Chartered Governance Institute UK & Ireland

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FTSE 350

Boardroom Bellwether

Summer 2023

Contents

Introducing Boardroom Bellwether

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

Questions cover a range of business concerns, topical issues and specific governance matters to provide unique insight into what British boards are thinking. Some questions change from survey to survey, but the core remains the same to reveal trends and shifts in opinion.

This report summarises the key findings of the latest survey, which took place in April and May 2023.

And what a difference a year makes. We are not yet past the economic doldrums, but there is considerably more optimism about global, UK and industry economic conditions than there was last year.

There is also a recognition that, if 2020 and 2021 were the years in which we learned to live with COVID-19, by contrast, 2022 and 2023 have been the years in which we saw how organisations have reacted to the challenges which COVID-19 and the subsequent war in Ukraine and cost-of-living crisis created. Or not, as the case may be.

For me, some of the most important headlines relate to the way in which companies have responded: that 100% of our respondents have seen action taken on workforce remuneration in response to the cost-of-living crisis; and that 92% consider pay structures and incentives across, and the impact of the cost-of-living crisis on, the workforce when considering executive remuneration.

I was also struck by the response to our questions on the FTSE 350's net zero ambitions, where we wanted to know whether companies have simply published a pledge or ambition to become net zero, or whether they have extended this into a more detailed transition plan containing short-, medium- or long-term milestones and targets. Encouragingly, the majority (80%) have tangible plans to meet net zero targets, either in development (39%) or complete with milestones and targets (43%).

But there are less positive stories as well. As always, the challenge of new and changing reporting requirements are an issue, with 81% of respondents believing that increasing reporting requirements are reducing the time available for strategic discussions at board level, and the same number finding it fairly or very difficult to meet ESG disclosure requirements.

Once again, this year's Bellwether report makes interesting reading.

We would like to thank all the company secretaries who made the time to complete this survey, especially at such a busy time - 64% of governance teams have found it difficult to find skilled talent in the last year. If you have any questions, comments or thoughts to share on any of the issues it raises, please get in touch.

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#FTSEBellwether

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

Key metrics

48%

predict an improvement in global economic conditions in the next year, compared to 76% expecting a decline in 2022

41%

predict a decline in UK economic conditions in the next year

44%

predict improvement in their industry's economic conditions in the next year

56%

see a decline in the competitiveness of the UK over the short/medium term

94%

of boards report being gender diverse (compared to 97% in 2022)

77%

of boards report being ethnically diverse (compared to 63% in 2022)

75%

report that their exposure to cyber risk is increasing

92%

report that global economic risks are important in driving increased exposure to risk

82%

report that climate change is important in driving increased exposure to risk

80%

have published or are developing a detailed net zero transition plan complete with milestones

100%

have taken action on workforce remuneration in response to the cost-of-living crisis

92%

consider pay structures and incentives across, and the impact of the cost-of-living crisis on, the workforce when considering executive remuneration

81%

find it fairly or very difficult to meet ESG disclosure requirements

81%

recognise that increasing reporting requirements are reducing the time available for strategic discussions at board level

64%

of governance teams have found it difficult to find skilled talent in the last year

The business environment

Global economic confidence

There is much more confidence, even optimism, about the global economy. In the summer of 2022, the survey reported that economic confidence took a hit because the international community was rocked by the war in Ukraine. Therefore, only 8% of respondents expected a slight or significant improvement in global economic conditions with 76% expecting a decline in global economic conditions in the following 12 months.

The results from 2022 were in line with the results of the summer of 2019. In the summer of 2019, just 10% of survey respondents answered that global economic conditions would improve, and 51% that they would decline. Similar percentages were seen in winter 2018, respectively 11% and 56%. Again, the years 2018 and 2019, were characterised by geopolitical issues, among them the trade wars between China and the United States.

This year, despite knock-on effects including on energy prices, global trade, increased inflation, and rising interest rates from geopolitical issues that arose in 2022, fewer people responded that they expect a decline in global economic conditions compared to last year. In fact, in a significant return of confidence, 48% of respondents expect slight or significant improvement in the global economy, with only 29% expecting a decline.

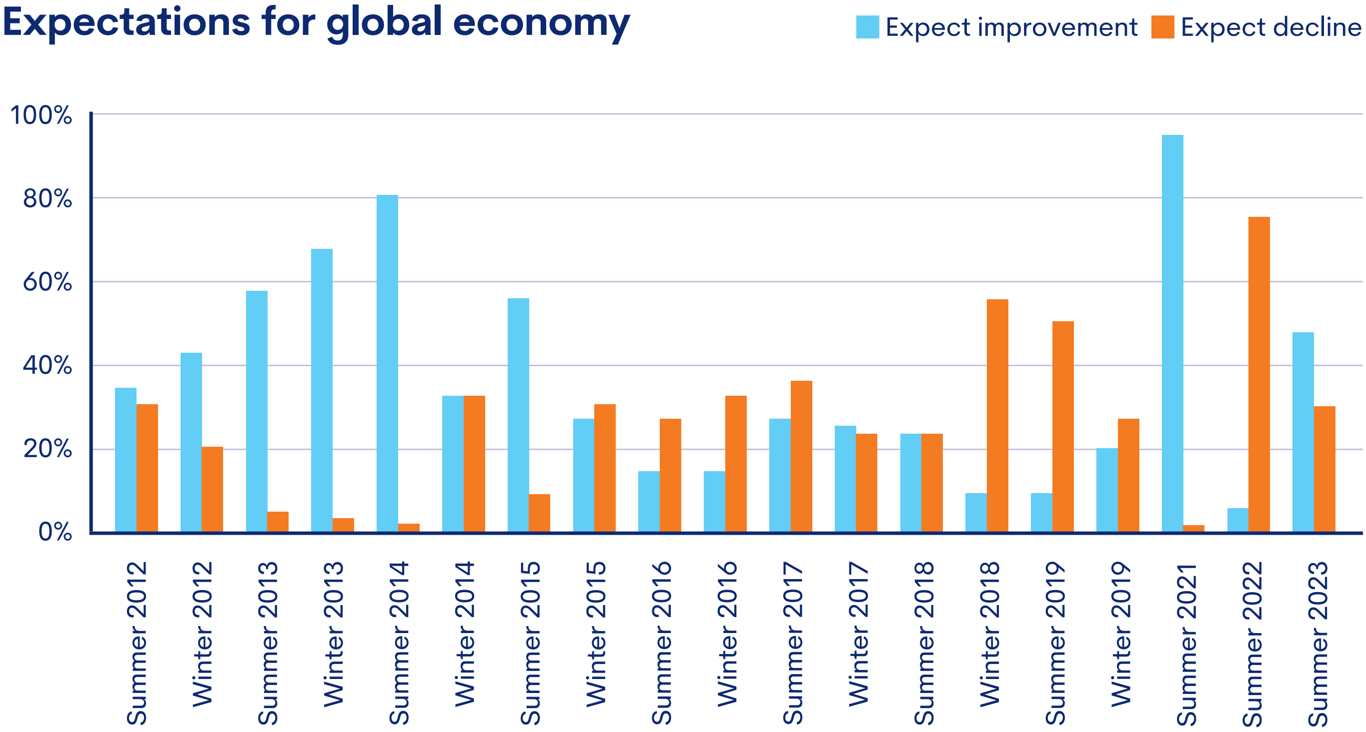
Sector economic confidence

Looking at their respective sectors, respondents reported an increase in confidence that the economic outlook will improve.

