traditional rationale for this is that private companies stem from private ownership and have no reliance on public equity markets to raise capital. However, many respondents to the Green Paper noted the economic and social significance of large private companies can be as great as publicly listed companies and, when problems occur, there are comparable risks to as wide a range of stakeholders.

The House of Commons' Business, Energy and Industrial Strategy Committee published its Corporate Governance [report](#) in April 2017 and considered the need for improved transparency and accountability for large private companies. In its report, the Committee noted that 'arguments in favour of greater transparency and accountability for private companies are based on the premise that those with a significant presence in the community should be required to report on non-financial matters for the benefit of employees and other stakeholders'.³ It noted that while no law or set of principles could remove the risk of serious corporate failings, a code of corporate governance for large private companies 'can serve to raise awareness of good practice and, over time, help to improve standards of corporate governance in private companies, large and small'.⁴

³ House of Commons Business, Energy and Industrial Strategy Committee, *Corporate Governance, Third Report of Session 2016-17* (2017), p.30.

⁴ *Ibid*, p.31.

THE WATES PRINCIPLES AND OTHER LEGISLATIVE REQUIREMENTS

In June 2018 the Government introduced secondary legislation. [*The Companies \(Miscellaneous Reporting\) Regulations 2018*](#) (the Regulations), requires all companies of a significant size, that are not currently required to provide a corporate governance statement, to disclose their corporate governance arrangements as set out below:

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.

This new reporting requirement applies to all companies that satisfy either or both of the following conditions:

- more than 2,000 employees;
- a turnover of more than £200 million, and a balance sheet of more than £2 billion.

The Coalition Group was asked to prepare principles to help those companies which are subject to the thresholds comply with the Regulations. The Wates Principles introduce an approach to good corporate governance that offers sufficient flexibility for a diverse range of companies to explain the application and relevance of their corporate governance arrangements, without being unduly prescriptive.

Directors' duties

Nothing in the Wates Principles overrides or is intended as an interpretation of directors' duties as set out in the Companies Act 2006. The duties of directors are set out in sections 170-177. These include, in section 172, the duty of a director to promote the success of the company for the benefit of its members as a whole. This duty applies to all directors, regardless of whether the company is public or private, a parent or a subsidiary, large or small.

172. Duty to promote the success of the company

- (1) A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:
- (a) the likely consequences of any decision in the long term;
 - (b) the interests of the company's employees;
 - (c) the need to foster the company's business relationships with suppliers, customers and others;
 - (d) the impact of the company's operations on the community and the environment;
 - (e) the desirability of the company maintaining a reputation for high standards of business conduct; and
 - (f) the need to act fairly as between members of the company'.

Following the various consultations and inquiries considering corporate governance, the Government concluded that greater clarity was required to determine to what extent directors have regard for the matters set out in (1)(a)-(f) when making decisions. The Government also identified the need for a legal requirement for those companies with the greatest interaction with those factors to widely disclose how their directors have fulfilled this duty. The Wates Principles are intended to support directors to meet these requirements.

In addition to the requirement set out above in the Regulations, two other relevant reporting requirements have been introduced:

- Companies that produce a Strategic Report are now required to provide a section 172(1) statement on their website which describes how the directors have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006.
- The Directors' Report has been amended to require companies to explain how they have engaged with employees,⁵ and how directors have regard to employee interests, and the effect of that regard. Large private companies are also required to explain how they have engaged with suppliers, customers and others in a business relationship with the company.

In its [FAQs](#) the Department for Business Energy and Industrial Strategy acknowledges that it is expected that many companies will want to report on employee, customer and supplier issues as part of their Strategic Report statement. This information does not need to be duplicated in the Directors' Report. Nor does it need to be duplicated to explain application of the Wates Principles thus cross-referencing is encouraged. The FAQs also explain which companies are required to report under the Regulations, and offer additional guidance on reporting against all the new requirements.

The new corporate governance reporting requirements will apply to company reporting for financial years starting on or after 1 January 2019. Companies will be able to adopt the Wates Principles as an appropriate framework when making a disclosure about their corporate governance arrangements under the Government's new reporting requirement. In addition, the Wates Principles offer companies an effective way of linking their corporate governance statement to the other reporting requirements. Explanations of the application of the Wates Principles combined with and cross-referred to other reporting will together achieve an increase in transparency from large private companies and contribute to building trust.

⁵ The regulations use the term 'employee' whereas the Wates Principles use 'workforce', which is explained under Principle One.

HOW TO REPORT

The Wates Principles recognise the variety of large private companies incorporated within the UK. Differing management and ownership structures means that a 'one-size-fits-all' approach to corporate governance in large private companies is not appropriate.

