



Beyond Governance
Creating clarity, improving business

Governance trends for 2021

Whitepaper



Our thoughts



Erika Percival
CEO and Founder
Beyond Governance

Dear Reader,

2020 has been challenging for everyone with threats to lives and livelihoods. Business leaders have had to adapt, pivot and remain resilient through it all. Businesses have been on a journey from crisis management to change management, and although the end is in sight it is not over yet. Governance remains the hallmark of a well-run organisation but for many it continues to be an untapped opportunity.

Many of the challenges COVID-19 brought were governance related. Some organisations saw pressure put on their existing governance structures and processes while others quickly built temporary structures to get them through. Some approaches will have worked well and others less so. A critical challenge for companies in the post crisis era will be rebuilding and strengthening their organisations with deeper governance foundations that are appropriate and proportionate to the goals and ambitions of their business.

This year we've enjoyed many positive conversations with our clients uplifting their governance. We understand what good governance looks like and they trust us to deliver. They know we're not afraid to constructively challenge if their governance ideas won't support their ambitions and they respect us for that. We know that what works for one won't necessarily work for all so we give a variety of options. We believe it's not about having more, it's about working differently!

To help your organisation plan its governance agenda for next year we have put together our thoughts on the 5 key governance trends for 2021. Additionally, we've created a very special bonus for you, a **FREE e-book with tips and tricks on how to implement each of the governance trends for 2021** find out how to get your copy below!

If you need help on your governance journey be that an extra pair of hands or fully outsourced support and implementation, we look forward to hearing from you.

Season's greetings,

Erika



Our 5 key governance trends for 2021

Governance challenges will be unique to every business so we have focussed on the top five areas we believe will be important to address in 2021. These are:

- 1 Stakeholders;
- 2 Remuneration and retention;
- 3 ESG;
- 4 Diversity and inclusion; and
- 5 Risk mitigation

#1 – Stakeholders

A stakeholder is... any independent party that has an interest or concern in what you're doing.

Stakeholders can make or break an organisation. For instance, if your employees were to walk out, your customers were to leave, your suppliers stopped supplying or your investors pull the plug on funding you would have a serious problem. During difficult times strong stakeholder relationships can help insulate organisations from the outside reality, but only if appropriate time and effort is put into genuinely nurturing these relationships.

Stakeholders have always been and will continue to be an important element of governance. Over the past few years, however, they have become more assertive about what they expect from business, and many now expect increased levels of engagement from organisations as standard. They expect their views and opinions to form part of the organisation's usual decision-making process and they will speak up if they aren't heard. It's about bringing them into the decision-making processes not putting 'stakeholders' on the agenda. If you're required to disclose a s.172 statement¹ you're probably already focusing on this area but to do it well it must be more than a box-ticking exercise.

#2 – Remuneration and Retention

2021 will be the year to ensure remuneration related communications are clear with employees, investors and other stakeholders.

It's difficult to say when the pandemic will end but employee retention will be a vital area for all organisations to focus on and rebuild. The best talent will always have greater opportunities to find a job elsewhere, but many businesses are not cash rich. This need not prevent the creation of an employee retention scheme. Different organisations will have different options available to them and these should be explored.

¹Any company that:

1) falls within the definition of a 'large' company under the Companies Act 2006 (remember to include any subsidiaries);
2) a company excluded from being classed as medium sized under s.467(1) Companies Act 2006;
3) a public or AIM listed company; or
4) a premium listed company.



Many employees will have experienced furlough during 2020, and some redundancy, for those employees left in the business things will feel tougher than before. It will be harder for management to motivate them and they may (rightly or wrongly) have mixed emotions on past management decisions on COVID-19. As such incentives will need to be considered and directors/Remuneration Committees will need to be particularly sensitive in their remuneration deliberations to ensure they understand and consider the views of their employees, their investors and executives.

Alternative forms of remuneration could include share schemes; they maximise cashflow while incentivising employees to drive the business forward and can create a compelling reason to stay. If this is not feasible the introduction of a holiday purchase scheme may be an option and if travel opens in 2021 this may be highly valued. Training can also boost the retention rates of your best talent, it shows you care about their future and the company benefits from the increased skills too, it's a win, win!

For listed companies external messaging will be a key consideration too. External investors and proxy advisers may feel they appreciate the challenges the pandemic brought to the organisation and the crucial role its leaders played but the reality could be very different. Clear communications and reasoning for pay and incentive decision will be required to ensure everyone is on the same page. The quantum of 2021 long-term incentive awards and its impact on headroom will also require careful consideration especially if there has been a fall in share price.