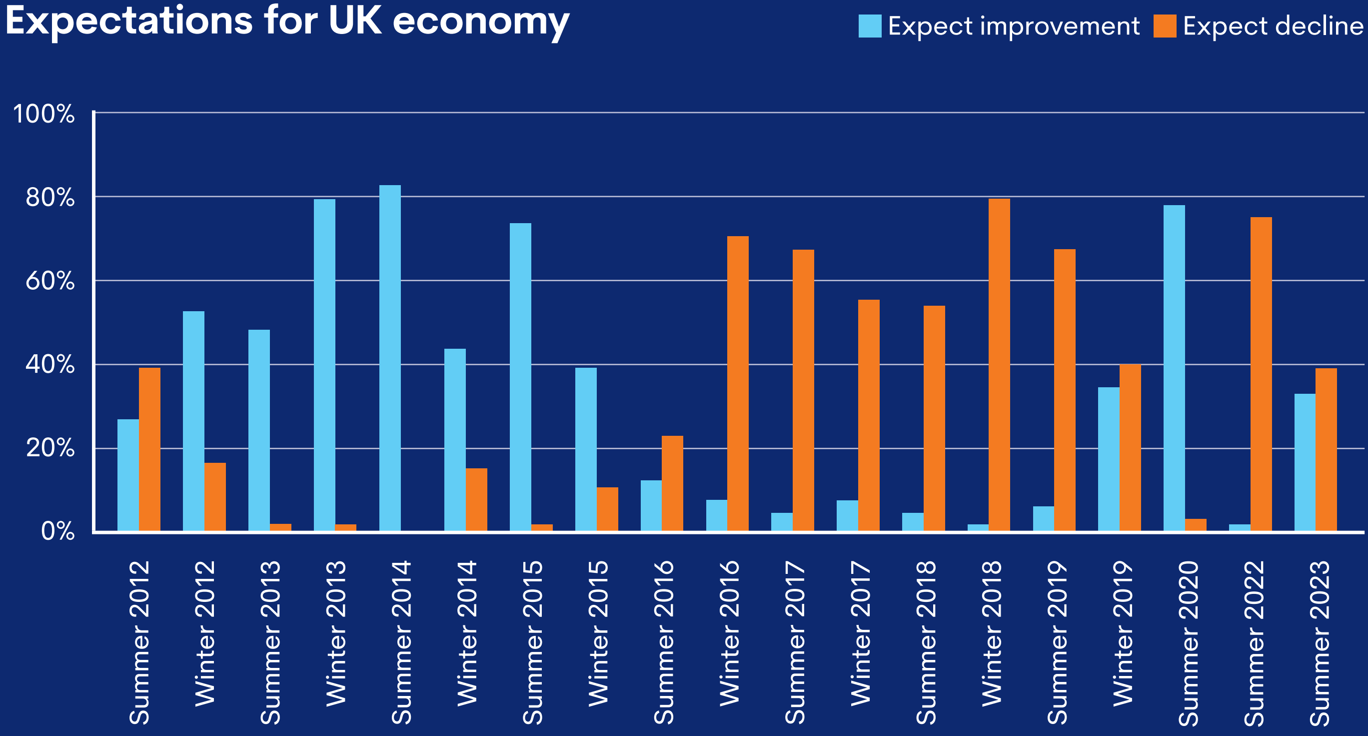
In this year's survey, 44% expect slight or significant improvement, whereas last year it was only 16%.

Comparing the results with those of 2018 and 2019, years similarly marked by strong geopolitical issues,

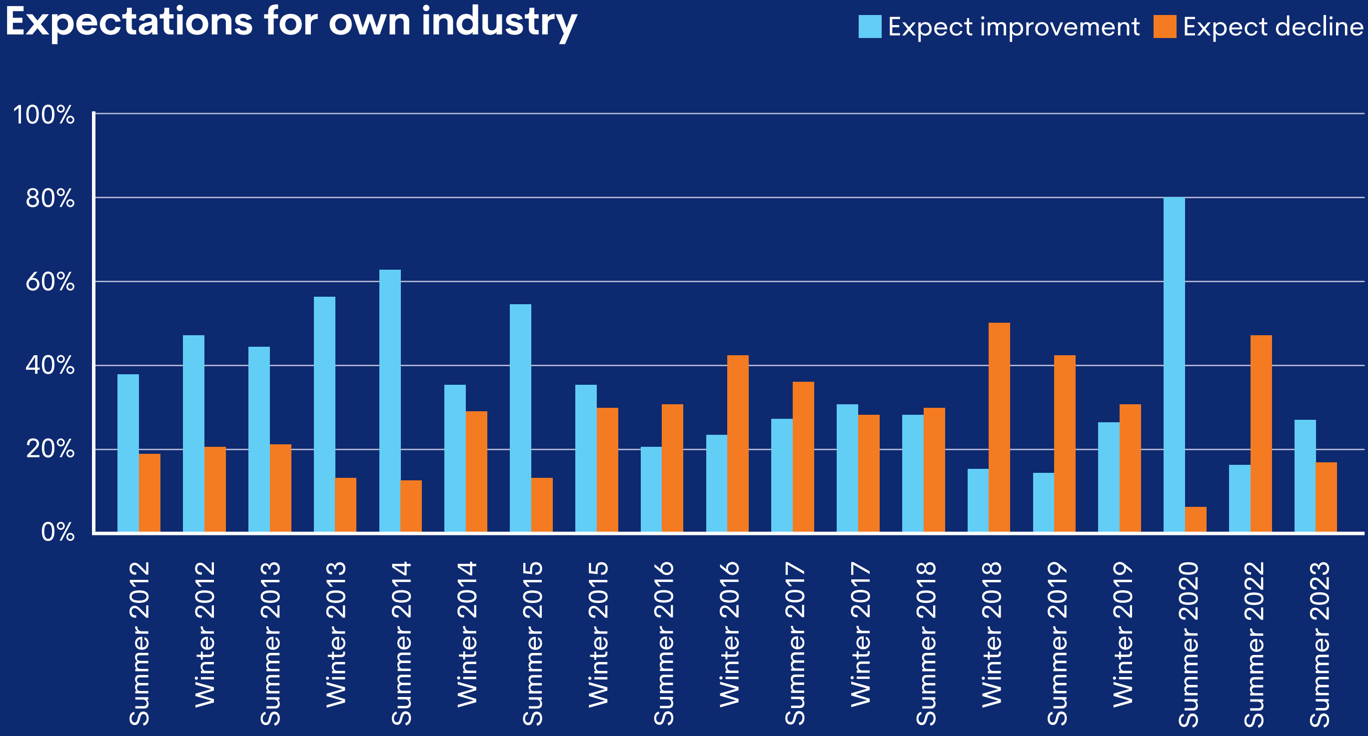
Expectations for global economy



Expectations for UK economy



Expectations for own industry



respectively 15% and 26% of respondents predicted a slight or significant improvement.

What is clear is that, despite considerable political volatility in several countries and knock-on effects on energy prices, global trade, increased inflation and rising interest rates, confidence is remaining steady or slightly increasing.

UK economic confidence

In the UK, economic confidence has improved markedly since the summer 2022 survey.

In the summer of 2022, only 3% of respondents expected an improvement, with 76% expecting a decline in UK economic conditions.

Significantly, in the latest survey, 33% expect an improvement, with only 41% maintaining the view that the UK economy will continue to decline over the next 12 months.

This response is in line with the lack of confidence reported by respondents in the past seven years. Since 2015, with the interesting exception of 2021, respondents have been consistently pessimistic about the outlook of the UK economy and most believed that the UK economic conditions were declining rather than improving.

The nadir of pessimism was reached in 2016 and in 2022 where respectively 72% and 76% of respondents expected a decline in UK economic conditions. The answers reflected the anxiety produced by the geopolitical issues that Europe was experiencing at the time; the Brexit referendum in the United Kingdom in 2016 and the war in Ukraine in 2022.

When comparing the numbers against the response gathered in 2021, it is evident that respondents have yet to recover economic confidence in the UK. In fact, in the summer 2021 survey, 79% of respondents expected the UK economy to improve.

UK competitiveness has taken a hit

Most respondents believe that prospects for UK competitiveness are not encouraging.

While 15% of respondents are predicting a slight improvement, over half (56%) expect to see a decline in the UK's competitiveness. Interestingly, no respondents expect to see a significant improvement in the competitiveness of the UK in the short to medium term.

Overwhelmingly, respondents believe that the cost-of-living crisis and its impact on their employees and their customers is having a significant effect. Aligned with this, a skills shortage and difficulties in recruiting are compounding the impact on productivity and the workforce in general.