A company that adopts the Wates Principles should follow them using an 'apply and explain' approach in a way that is most appropriate for their particular organisation. Accordingly, boards should apply each Principle by considering them individually within the context of the company's specific circumstances. They should then be able to explain in their own words how they have addressed them in their governance practices.

This approach - in which one *applies* principles is not new. UK premium listed companies are subject to the Financial Conduct Authority's Listing Rules, which require a statement of how the Principles set out in the UK Corporate Governance Code have been *applied* in a manner that shareholders can evaluate.

The UK Corporate Governance Code also includes Provisions that a company should additionally comply with - or offer an explanation where it does not. The Wates Principles take a different approach; they do not set out detailed provisions, but offer guidance under each Principle. This guidance is provided to assist companies in explaining their approach to applying each Principle appropriate to their circumstances. Accordingly, the guidance does not need to be reported on in the same way as premium listed companies need to 'comply or explain' against Provisions in the UK Corporate Governance Code.

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 implemented practices achieve the Principles and demonstrate the outcomes. This approach offers increased transparency for stakeholders and links to the other reporting requirements set out above.

Companies should provide a supporting statement that gives an understanding of how their corporate governance policies and processes operate to achieve the desired outcome for each Principle. Where appropriate the statement may cross-refer to information reported under other legislation, for example, information which may be in the Strategic Report or another company document.