#3 - ESG

The 'G' in ESG is the bridge between ideas and them being heard in the Boardroom – it shouldn't be underestimated.

ESG or environmental, social and governance has become a key consideration for investors with some strong messages being delivered by institutional investors more recently. It is not about green washing or box ticking. The best organisations build ESG into the fabric of who they are, and it can be seen in everything they do.

Running an ESG focused business is also not about putting sustainability on the agenda it is about building it into the way a company does business. ESG factors are also important to job seekers with many preferring to work for an organisation that considers ESG and this is only likely to increase over time. ESG factors matter to almost all stakeholder groups and for companies that cut corners or just pay lip service to it, they are creating a potential risk factor that may not impact them in the short-term but over the long-term is likely to be exposed.

There is growing evidence that businesses that embrace ESG benefit from enhanced financial performance, increased workforce productivity, lower costs, improved access to capital and have new access to previously inaccessible opportunities. We believe in the post pandemic world it will be vital to embrace the changing expectations on businesses and ensure ESG plays a key role in business strategy. We would expect Boards to review their governance annually anyway but the 'G' in ESG will require additional Board consideration with time taken to consider all the practicalities.



#4 – Diversity & Inclusion

Diversity in all its many factions should be a key consideration for the Board.

Many of us know, intuitively, that varied and fresh thinking from a range of experiences will positively support businesses; diverse boards make better decisions and more easily avoid “group think”. A substantial body of research also shows that diversity yields substantially improved performance.

Recent events have shone a spotlight on the lack of diversity and inclusion in the workplace and UK Boards and the slow pace at which change is occurring. It is now up to businesses to address this long-ignored opportunity and embrace positive change and fast.

Diversity has been on the Board agenda for years, but we believe that 2021 may be a turning point and that stakeholders, including employees, will now be pushing the diversity agenda too. Listed companies that once paid lip service to diversity, with bland diversity targets, will start to be held to account one by one with the consequences of severe reputational damages for any outliers.

Once on the agenda, diversity and inclusion, like all areas of business, requires frequent review and action because standing still means moving backwards!

Reviewing your Board composition and carrying out a skills audit will be a key starting point. It is then for the Board to decide whether change is required immediately or as part of Board succession planning.

#5 – Risk mitigation

Risk mitigation has never been so important. It enables the board to move forward with increased confidence.

The havoc unmitigated risk can play on business continuity has been clearly shown in the pandemic. Certain sectors and industries are truly struggling and require support to safeguard their survival, but some businesses may have fared better with stronger risk mitigation in place.

No one could have predicted the extent of the impact of the pandemic on companies but those who (pre-COVID-19) were reliant on single sourcing, for instance, or had not considered remote working when it was workable should the office have needed to close, e.g. due to a flood or power outage, had clearly overlooked key business continuity planning in particular and risk mitigation in general. Some Boards have had to learn a lesson and we believe that 2021 will see an increased focus on risk mitigation processes and deep dive risk register reviews as a result.

Strengthening risk mitigation structures will be key in 2021 to address the director’s concerns but also those of its stakeholders too. Savvy job candidates for instance will likely ask questions in interview on the impact of COVID-19 on the business to help them assess the strength of the management team, the care management paid to staff and the security of the role.



With remote working still widespread cyber security attacks will likely increase. In these difficult times an attack would be catastrophic from many businesses and so preventative action should be taken by the Board. This may include Board training on cyber security, increased investment in security systems or the hiring of a Company's first Chief Information Security Officer (CISO). It will be a difficult decision for many boards to agree increased investment at a time when cashflow is low but the consequential reputational damage or worse will likely force the issue.

Whilst executives continue to focus on firefighting cash management, Boards need to be pressing executives to prepare a revised strategy for the 'next normal'. Being able to pivot faster than one's peers will bring new opportunities to the organisation but could also be the key to survival.

OUR GIFT TO YOU – FREE E-BOOK

Are our 2021 governance trends on your agenda? Get your copy of the Beyond Governance FREE e-book with tips and tricks on how to implement our governance trends and ensure the Board is ready for 2021! Simply send us an email to enquiries@beyondgovernance.com requesting your copy.

What's included?

You'll get a booklet of tips and tricks covering the following areas:

- 12 Top tips to improve Board stakeholder engagement and decision making
- 8 Practical tips to support remuneration and retention discussions and decisions
- 10 Ways to strengthen the 'G' in ESG
- 10 steps to creating a diverse board
- 10 steps to strengthen your risk governance

Simply send an email to us at [**enquiries@beyondgovernance.com**](mailto:enquiries@beyondgovernance.com) requesting your copy.

We look forward to hearing from you.