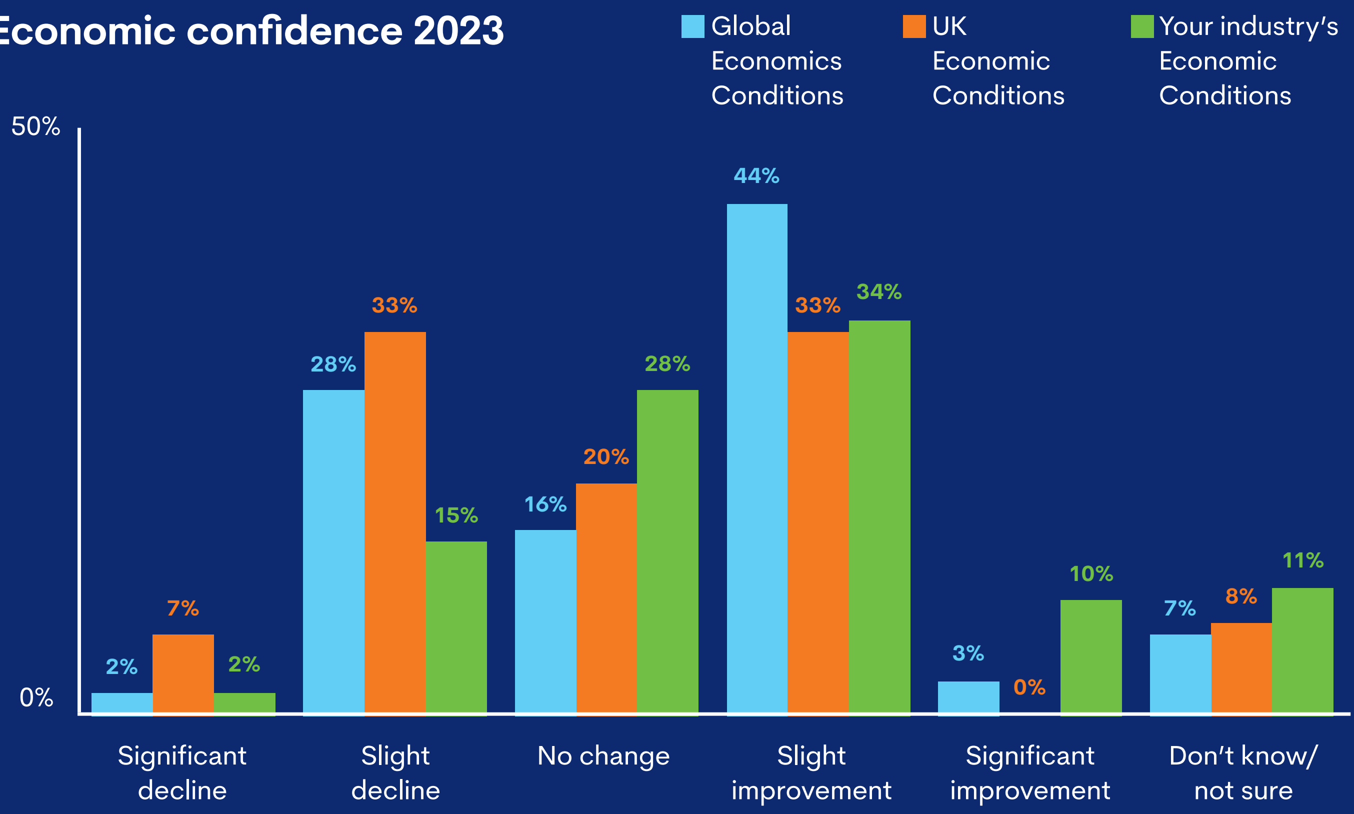
Moreover, given the timing of the survey, whilst UK local elections were being held and with the prospect of the next national elections beginning to loom large, respondents are more attuned to the possibility of further government instability.

The only positive note is the continuance of capital expenditure across all respondents, which could be facilitated by, among other things, continuing tax benefits for investing in R&D within UK businesses. 46% of respondents expect their capital expenditure to remain static year-on-year, with 33% expecting to increase expenditure slightly. Under 10% expect to reduce their expenditure slightly, whilst none are expecting to reduce this considerably.

New listing and disclosure requirements are necessitating additional compliance resources and large amounts of input from cross-functional teams to accurately capture and record the data.

Together, these points show that there is still a way to go before our respondents can feel more positive about the UK being competitive on the global stage.

Economic confidence 2023



Key factors seen by contributors as affecting the competitiveness of the UK in the short/medium term:

1. Inflation and the cost-of-living crisis
2. Skills shortages and resources in general
3. Ongoing issues following Brexit, related trade agreements and access to the EU
4. Interest rates, foreign exchange, and financial markets
5. Government instability, inconsistency, and policy uncertainty
6. Regulation and its complexity

Diversity and inclusion

Organisational culture is a top priority

Corporate culture is firmly on the investor agenda and attention to it has been sharpened in light of recent high-profile failures of corporate culture. This reflects the recognition that how a company, its leaders and its employees behave directly impacts how it operates and, in turn, affects the company's share price.

Therefore, unsurprisingly, all respondents have included corporate culture in their board discussions in the last year, with 53% including it as an agenda item four or more times.

Gender diversity: getting women into senior board roles

In 2011, the year of the commencement of Davies review, only 9.5% of FTSE 350 board members were women. To tackle this gap, the Davies and Hampton-Alexander Reviews produced recommendations to improve female representation on boards, monitoring and reporting annually on progress. By 2020 at least 33% of the FTSE 350 board places were held by women, rising to 40% in 2022.

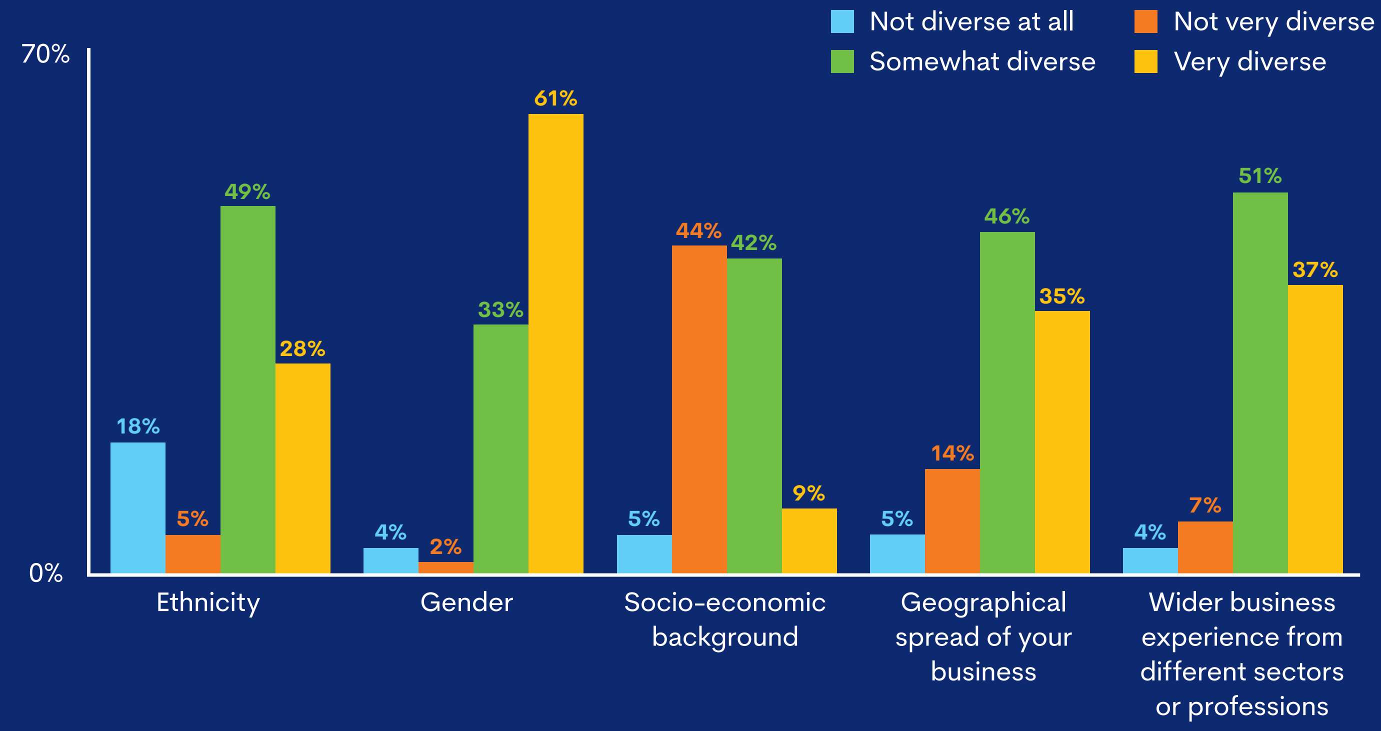
2022 saw a first in Bellwether's 10-year history. For the first time, no respondent answered 'not diverse' or 'definitely not diverse' when asked how gender diverse their board was.

The FTSE Women Leaders Review published in February 2023 revealed that 40.2% of FTSE 350 board positions are now held by women, with 'the vast majority having three or more women on their board.' This is striking progress from only 12 years earlier.