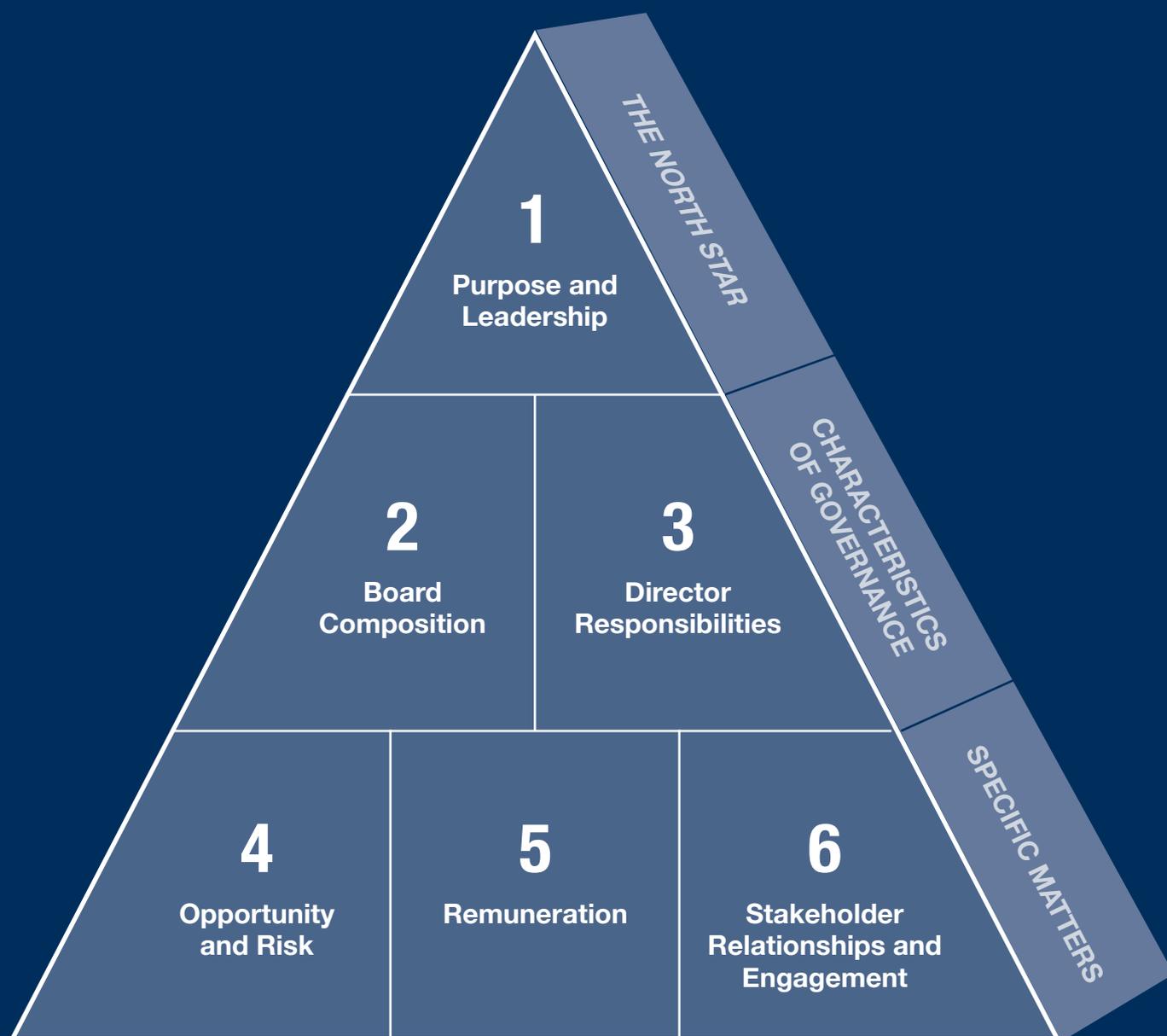
Additional Information

The importance of stakeholder engagement is demonstrated throughout the Wates Principles and companies should outline methods of engagement with both the workforce and other stakeholders and demonstrate how boards have considered the issues raised.

Subsidiary companies meeting the tests set out in the Regulations are required to make a corporate governance statement. Directors of these companies are subject to section 172 like any other director, but it is recognised that parent companies may in some cases influence policies. For example, remuneration practices and policies may be set by the board of the parent company. In such cases, any explanation that demonstrates application of the Principles could refer to the parent company's corporate governance statement, if that report explains the governance procedures of the subsidiary.

Many companies which are required to make a corporate governance statement under the Regulations will also be required to provide a section 172 statement, and unnecessary repetition can be avoided by cross-referral. The FRC's [Guidance on the Strategic Report](#) can support companies in meeting these and other reporting requirements. For example, it considers risks and opportunities arising from factors such as climate change and the environment. It also suggests methods for engagement with the workforce.

3 THE SIX PRINCIPLES



PRINCIPLE ONE

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.

GUIDANCE

Purpose

A well developed and defined purpose will help companies of all sizes and structures articulate their business model and develop their strategy, operating practices, workforce,⁶ and approach to risk.

All directors should promote the success of the company. Boards should have a clear understanding of the views of shareholders including those with a minority interest. Directors should act with integrity and lead by example, setting the tone from the top, building positive relationships with all stakeholders, particularly the workforce.

Effective boards ensure that the company operates with a clear sense of purpose and collective vision. To promote this, boards will appreciate the importance of dialogue with the workforce and wider stakeholders around the company's stated purpose and be proactive in ensuring that it takes place. Effective boards are able to demonstrate how the sharing of this purpose has informed the decision-making process to achieve long-term sustainable success.

Values and Culture

A company's purpose and values should inform expected behaviours and practices throughout the organisation. The values should be explained and integrated into the different functions and operations of the business. This may include internal assurance, employment practices, risk management and compliance functions.

A healthy culture is critical to the company's competitive advantage, and vital to the creation and protection of long-term value. Culture can be defined as a combination of the values, attitudes and behaviours manifested by a company in its operations and relationships with its stakeholders. The board, shareholders and management must make and maintain a commitment to embedding the desired culture throughout the organisation.

Effective ways of monitoring culture include (but are not limited to) employee surveys, engagement with trade unions, absenteeism rates, exit interviews and board feedback sessions.

⁶ 'Workforce' will involve those with formal contracts of employment (permanent, fixed-term and zero-hours) and other members of the workforce who are affected by the decisions of the board, so for example companies should consider including individuals engaged under contracts of service, agency workers and remote workers. Companies should be able to explain who they have included and why. The term is not meant to align with a legal definition of employee, worker or similar.

Strategy

An effective board develops a strategy and business model to generate long-term sustainable value. It is responsible for ensuring that its strategy is clearly articulated and implemented throughout the organisation, and that it, along with the company values, supports appropriate behaviours and practices.

The board should lead on the establishment of transparent policies in relation to raising concerns about misconduct and unethical practices; such policies should include effective review processes.

The board manages conflicts of interest and a balance should be struck between short-term targets or needs, and long-term aspirations.

PRINCIPLE TWO

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.

GUIDANCE

Chair

The chair leads the board and is responsible for its overall effectiveness, promoting open debate and facilitating constructive discussion. The chair should ensure that all directors have appropriate information and sufficient time is made available for meaningful discussion.

Consideration should be given to separating the roles of the chair and chief executive to ensure a balance of power and effective decision-making.

Balance and diversity

A balanced board promotes effective decision-making and supports the delivery of a company's strategy.

An effective board has an appropriate combination of skills, backgrounds, experience and knowledge that promotes accountability and incorporates objective thought, which in turn provides constructive challenge to achieve effective decision-making.

The board should collectively demonstrate a high-level of understanding relevant to the company's business needs and stakeholder interests.

