WHY WATES IS A WAKE-UP CALL FOR YOU

The publication of the Wates report represents **the biggest shake-up in corporate reporting in a generation.**

Under new regulations introduced by the government earlier this year, private companies must make a statement about their corporate governance in their annual reports if they have:

2,000 employees

or

turnover above **£200m**

and a

balance sheet over **£2bn**

The Wates report encourages these companies to adopt a set of key behaviours to secure trust and confidence among stakeholders and benefit the economy and society in general.

Crucially, and for the first time, larger private companies will be required to report if they have complied with a corporate governance code, and to provide proof they have taken into account the interests of all stakeholders, not just investors.

“It can only be achieved if companies think seriously about why they exist and how they deliver on their purpose.”

That’s because their conduct and the way they are run have a considerable impact on the interests of employees, suppliers, customers and others.

Or as the report’s author, James Wates, puts it:

“The principles are a tool for large private companies that helps them look at themselves in the mirror. Good corporate governance is not about box-ticking.

“It can only be achieved if companies think seriously about why they exist and how they deliver on their purpose.”

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THE REPORT SETS OUT THE FOLLOWING SIX PRINCIPLES:

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.

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.

Board 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.

Opportunity and Risk

Boards 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.

Remuneration

Boards 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.

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.

Reporting against these principles comes into effect on **1 January 2019.**

It has not been confirmed who will monitor compliance with these principles, although James Wates told the Financial Times that the Financial Reporting Council, which is itself under a review that could see it disbanded, was the "natural" choice to do so.

Although the new code will be voluntary — companies can either 'comply' or 'explain' — progressive businesses will want to embrace these changes, and there will be increased public pressure on those businesses who chose not to sign up to the code.

This means what they are obliged — or choose — to disclose in their publicly-available statements will be watched and analysed more than ever before.

In other words, **Wates will be as much about the spirit as well as the letter of the code.**

All of this creates new communications challenges and opportunities for a business such as yours. We know that good reputation is a major and proven driver of commercial success — customers buy brands they trust and shun those they don't.

Indeed, **one recent study** estimated reputations were worth more than £1,000bn to the corporate value of Britain's 350 biggest companies — that's more than third of their overall worth.

But we also know that **trust in business is on the slide,** with poor communication a key driver of reputational decline.

So, it's clear more needs to be done to ensure companies stand out from the crowd and appear genuine, both in what they say and do.

The Wates report provides one such opportunity for communications leads to push reputation higher up the boardroom agenda. But as James Wates himself said, this is only the "start of a journey".

Full details of the Wates Report can be found here.

One area that is likely to attract more public – and political – attention is executive pay.

The new rules say that boards should promote the "long-term sustainable success of a company", to which executive remuneration should be aligned, and should have regard to the views of stakeholders, including workers, when taking decisions.

That's some way short of prime minister Theresa May's original proposal on taking office of boardrooms with workers on boards and an annual binding vote on pay.

Meanwhile the Labour party, under Jeremy Corbyn's leadership, is considering whether to allow customers of Britain's biggest 7,000 companies to veto executives' pay packages.

The direction of travel is clear, and those businesses who recognise and prepare for these changes will be well-placed to capitalise on the reputational opportunities it presents, or at least protect themselves against potential challenges.

Those who choose to do nothing may find themselves under increasing pressure.

Get in touch

If you would like to discuss the most effective method of preparing for these changes that are coming, or have any questions, do not hesitate to contact us here at Citypress.

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