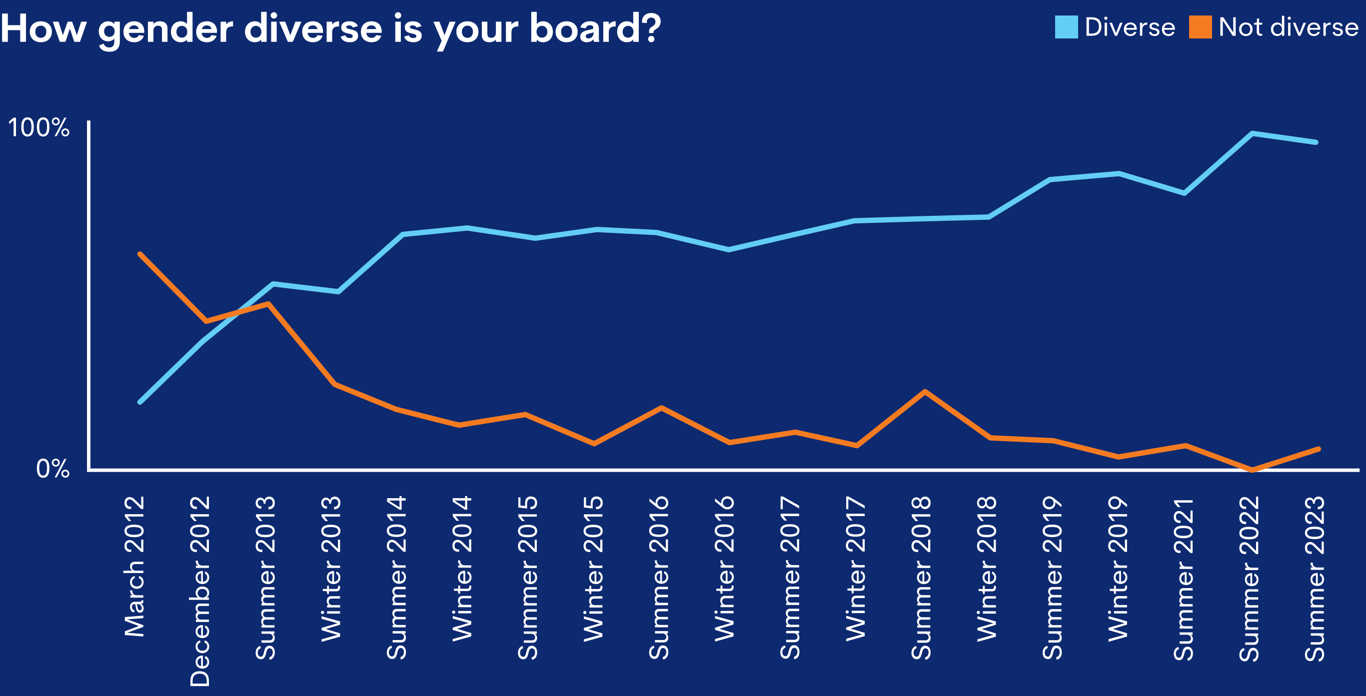
In this year's survey, we have seen a slight reversal. Overall, gender diversity remains high, with 94% of respondents reporting that their board is gender diverse and 61% stating that their board is 'very gender diverse'. However, around 5% of respondents are reporting that their board is 'not diverse'.

Clearly, no female representation is a thing of the past in almost all FTSE 350 boardrooms. Now, more scrutiny is needed to assess which roles these women hold on boards and whether boards are gender-diverse in all positions. It's no longer enough for women merely to be represented on boards – there's now also attention being paid as to whether they hold one of the top roles such as CEO or Chair.

To what extent does your company consider its board membership to be diverse in terms of...



How gender diverse is your board?



Ethnic diversity: an upward trend

In 2017, the Parker Review made a series of recommendations for companies to have at least one director from a minority ethnic background, and set a "One by 2021" target for FTSE 100 boards and a "One by 2024" target for all FTSE 250 boards. In 2022, the Parker Review, looking into the ethnic diversity of boards, announced that 89 of the FTSE 100 companies and 128 of the FTSE 250 companies had minority ethnic representation on their boards.

In the 2023 survey, over three-quarters of the FTSE 350 respondents (77%) consider their board ethnically diverse.

The FTSE 100 has performed slightly better, with 92% of respondents considering their board ethnically diverse. For the FTSE 250, only 60% of respondents answered that their board is ethnically diverse.

This represents a huge improvement when compared to responses from previous years. In the summer of 2021 and 2022, respectively, 55% and 63% of respondents considered their board members ethnically diverse. A relatively high number of respondents said their board was not diverse; 21% and 34%.

However, in the 2022 survey, fewer than half of respondents (45%) said that their policies and guidelines about minority ethnic groups in the workplace were fit for purpose. This year, this satisfaction level has increased to 56%.

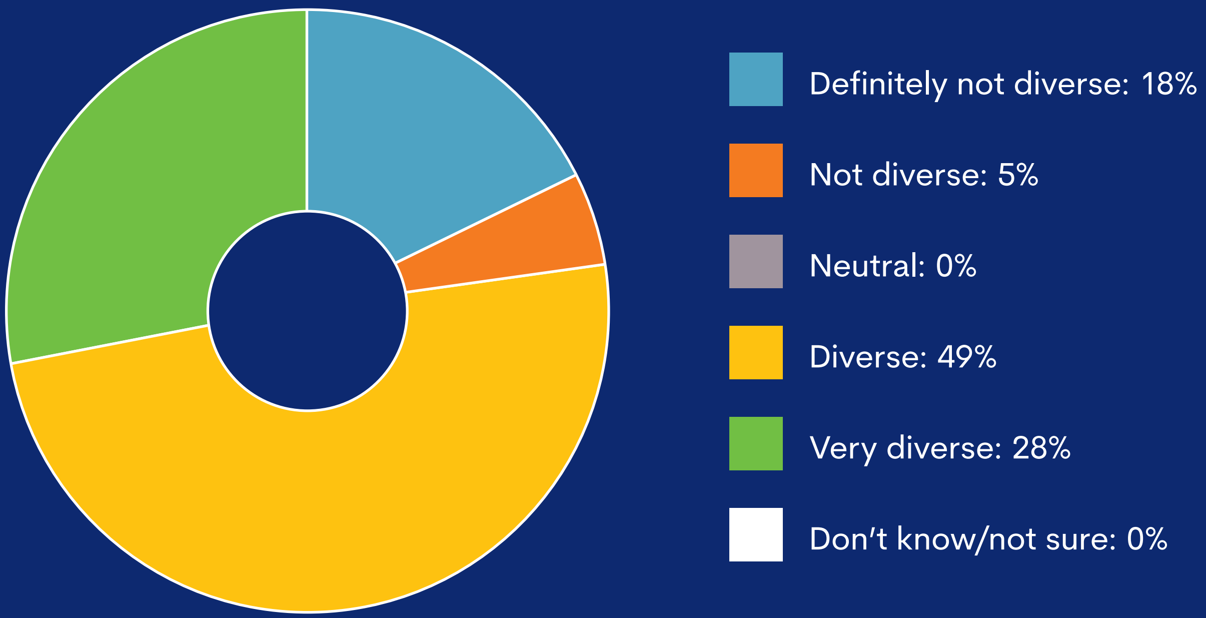
The question surrounding the introduction of mandatory ethnic pay gap reporting remains contentious, with many organisations still firmly opposed to mandatory regulation in ethnic pay gap reporting, not least because of the challenges to compliance. Almost half of respondents (47%) expect it to be difficult, while 39% anticipate no issues. The good news is that, compared to last year, at least half of all respondents (53%) know how ethnic pay gap reports are gathered.

A significant minority of organisations follow the government's approach of voluntary ethnic pay gap reporting with guidance from the Department for Business and Trade, with around 19% already reporting, 7% planning to within the next year, and 12% in the next 3 years. This represents a slight increase from last year, as only 16% were already reporting. However, last year 13% planned to report in the next year, which is not reflected in the 3% uplift in those now reporting. Finally, 14% of respondents believe that reporting is not applicable in their organisation, up from 3% last year.

Still, the complexities surrounding ethnicity pay gap reporting are a deterrent for many organisations. To address this, the new guidance published in April 2023 on ethnicity pay gap reporting includes more detailed advice on the collection of data, and its interpretation and analysis. The new guidelines may encourage more organisations to report ethnic pay gaps.

With the current economic contraction, it is interesting to see whether diversity will continue to remain a priority. Furthermore, will the new guidance be sufficient to give more companies the confidence to begin reporting by next year?

Ethnic diversity



Ethnic pay gap reporting

Socio-economic diversity: firmly on the agenda

To provide some evidence of the importance of socio-economic diversity to business leaders, for the first time in Bellwether history, we asked respondents whether socio-economic diversity is a board room agenda item.

