Minutes of the QCA Corporate Governance Expert Group

Held on: Tuesday 10 September 2019, 9.00am – 10.30am
Venue: Wedlake Bell LLP, 71 Queen Victoria Street, London, EC4V 4AY

Present:

Will Pomroy (Chair)	Hermes Investment Management Limited	WP
John Beresford-Peirse	Hybridan	JBP
Edward Beale	Western Selection PLC	EB
Sally Chandler	Prism Cosec	SC
Jonathan Compton	BDO LLP	JC
Edward Craft	Wedlake Bell LLP	EC
Tamsin Dow	Hogan Lovells LLP	TD
Peter Fitzwilliam	Mission Marketing Group	PF
Nick Gibbon	DAC Beachcroft LLP	NG
Ian Greenwood	Kornferry	IG
David Hicks	Charles Russell Speechlys	DH
Kamalprit Lally	Wedlake Bell LLP	KL
Darius Lewington	LexisNexis	DL
Efe Odeka	UHY	EO
Daniel Redman	Design Portfolio	DR
Paul Shackleton	Arden Partners	PS
Carmen Stevens	Vistra	CS
Melanie Wadsworth	Faegre Baker Daniels	MW
Deborah Wilcher	Norton Rose Fullbright	DW
Tim Ward	Quoted Companies Alliance	TW
Jack Marshall	Quoted Companies Alliance	JM

In attendance:

Laurie Fitzjohn-Sykes	HSBC	LF

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1. **Welcome to Laurie Fitzjohn-Sykes, Head of Governance Research at HSBC, to speak about his report on the lack of evidence for many commonly held views on governance.**

WP welcomed LF to the Corporate Governance Expert Group.

Introduction
LF gave a brief introductory overview of his position within HSBC, as well as his previous work.

Following this, LF explained what his report analysed and the approach he took, which included:

- Reviewing the academic evidence;

- Alternative approaches; and
- The future of ownership and governance.

The evidence

In undertaking the research for his report, LF reviewed academic literature that had cited at least 40 different studies, as well as conducting his own research by analysing over 7,000 companies. In so doing, LF found a somewhat surprising lack of evidence for many of the commonly held views and beliefs surrounding governance.

The main findings were:

- The influence of influential shareholders can be positive.
- There is no evidence to suggest that CEO-Chair separation impacts performance and outcomes.
- There is a slight positive link between board independence and performance, but the evidence is weaker than one might expect.
    - However, there is a stronger link between gender diversity and performance.
- The strongest link to performance is smaller boards.
    - However, if a board is too small the link to performance becomes more negative. The optimal number for a board is between 8 and 10 members, although more complex companies will benefit from having a bigger board.
- There is almost no link between executive pay and share price performance.
    - To find this, LF analysed academic research, as well as that from service providers.

LF stated that governance remains critical for investors. However, he cautioned against the use of governance scores, as there is not one version of good governance. Good governance comes in many forms and varieties and is dependent on the type of company, sector and geography the company falls within.

Alternative approaches

LF explained that most researchers analyse governance on a geographical basis rather than a sector basis and that his report developed a sector-based approach in order to move away from the one-size-fits-all definition.

To do so, the report analyses new areas of focus, which include:

- The balance between knowledge and independence – LF found that despite many boards having independent NED's, a lot of them had a very low level of direct industry experience.
- The importance of stewardship and ensuring that investors are active.
- The ongoing debate around pay.
- Whether major shareholders have a positive influence on the company.

The future of ownership and governance

As well as the lack of evidence about some of the commonly held beliefs, governance is undergoing considerable change. For instance, the rise of passive, shifting business models, the increase in institutions and growing stakeholder pressure are all factors contributing to a shift in the makeup of governance.

Discussion

It was asked as to whether there had been an analysis of dominance and relationships when LF looked at the split between the CEO and Chairman. LF explained that this was an intrinsically difficult thing to do as people are a key intangible that cannot be measured.

There has been a change in the nature of companies. Historically, companies operated purely for investors, but recently there has been an increasing focus on stakeholders as well.

The communication aspect was cited as playing a fundamental role within good governance. Without both feedback structures and the effective interplay between different people, good governance becomes difficult to practice.

Whilst there is almost no link between pay and performance, there is a positive link between Board/CEO ownership of shares. However, the strongest link to performance uncovered within the report was gender diversity.

It was mentioned that a lot of things evidenced within the report naturally sit with the smaller company perspective.

WP thanked LF for his time. LF left the meeting.

2. APOLOGIES

Apologies for absence were received from Nigel Brown, Amanda Cantwell, Jo Chattle, Richie Clark, Louis Cooper, Ed Davies, David Fuller, Tracy Gordon, Nick Graves, Alexandra Hockenhull, David Isherwood, Daniel Jarman, Colin Jones, Damien Knight, Peter Kohl, Kalina Lazarova, James Lynch, Sahul Patel, Phillip Patterson, Jack Shepherd, Julie Stanbrook, Peter Swabey, Jacqueline Tees and Kerin Williams.

3. MINUTES OF LAST MEETING (16 July 2019)

The minutes of the last meeting were approved.

4. ISSUES FOR DISCUSSION

	ITEM	ACTION
a)	**The updated QCA Audit Committee Guide.** This was not discussed.	None.
b)	**The results of the QCA/Henley Business School/Downing LLP research project on the role NEDs play in smaller companies.** This was not discussed.	None.
c)	**Expert Group Stakeholder Map and future stakeholders to engage with the Corporate Governance Expert Group.**	**JM** to invite potential guest speakers.

	This was not discussed.	

5. COMMUNICATIONS AND FUTURE MEETINGS

	ITEM	ACTION
a)	**Towards the end of July, the QCA published the results of two surveys of UK small and mid-caps in coordination with YouGov.** **i. The first survey analysed the extent to which small and mid-caps were managing the regulatory burden. The results indicated that 63% of these companies find regulatory compliance either excessive or demanding and 72% stated that they believe the reason why the number of companies on public equity markets in the UK has fallen is due to the increased regulatory burden.** **ii. The second survey analysed the impact of Brexit on small and mid-caps in the UK. The key findings include:** o **The three years of Brexit preparations has negatively impacted companies** o **The information that the UK Government has provided to help prepare for Brexit has been inadequate** o **The majority of small and mid-caps are taking action to prepare for no deal** o **Small and mid-caps are most likely to favour remaining in the EU.** This was tabled for information only and not discussed.	None.
b)	**YouGov are surveying companies that adopted the QCA Corporate Governance Code to identify any ways in which we might be able to improve the Code and see if we can find evidence that following the QCA Code has helped companies. This is due to be released shortly.** This was tabled for information only and not discussed.	None.

6. ANY OTHER BUSINESS

None.

7. NEXT MEETING

Tuesday 19 November 2019, 9.00am – 10.30am (Venue: Hogan Lovells LLP, Atlantic House, 50 Holborn Viaduct, London, EC1A 2FG)