Appointments to the board should promote diversity in line with the protected characteristics within the Equalities Act 2010.⁷ An effective board should be able to demonstrate that there has been a considered effort to establish an appropriate balance of expertise, diversity and objectivity.

A policy on diversity and inclusion aligned to company strategy can support appointments to the board and succession planning. Such a policy should also consider targets and aspirations promoted by Government and industry initiatives or expert reviews.⁸

⁷ Which protects against discrimination for those with protected characteristics within the meaning of the Equalities Act 2010 www.legislation.gov.uk/ukpga/2010/15/section/4

⁸ The Hampton-Alexander Review and The McGregor-Smith Review are examples of reviews that promote diversity targets.

Size and structure

A board should give careful consideration to its size and structure so that it is appropriate to meet the strategic needs and challenges of the organisation and enables effective decision-making.

Companies should consider the value of appointing independent non-executive directors to offer constructive challenge. Appointment of independent non-executive directors should be subject to a transparent procedure. Boards may wish to delegate some functions to committees which can consider specific issues such as risk or remuneration; however, this will be dependent on structure, complexity and size of the company.

Effectiveness

The closely held nature of ownership within many large private companies means directors are often required to maintain objectivity in complex situations, in particular when there is an influential shareholder.

Companies should demonstrate a commitment to the ongoing professional development of their board, and directors should embrace such opportunities and ensure that they have sufficient time to discharge their duties.

Regular evaluation of the board can help individual directors to contribute effectively and highlight the strengths and weaknesses of the board as a whole. The chair should act on the recommendations of such evaluations. This approach may be part of board refreshment and succession plans.

PRINCIPLE THREE

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.

GUIDANCE

Accountability

An effective board should establish and maintain corporate governance practices that provide clear lines of accountability and responsibility to support effective decision-making.

Clear corporate governance policies, practices and company leadership, all working together, promote effective stewardship to deliver long-term value.

A company should set out policies and practices that govern the internal affairs of the company. These include matters relating to the authority, accountability, role and conduct of directors, and may include specific information relating to shareholders, such as shareholder agreements and protection of minority shareholders.

Conflicts of interest can arise and compromise objective decision-making. In such cases the board should agree and set out how such conflicts should be identified and managed.

The chair and the company secretary should periodically review the governance processes to confirm that they remain fit for purpose and consider any initiatives which could strengthen the governance of the company.⁹

Transparent corporate governance policies and practices can clarify the relationship between the company and its owners, including that of a parent company and its subsidiary in order to deliver long-term sustainable success.

⁹ Private companies are not required by law to have a company secretary, although it is good practice for a company to do so; therefore, some companies may have alternative arrangements.

Committees

A board may make use of committees to help with the consideration of matters such as financial reporting, risk, succession and remuneration. The terms of each committee should be set out including authorities delegated to it. A board retains responsibility for any final decisions.

The provision of independent challenge in board and committee decision-making should mitigate the risk of individuals having unfettered powers. Independent challenge encourages constructive problem-solving that benefits companies in the long-term.

Integrity of information

A board should establish formal and robust internal processes to ensure systems and controls are operating effectively, and that the quality and integrity of information provided to it is reliable, enabling directors to monitor and challenge the performance of the company, and make informed decisions.

A board may rely on a broad range of information sources, including, but not limited to:

- financial reporting;
- key performance indicators;
- workforce data;
- environmental data;
- stakeholder engagement feedback; and
- consumer data.

Board papers and supporting information should:

- be accurate, clear, comprehensive and up to date;
- contain a summary of the contents of any paper;
- inform the director what is expected of them on each issue; and
- be issued in good time.

PRINCIPLE FOUR

OPPORTUNITY AND RISK

A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.

GUIDANCE

Opportunity

A board should consider and assess how the company creates and preserves value over the long-term. This requires boards to consider both tangible and intangible sources of value, and the stakeholders that contribute to it.

This should include processes for the identification of future opportunities for innovation and entrepreneurship. Such opportunities may often be dependent on an agreed risk appetite and the company's long-term strategy and prospects. It may also include processes for ensuring that new business opportunities of a certain value are considered and approved at board level.

Risk

A board has responsibility for an organisation's overall approach to strategic decision-making and effective risk management (financial and non-financial), including reputational risk. This requires oversight of risk and how it is managed, and appropriate accountability to stakeholders.

The size and nature of the business will determine the internal control systems put in place to manage and mitigate both emerging and principal risks.¹⁰ Some companies may decide to delegate to a committee to oversee such matters.

¹⁰ Description of principal risks is set out in the FRC's Guidance on the Strategic Report.