Encouragingly, from the survey, four-fifths (82%) of respondents regard socio-economic diversity as a topic that needs discussion at the board level. Moreover, half of the respondents (51%) have already had discussions about the socio-economic diversity of the workforce in board meetings. Of these, half have already implemented or will implement policies to address the issue. It is a highly positive sign that, in addition to gender and ethnicity, a significant number of companies are now addressing diversity through the lens of socio-economic background.

Of those respondents who have not yet discussed the topic, 32% are intending to discuss the need for policies and processes to encourage socio-economic diversity across the workforce soon.

Finally, a very small percentage (18%) have no intention of discussing the topic at the board level.

Easing the impact of the cost-of-living crisis

Amidst the current impact of the cost-of-living crisis, all respondents have taken some action on workforce remuneration. This demonstrates the huge impact the cost-of-living crisis is having on the workforce and the level of concern the board has around its cultural impact.

The respondents have, in order of preference, taken several approaches:

- awarding higher percentage pay increases to lower-paid employees in comparison to medium or higher-paid employees (62%)
- making a one-off cost of living payment targeted at lower paid employees only (47%)
- awarding a pay increase for employees, but at less than inflation (36%)
- increasing pay awards for all employees in line with or exceeding inflation (23%)
- awarding a one-off cost of living payment to all employees (11%)
- offering an enhanced free share award to all employees (11%)
- increasing pay awards at executive level in line with or exceeding inflation (6%)

Other initiatives identified by respondents (13%) included: enhancing other benefits to support better budgeting by individuals, including on-site facilities such as breakfast clubs and shower facilities; greater work flexibility around personal commitments; increased pension contributions; a commitment to pay a living wage to all employees; employee support funds for those falling on particularly hard times; and targeting one-off payments in specific geographical locations.

Boardroom matters

Do boards have time to talk strategy?

This year's survey posed a new question about the impact of reporting requirements on board-level discussions. Reporting requirements are often considered to be becoming increasingly onerous, with companies expressing particular concern about the rising levels of mandatory non-financial and ESG-related disclosure required both by regulation but, more contentiously, by third-party analysts. Companies can face difficulties in sourcing the required data points and aligning such reporting against a variety of frameworks and standards.

Bellwether asked whether increasing reporting requirements are reducing the time available for strategic discussions at board level. Over four fifths of respondents (81%) believe that they are, either to some or to a large extent.

This impact on board level discussions appears to be more pronounced for those at the smaller end of the FTSE 350. Amongst the FTSE 100, 17% stated that reporting requirements have had a large effect on the amount of time available for strategic discussions, whereas this number rose to 30% amongst the FTSE 250.

Most companies – over half of FTSE 100 (55%) and almost two thirds of the FTSE 250 (65%) – suggested that the time for strategic discussions has been reduced to some extent, implying that the increase in reporting may be causing some concern but is, ultimately, manageable. One fifth of FTSE 100 respondents have not seen any impact at all.

Developments such as the Department for Business and Trade's call for evidence on non-financial reporting offer hope that the UK government is looking to provide both companies and investors with more clarity, consistency and standardisation in non-financial reporting. Time will tell whether the impact of reporting on board-level discussions remains as much of a concern in future.

Boards of the future: building the pipeline

As boards seek to build for their future, board membership and succession have been primary discussion topics for some time. Back in 2016, The Institute and EY published Coming out of the shadows,[1] about the role of the Nomination Committee, and it is salutary to see that so many of the issues discussed in that paper remain issues seven years on.

Last year respondents expressed strong concerns about succession planning for boards. Half of respondents (50%) answered that the executive pipeline was insufficient for a sustainable pool of talented and diverse board members.

This year it is encouraging to see a slight improvement with over half of respondents (55%) now stating that their executive pipeline is sufficient to provide a sustainable pool of talented and diverse board members, with only 26% stating that it is not.

[1] https://www.cgi.org.uk/knowledge/research/the-nomination-committee

When asked what action they have been taking to build and strengthen the pipeline of talent, most respondents identified that the internal talent pool is particularly important.

A wide range of initiatives were undertaken to identify early career talent. Among these was the identification of individuals with potential across the entire breadth of the organisation, ensuring that those in other jurisdictions or divisions can be seen and developed.

Several respondents have already identified individuals who will be board-ready in the near term, as well as those with a longer-term potential to progress to the boardroom.

Actions being taken by those happy with their executive board pipeline included a diverse range of programs, including regular monitoring, mentorship programmes and succession planning meetings. Other actions included appointing subsidiary boards or board committees and creating shadow boards to give individuals exposure to the governance process.

Among those who considered their pipeline insufficient, training on subconscious bias and moving to an 'internal first' approach to recruitment were mentioned, as were targets for improvement, reviewing talent pools and participating in industry initiatives.

Whilst most responses focused on their internal activities in developing talent, other respondents were challenging their external recruitment firms to be more creative in identifying a pool of diverse candidates for executive and non-executive roles and seeking new agencies to assist in this.

Workforce voice in the boardroom

The UK Corporate Governance Code requires engagement with the workforce, and suggests a number of approaches including:

- a director appointed from the workforce
- a formal workforce advisory panel
- a designated non-executive director

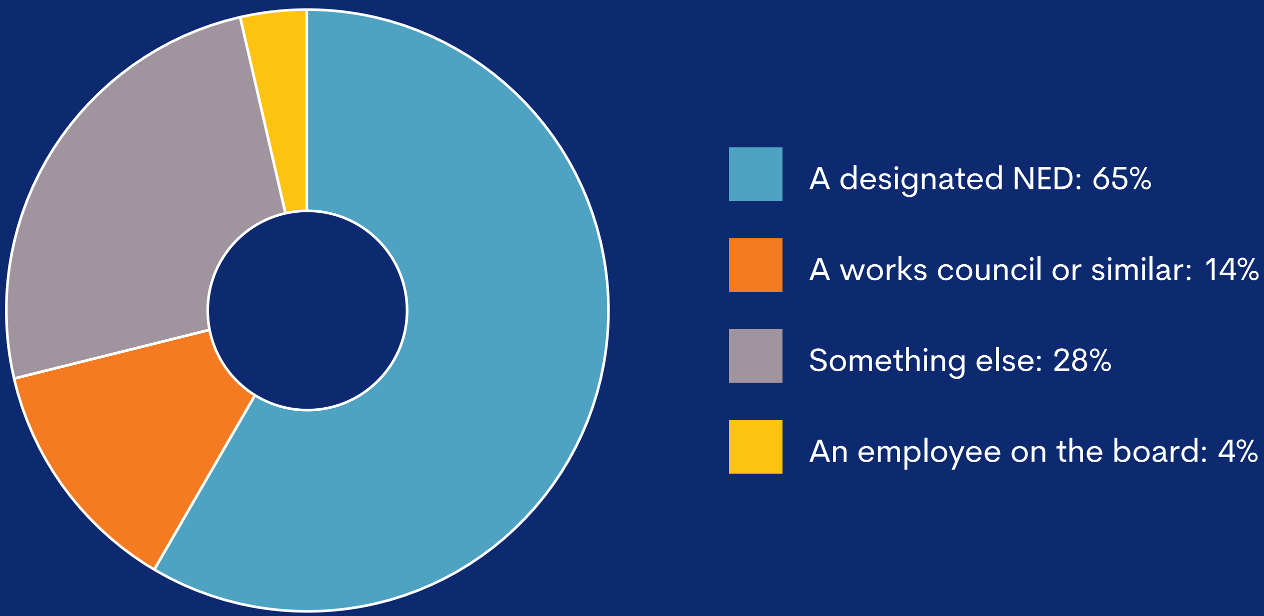
Like last year, a designated non-executive director (NED) for the workforce remains the most popular solution. The FTSE 350 reflected this preference, with 65% of respondents appointing a NED (rising to 76% amongst the FTSE 250), compared to 39% last year.

Interestingly, some FTSE 100 respondents have moved from a single NED responsibility to a collective NED approach; to directly capture workforce engagement, dialogue, and engagement. This structured process allows time and resources to be redirected outside the boardroom to inform discussions, initiatives, and decisions.

