

Why the Wates Principles are changing the way companies do business



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Key takeaways

- The Wates Principles encourage companies to adopt a set of key behaviours to secure trust and confidence among employees
- The best-prepared and future-ready businesses will be those that look to get ahead of this new reporting challenge now
- Companies must grasp the opportunity to quickly adopt the Wates principles and speak authentically about their purpose – and not just about how much profit they make
- Scrutiny will grow and companies will soon feel significant pressure to adopt the Wates Principles – or risk serious damage to their reputations and overall performance

Introduction

In late 2017, Sir James Wates CBE was invited by the UK government to lead the development of corporate governance principles for large & medium private companies and groups.

The resulting code - **now known as the Wates Principles** - was launched in December 2018, and provides a framework to help companies meet legal requirements while promoting long-term success.

Since 2019, **all private companies have been obliged by law to include the Wates Principles in their financial reporting and Annual Reviews**, to demonstrate how they have adopted these Corporate Governance best practices.

In a further update, the FRC* Wates Principles Whitepaper & Infographic Design (Financial Reporting Council) is demanding that UK firms demonstrably incorporate the Wates Principles by a deadline of June 2024

*The FRC is the UK body which regulates auditors, accountants and actuaries, and sets the UK's Corporate Governance and Stewardship Codes. The FRC promotes transparency and integrity in business.

What are the Wates Principles?



Principle One Purpose & Leadership

An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.

- A well-developed and defined purpose will help companies of all sizes and structures articulate their business model and develop their strategy and operating practices
- Directors should act with integrity and lead by example, setting the tone from the top, building positive relationships with employees at all levels
- 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



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.

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



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.

- 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



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.

- A board should consider and assess how the company creates and preserves value over the long-term. This should include processes for the identification of future opportunities for innovation and entrepreneurship
- 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
- The board should establish an internal risk control framework with clearly defined roles and responsibilities for those involved



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.

- Remuneration should be aligned with performance, behaviours, and the achievement of company purpose, values and strategy
- The board should establish clear policies on remuneration structures and practices which should enable effective accountability to shareholders. This should take account of the pay and conditions of the wider workforce, and the company's response to matters such as any gender pay gap
- Boards should consider the benefits of greater transparency of remuneration structures and policies



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 employees, and respect their views when making decisions.

- 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
- Dialogue with employees and other stakeholders helps boards understand the effects of company policies and practices, predict future developments and trends, and re-align strategy
- Boards should ensure that there are channels to receive appropriate feedback from discussions with stakeholders

The challenges of adopting and properly implementing the Wates Principles

The Government-mandated Wates Principles were developed in response to a series of well-publicised governance controversies involving private companies, including the collapse of BHS.

Private UK companies and groups clearly have a great deal to do if they are to - as they will be obliged to do by 2024 - successfully implement the Wates Principles and meet new reporting challenges.

A recent analysis of the category of companies obliged to adopt the Wates Principles which fall into the category also took into account additional disclosures about boardroom diversity and remuneration:

- The best-prepared and future-ready businesses will be those that look to get ahead of this new reporting challenge now
- Companies must grasp the opportunity to quickly adopt the Wates principles and speak authentically about their purpose – and not just about how much profit they make
- Scrutiny will grow and companies will soon feel a significant weight of pressure to adopt the Wates Principles or risk serious damage to their reputations and overall performance
- Some brands, such as John Lewis and Virgin Atlantic, have been enthusiastic early adopters of the Wates Principles
- But most firms surveyed have a lot more work to do if they are to comply by 2024
- One recurring theme is a real lack of diversity at board and senior level
- Another constant theme is a failure by companies to properly engage with and listen to employees at all levels of their respective organisations

Tribe365 is the best-in-class solution you need to meet Wates Principles compliance

Just have a google for 'culture engagement tools' and you'll see the vast array of options on the market purporting to help companies adopt the Wates Principles.

No tool, however, can match the Tribe365 app in terms of a standalone plug-and-play solution which supports organisations as they take their culture framework compliance journey and adopt the Wates Principles.

Furthermore, the Tribe365 app has been created to help organisations and their teams maximise performance and productivity.

The Tribe365 app is available at £4 per team member per month, and can be initiated at the flick of a switch. Start the journey now and avoid any compliance pain later!

Get in touch with Oliver or Dan on +44 (0) 1325 734 847 or team@tribe365.co if you'd like to learn more

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