Responsibilities

The board should establish an internal control framework with clearly defined roles and responsibilities for those involved. It should agree an approach to reporting, including frequency of reporting and the points at which decisions are made and escalated. Responsibilities may include:

- developing appropriate risk management systems that identify emerging and established risks facing the company and its stakeholders. Such systems should enable the board to make informed and robust decisions, including those associated with material environmental, social and governance matters, such as climate change, workforce relationships, supply chains, and ethical considerations;
- determining the nature and extent of the principal risks faced and those risks which the organisation is willing to take in achieving its strategic objectives (determining its 'risk appetite');
- agreeing how the principal risks should be managed or mitigated and over what timeframe to reduce the likelihood of their incidence or the magnitude of their impact;
- establishing clear internal and external communication channels on the identification of risk factors, both internally and externally; and
- agreeing a monitoring and review process.

PRINCIPLE FIVE

REMUNERATION

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.

GUIDANCE

Setting remuneration

Appropriate and fair levels of remuneration help companies to secure and retain high-quality directors, senior management and their workforce. Remuneration for directors and senior managers should be aligned with performance, behaviours, and the achievement of company purpose, values and strategy. In setting director and senior manager remuneration consideration should be given to remuneration throughout the organisation to reinforce a sense of shared purpose.

Policies

The board should establish clear policies on remuneration structures and practices which should enable effective accountability to shareholders. This should take account of the broader operating context, including the pay and conditions of the wider workforce and the company's response to matters such as any gender pay gap.

Such accountability can be supported by clear remuneration structures that are aligned with the company's purpose, values and culture, and the delivery of strategy to support long-term sustainable success. Policies may include robust consideration of the reputational and behavioural risks to the company that can result from inappropriate incentives and excessive rewards.

Boards should consider the benefits of greater transparency of remuneration structures and policies which will build trust from wider stakeholders. Additional transparency could extend to commenting on how executive remuneration reflects general practice within the sector or voluntary disclosure of pay ratios.

Delegating remuneration decisions

The establishment of a committee is a way some boards may wish to delegate responsibility for designing remuneration policies and structures for directors and senior management. Such a committee might benefit from the contribution of an independent non-executive director.

Subsidiary companies

In some companies, director pay will be controlled by a parent company, and in such circumstances the subsidiary should explain this and cross-refer to information available elsewhere which explains the policy in relation to the subsidiary.

PRINCIPLE SIX

STAKEHOLDER RELATIONSHIPS AND ENGAGEMENT

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.

GUIDANCE

External impacts

Large private companies create their own social, economic and environmental impact, but are also affected by changes to their operating environment. Sustainable business benefits wider society, and large private companies have a responsibility to create and sustain long-term value for their shareholders and stakeholders. This includes consideration of how a company's activities may impact both current and future stakeholders, which, for example, could include impacts on the environment.

Stakeholders

Dialogue with stakeholders helps boards understand the effects of company policies and practices, predict future developments and trends, and re-align strategy. A company should identify and prioritise stakeholder relationships for those affected by company operations and are integral to its ability to generate and preserve value. These are likely to vary dependent on the size and nature of the company.

Stakeholders include the workforce, customers and suppliers, but also other material stakeholders specific to company circumstances or sectors, such as regulators, Governments, pensioners, creditors and community groups.

The board should present to stakeholders a fair, balanced and understandable assessment of the company's position and prospects and make this available on an annual basis.

Boards should ensure that there are channels to receive appropriate feedback from discussions with stakeholders. When explaining impact on the community or environment, boards may want to refer to recognised international standards or frameworks that it follows.

Workforce

For many large private companies, their largest material stakeholder group is their workforce. Companies should develop a range of formal and informal channels that enable them to engage in meaningful two-way dialogue, enabling the workforce to share ideas and concerns with senior management. This might include engagement with trade unions, focus or consultative groups. Such forms of engagement provide useful feedback about business practices and can support the desired culture.

Workforce policies and practices should be aligned with the company's purpose and values. Such policies should establish clear procedures for raising concerns (for example, speak up and whistleblowing policies), and should be reviewed regularly to ensure that they are effective.

A board should demonstrate how the company has undertaken effective engagement with material stakeholders and how such dialogue has been considered in its decision-making.

Companies may also wish to comment on any good practice which may have emerged and contributed to the success of the company.

Explanations in support of applying this Principle will be closely aligned to other disclosure requirements of the Regulations (section 172 reporting, and reporting on workforce engagement). Additional guidance on how to meet these requirements can be found in the FRC's [Guidance on the Strategic Report](#), including sections 8.14 - 8.22.

4 ACKNOWLEDGEMENTS

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