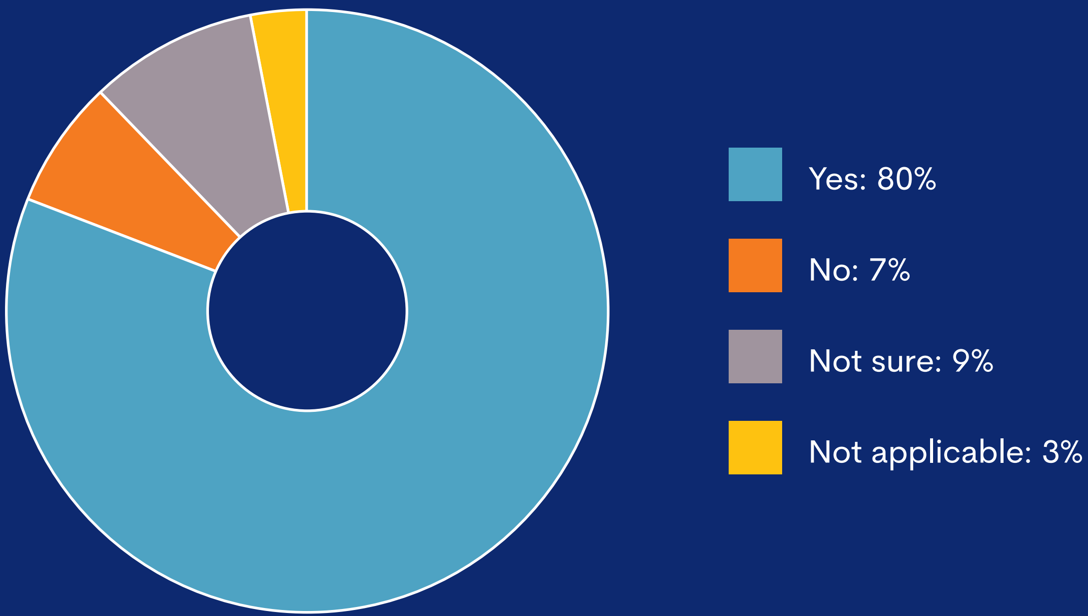
The next most popular solution is a combination of approaches. Across the FTSE 350, the approaches mentioned by the respondents were:

- a works council (14%)
- an employee on the board (4%) – despite the low popularity of this approach it is the first time, since the code was published, that this approach is reported as being used
- employee councils
- town halls
- webcasts
- office or site visits
- personal meetings between employees and directors

Getting the workforce voice into the boardroom



Have any of the actions you have adopted improved the way in which your board is aware of the views of your workforce?



These methods were particularly favoured by those organisations with a smaller workforce working from a variety of locations.

Broadly, respondents are committed to seeking ways to ensure that the board engages and listens to the employees' voices.

Whatever approach is chosen, 80% of respondents believe that the actions that they have taken have improved their board's awareness of the views of their workforce, down from 84% last year. This represents a marked improvement from 2018 when only 68% said it had improved board awareness, despite a slight decrease on last year.

Executive remuneration amidst the cost-of-living crisis

The cost-of-living crisis has, unsurprisingly, impacted companies' decisions when setting executive pay.

From this year's survey, most respondents (92%) answered that the impact of the cost-of-living crisis on their workforce has been a factor in their considerations. Fewer than 5% of respondents admitted not considering it at all.

Similarly, 92% of respondents consider the pay structure and incentives across the workforce, with 83% also incorporating employee share plans as part of the agenda.

A slightly lower, but still significant, majority (81%) considers the pay ratio between their CEO and the average employee when discussing executive remuneration. This figure has nearly doubled since 2018, when it was only 46%.

Moreover, just under two-thirds (64%) have changed their remuneration policy following feedback from investors, the same level as last year and a further 30% of respondents have not made any changes to their remuneration policy as they have not had any requests from investors to do so.

Finally, similarly to last year, almost half (49%) believe that scrutiny over executive pay is detrimental to hiring the best candidates for senior management positions.

It is encouraging to see that wider executive remuneration is taken into consideration as part of the impact on workforce issues and the internationalisation of company structures. Is this a signal that the tide is turning on executive pay disclosure and its impact on the availability of a senior talent pool?

Risk

Board oversight plays a critical role in the management of core and emerging risks, as well as assuring organisations' identification and mitigation of risks and effective response to them should they occur. This is particularly the case given the increasing globalisation of companies and their customer base, supply chains and investors.

Half of this years' respondents record an increase in their exposure to risk, with under 4% noting a decrease. This follows 79% of respondents seeing an increase in risk in 2022. So, whilst risk exposure is still increasing, have companies adjusted to operating in the current environment, marked by inflation, macroeconomic fears, and the war in Ukraine?

To an extent, perhaps, yes. However, there are still significant risk factors impacting on companies' capacity to do business. One of the top three risk factors has remained consistently near the top spot for several years – cyber risk. This year, respondents ranked cyber risk as the number one factor (compared to third last year), perhaps partly in response to rapid developments within the technology space and the potential for abuse of these systems.

Global economic risks came in second, dropping from first in the ranking last year, as companies continue to grapple with the economic consequences of high inflation, war in Europe and supply chain vulnerability.

This year, climate change was ranked third, having fallen out of the top three last year. Whilst commentators suggest that climate issues tend to get pushed down the agenda in bearish markets, perhaps the increasing reporting demands about companies' climate risk have pushed it back up.

Cyber risk: a top priority

Cyber risk was cited as a very important risk factor by 59% of respondents and as a fairly important factor by 37%. No respondents indicated that it was either fairly or very unimportant. Not only is it a major risk factor, but cyber risk is also seen to be increasing by 75% of respondents.

Top three major factors contributing to increasing risk

	1	2	3
2023	Cyber Risk	Global Economic Risks	Climate Change
2022	Global Economic Risks	Geopolitical Tension	Cyber Risk
2021	Climate Change	Cyber Risk	Pandemic
2019	Cyber Risk	Global Economic Risks	Geopolitical Tension
2018	Cyber Risk	Global Economic Risks	Other risk
2017	Cyber Risk	Political Risk	Reputational Risk
2016	Cyber Risk	Reputational Risk	Social Media Risk

Note: report not produced in 2020

So if there is widespread recognition that cyber risk, system stability and IT security are a key risk for boards, how are companies mitigating cyber risk? The vast majority, 92%, are continuing to invest in this area, which is a marked increase of 10% from 2022. Various organisational forums and teams have a shared responsibility for cyber risk, including IT teams, risk and audit committees, as well as the executive team. One respondent noted the existence of a designated cyber risk team that reports directly to the board and senior leadership team.

The NCSC's Cyber Security Toolkit for Boards has been reviewed by 39% of boards amongst our respondents. Of those who gave insights into how they have used the toolkit to adapt their approach, respondents report that they have updated, refreshed and reviewed key performance indicators (KPIs) and reviewed their related policies and expenditure. Several respondents flagged that it is a standing item on board agendas.

Global economic risk among the top concerns

Even though the outlook for the global economy is starting to improve, there remains a considerable degree of risk and uncertainty which constitutes a very important concern for over half (54%) of respondents, and fairly important for 38%.

Changes to the macroeconomic environment, including, but not exclusively, as a result of geopolitical uncertainty, have led to a reset of the cost of capital. High interest rates have led to significantly reduced liquidity in the marketplace and increased volatility has impacted both buyers' and sellers' reactions.

Respondents noted that the economic outlook is an obvious driver of demand, whilst certain sectors and industries are also linked to cyclical drivers which further influence supply and demand. Alongside this, 48% noted growing trade protectionism as an important risk further impacting supply chains and product demands.

Climate change still an urgent issue

Climate change continues to be a key topic for board discussion and returns to the top 3 of risk topics being discussed at board level, having temporarily being replaced by geopolitical tension in the wake of the war in Ukraine. 82% of respondents suggested that risks associated with climate change are very or fairly important.

Despite more bearish market conditions, in which environmental concerns can often seem to take a back seat to shareholder value, climate risk remains third on the agenda – likely in part due to mandatory reporting requirements. Reporting requirements under TCFD recommendations and, in future, the IFRS S1 and S2 standards, take a single materiality approach, in which companies must report on the material risks posed to their finances by climate change. In contrast, the EU is taking a double materiality approach under the Corporate Sustainability Reporting Directive, where companies have to report about both the impact of climate risk on their own operations (impact inward), as well as the impact of their operations on the climate (impact outward).

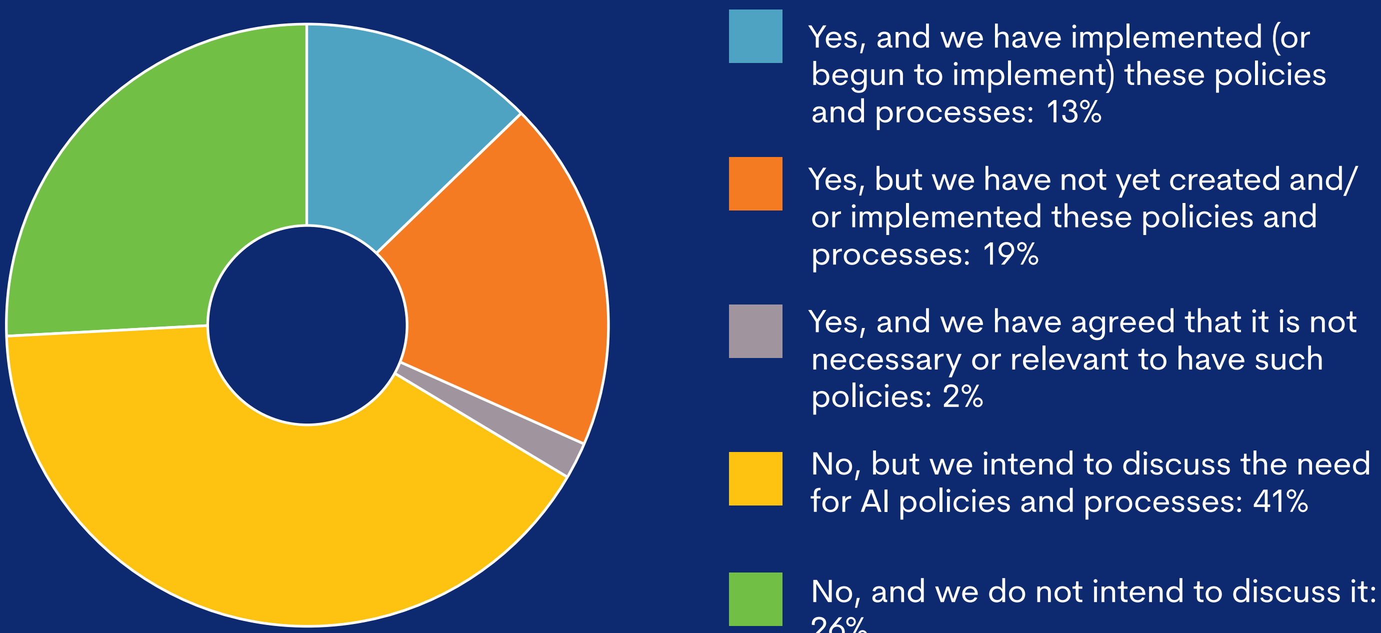
Climate risk is often categorised into physical risks, that is, the impact of a warming world on a company's business and assets, and transition risks, which are the impacts of the global shift to a net zero economy which is causing an unprecedented movement of capital away from polluting industries and towards more environmentally sound practices. As the world warms, companies will have to reckon with increased risks of both kinds.

AI gaining traction in the boardroom

The topic of AI has generated considerable media attention from the beginning of 2023. Perhaps surprisingly, compared to 2022, fewer boards (34% versus 42%) reported discussing AI, its implications, and associated policies and procedures. 41% intend to discuss it, with a slightly higher proportion of FTSE 250 companies (48%) indicating that it will be on the agenda. Only 13% of respondents have implemented (or begun to implement) policies and procedures about the ethical use of AI, all of whom are FTSE 100 companies. A further 19%, across both FTSE 100 and FTSE 250 have discussed the need for such plans without having yet moved to their creation or implementation. As the regulation as well as the applications of AI continue to expand, we would expect this to trend upwards in coming years.

This year, a quarter of respondents indicated that they had no intention of discussing AI at board level. Whilst this is a significant proportion, it is also a large decrease on the number of respondents who indicated the same last year. Amongst FTSE 100 respondents, those not discussing AI have reduced from 44% to 18%, whilst FTSE 250 respondents saw a drop from 56% last year to 32% this year.

Have your board or its committees discussed the need for policies and processes about the ethical use of Artificial Intelligence (AI) within your company?



Tackling the climate challenge

Year on year, there has been an increase in boards discussing climate change, now with over 62% of boards holding this discussion at four or more meetings in the last year. Just four years ago, in the summer 2019 survey, this was a once-a-year topic for 34% of respondents, with 17% of boards never discussing it and with not a single respondent discussing it more than five times in the year. Now, no respondents admit to never discussing the topic, whilst 15% note that the discussion has been had eight or more times in the last year. This is a highly encouraging trend.

Moving from discussion to action on climate change

Encouragingly, these discussions are being backed up by action, with 80% of boards having established climate change plans. Of these, the urgency and speed of implementation varies. Under 10% (9.43%) have a climate change plan implementation timeline within the next 5 years, with the majority (43.40%) having implementation plans over the next 5 to 10 years. A handful (11%) have plans which encompass the next 11 to 15 years.

Net zero transition plans on the rise

For the first time this year, Bellwether asked in more depth about the FTSE 350's net zero ambitions. The UK government has made the first commitment of any major economy to transition to net zero and companies are facing increasing scrutiny from both regulators and investors on this topic. Frameworks and guidance for net zero targets are under development to support companies in this, notably through the ongoing work of the Transition Plan Taskforce. We wanted to know whether FTSE 350 companies have simply published a pledge or ambition to become net zero, or whether they have extended this into a more detailed transition plan containing short-, medium- or long-term milestones and targets.

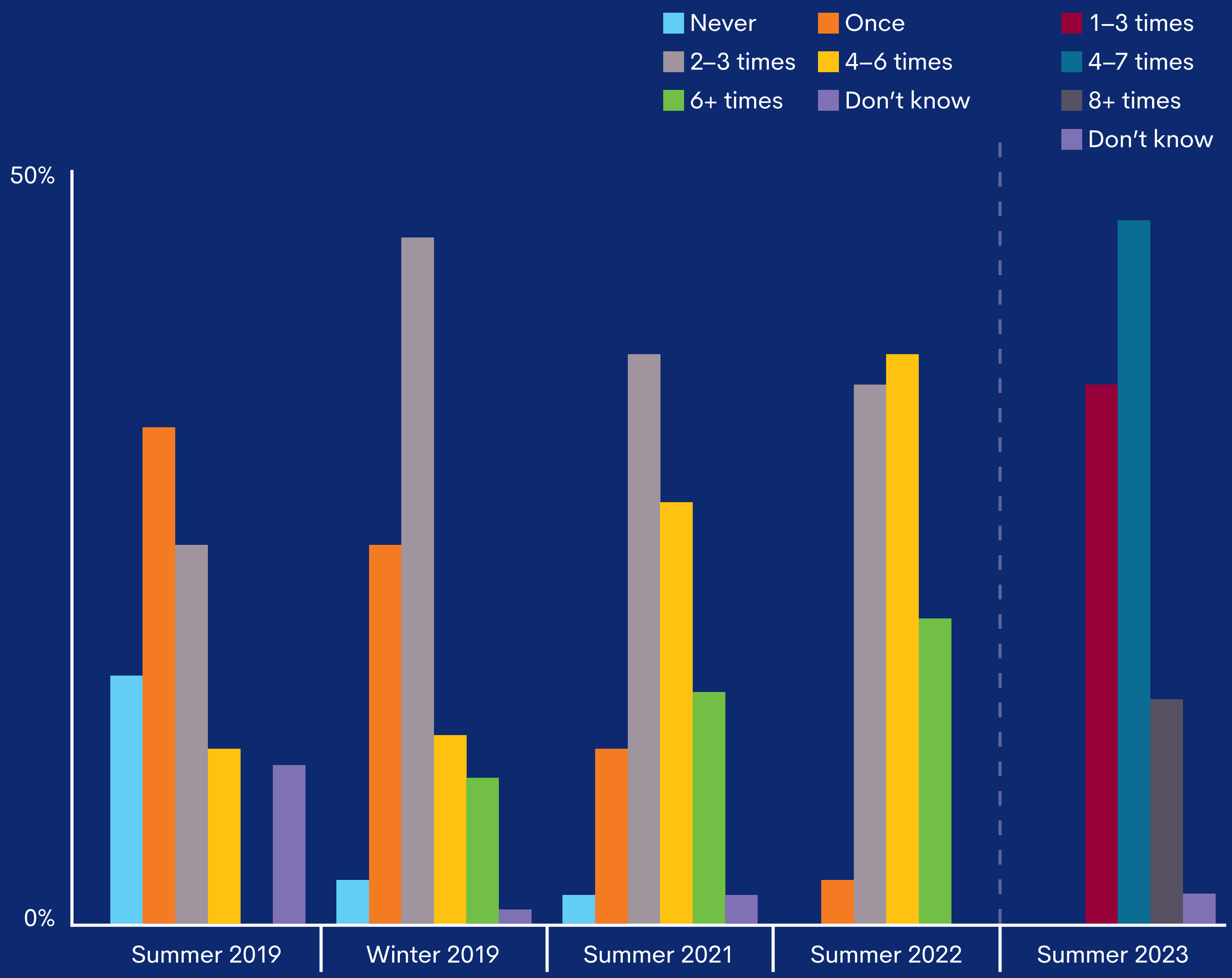
Encouragingly, the majority (80%) have tangible plans to meet net zero targets, either in development (39%) or complete with milestones and targets (43%). Breaking this down further, of our FTSE 100 respondents, over one third (34%) have published a transition plan, whilst over another half (55%) have a transition plan in development. Interestingly, amongst the FTSE 250, over half (54%) of respondents have already published a transition plan, and one fifth (20%) have one in development.

Across both cohorts, and on a par with last year, 8% of respondents continue to have neither a published net zero ambition, nor a transition plan.

Reporting difficulties remain

ESG reporting and disclosure requirements are increasing for all organisations. Meeting these requirements is fairly difficult for two-thirds of companies (66%) and very difficult for 15% of respondents, meaning that a total of 81% find this at least somewhat challenging. Another 15% describe it as fairly easy, though none stated that it was very easy. It is likely that this is due to difficulties in collecting and accessing the right data to be able to report, or to the variety of ESG topics to report on and the available frameworks for doing so. The responses on the legislation wish list (page 23) could imply the latter, with greater clarity and consistency sought in respect of all ESG reporting requirements. UK-based and global initiatives such as the Taskforce on Climate Related Financial Disclosure (TCFD) and the ISSB's new reporting standards should help to address these concerns and provide both companies and investors with more consistent reporting requirements. This space is rapidly developing and has firmly captured regulators' attention, as evidenced by the Department for Business & Trade's call for evidence on non-financial reporting.

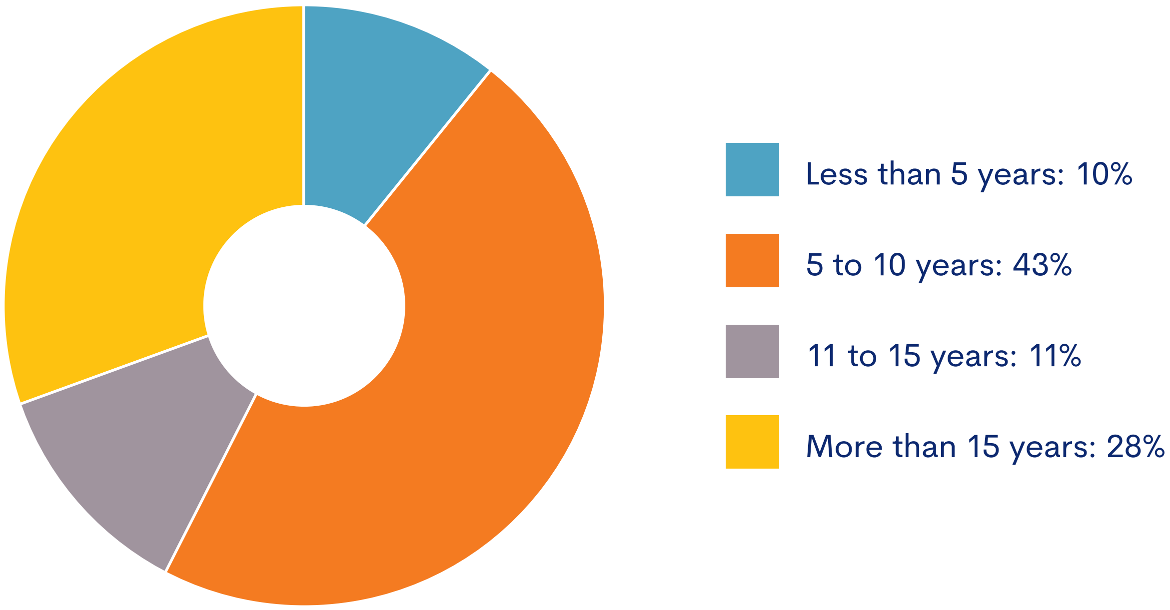
Frequency of climate change discussions in the past year



After two years of reporting against the TCFD recommendations, companies will, in addition, be asked to report against the Taskforce on Nature Related Financial Disclosure (TNFD) framework, due to be published in September this year. We asked respondents to what extent their board is prepared for dealing with TNFD reporting and the increasing demands for action on biodiversity. Interestingly, there is an equal split between those who feel they are prepared and those who feel they are not.

Greenwashing continues to be high on the agenda for regulators, the media and activists alike, and in response, the Institute published a report in April entitled Tackling greenwashing from a governance perspective.[2] Bellwether asked whether ESG reporting requirements are sufficiently clear for boards to feel confident that their reporting is robust enough to avoid being accused of greenwashing. Whilst one quarter have no opinion, 46% are confident that reporting requirements are clear enough to enable boards to avoid greenwashing (whether deliberate or inadvertent). However, just under a third of respondents (30%) believe that ESG reporting requirements are insufficiently clear. This is unsurprising given the clamour in the market for more consistency and clarity about ESG reporting frameworks – and, encouragingly, it seems that the government, alongside international regulatory bodies, is beginning to answer this demand.

If your board has agreed on climate change plans, over what time frame will these plans be implemented?



[2] https://www.cgi.org.uk/knowledge/research/tackling-greenwashing-apr23

Regulation wishlist

As in previous years, survey respondents were asked to name areas of regulation where they would like to see change. In keeping with last year, regulation regarding ESG and climate change remains top of the list. 30% of respondents are seeking greater clarity and consistency on climate and sustainability reporting.

The key areas covered in this year's regulatory "wishlist" include:

- ESG reporting: clarity, alignment and consistency, particularly with regards to TCFD and ISSB
- Proportionate reporting requirements which give consideration to the size of the company
- Review of, and potential updates to, the Companies Act
- Review of, and changes to, the listing regime
- Increased clarity with regard to audit reform

There was a breadth of responses not wholly captured under these core areas, including reform of UK GDPR to support the digital economy, and mandatory targets for gender and ethnic diversity within the wider workforce. Other regulation which was specified includes Solvency II, accounting standards, the EU Retained Law Bill and ISA regulation. However, these attracted far fewer responses and tended to reflect sector-specific concerns, rather than forming part of the core demands across all respondents.

The governance profession

A key role of the Chartered Governance Institute UK & Ireland is to raise the profile of governance as a profession. Encouragingly, there is an increasing recognition of the crucial role played by Company Secretaries and other governance professionals.

This year, 41% of FTSE 100 respondents reported that their company secretary is a member of their executive committee, and 50% of FTSE 250 respondents, representing a slight increase on last year, when the figures were 36% and 48% respectively. This can be seen as a recognition of significance of the role – and even more so when seen alongside the continued commitment to providing sufficient budgets for governance projects and to support those working in governance roles. 23% of respondents have seen an increase in the budget available to them this year. The majority have seen governance budgets maintained at a similar level year-on-year and, despite difficult economic circumstances, only 10% of companies have made cuts to governance budgets.

However, skills shortages continue to plague the profession. Recruiting skilled talent within governance teams remains a significant challenge, with 64% finding it difficult to fill roles in the previous 12 months, and no respondents finding the process very easy.

Companies are tackling this through various solutions, including:

- internal recruitment across teams, aligned to in-house training and professional development;
- utilising professional services firms and consultants;
- developing structured internal and external secondment programmes, often to fill gaps whilst recruitment to fill full-time roles progresses;
- developing a pipeline of future candidates through partnering with universities and other educational establishments;
- upskilling vacant roles to align to higher remuneration and attract suitable candidates; and
- hiring less experienced individuals with a committed internal personal development programme.

From these responses, clearly there has been greater focus on professional development and giving opportunities to internal staff from across the organisation where possible. Equally, communicating the company brand, then recruiting based on potential, values and alignment to the organisational culture, rather than qualifications or experience, was cited as a useful technique to creating long-term opportunity to support the development of in-house talent. This is perhaps a reflection of wider employment trends, in which a company's stated purpose and values are increasingly important to both existing and potential employees.

For those committed to moving into or developing within their governance career, there continue to be challenges and opportunities aplenty. Boards value the expertise, guidance and consistency that governance professionals bring, especially in times of economic challenge, increasing risks and political uncertainty. Companies require a steady helmsman to counter the current headwinds and the Company Secretary is in a unique position to steer their board in the right direction.

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About The Chartered Governance Institute UK & Ireland

The Chartered Governance Institute UK & Ireland is the qualifying and membership body for governance with over 125 years' experience of educating and supporting governance professionals. With a Royal Charter purpose of leading 'effective and efficient governance and administration of commerce, industry and public affairs', we provide professional development, guidance and thought leadership, and work with regulators and policymakers to champion high standards.

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