QUOTED COMPANIES ALLIANCE

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Chartered Accountants

AIM Good Governance Review 2021/22

Our ninth annual review takes a closer look at post-Covid recovery, ESG and board performance reviews

Helping you prosper

Contents

An overview of this year's report

This is the ninth annual review of the Good Governance on AIM. This report outlines the key trends of small and mid-sized quoted companies' corporate governance performance each year, tracking progress and informing areas for future focus. It offers views from the companies themselves often cited directly from their reports, giving examples of good practice and disclosure and it is informed by interviews with institutional investors, who share their reflections on performance and disclosure in the past year and what companies should be prioritising from their perspective.

The past year has continued to challenge small and mid-sized quoted companies with the ongoing prevalence of the pandemic throughout.

The three key themes we assessed for this year's report are:

1. Recovering from COVID-19 and returning to workplaces, looking at the future of workplaces
2. Environmental, Social and Governance
3. Board performance evaluations

While last year's report highlighted how well companies could adapt to the circumstances caused by the COVID-19 pandemic, this year's looks at the continued resilience of these companies to the extended uncertainty, the wider economic recovery and how companies have begun their processes of returning to workplaces after lockdowns.

The expected post-lockdown rebound has been strong and encouraging for companies and their investors. Recent concerns, particularly regarding supply chain difficulties, staff shortages and rising inflation coinciding with the withdrawal of much of the government's pandemic response support, mean that many are expecting the pace of growth to slow.

Companies are generally welcoming the lifting of restrictions and allowing staff to return to workplaces. A growing part of this consideration for companies focuses on the wellbeing of their teams. The post lockdown world of work means very different things at a sector and company level but, for the most part, greater flexibility is anticipated as a key feature of the return to workplace trends.

While full time homeworking appeared to be a potential threat to the morale and general wellbeing of staff in the height of lockdown, the fact that many companies now know they can function at high productivity levels with staff at home means a more flexible approach can be adopted moving forward.

This flexibility, it is believed, will deliver net gains in employee satisfaction as work location can be better tailored for individual circumstances. Companies are considering how to ensure their strategies for morale and mental health can be effective in a hybrid environment.

The consideration of employee wellbeing can be linked to another key area for this report: Environmental, Social and Governance. Within this area, for companies, the social impact can also be measured by their approach to diversity throughout their workforces with a particular spotlight at management and leadership roles.

The second biggest defining issue of 2020 was the global Black Lives Matter movement which challenged corporations as well as governments to assess their approach to inclusion.

While it could be said that environmental concerns were not as much a focus for smaller companies at the time when COVID-19 posed a threat to their existence, economic policy initiatives continued in the background as a priority for governments. This means that many companies will find themselves having to quickly readjust their focus as the dust settles from the upheaval of the pandemic.

Finally, board performance reviews have been a central theme this year. The two aforementioned key issues of the pandemic recovery and ESG may feed into the growing adoption of formal and regular board performance reviews. With agility and responsiveness vital to company survival during the pandemic and a greater spotlight on diversity in company leadership from both investors and regulators, regular assessment of boards appears ever more important. A growing number of board performance reviews are now classified as proactive which is certain to be welcomed by shareholders.

We trust this report provokes both thought and action by companies, particularly in a year defined by uncertainty, as stakeholder communication for 2022 is planned.

A growing number of board performance reviews are now classified as proactive

Companies are considering how to ensure their strategies for morale and mental health can be effective in a hybrid environment.

Post-Covid recovery

A changed landscape

COVID-19 has had an enormous ripple effect on the business landscape, which has had an immediate impact on employee welfare, operations, supply chains and the ability to pay. The longer-term impact concerning consumers and customers' preferences, greater awareness of the climate crisis and a growing recognition of the importance of diversity and inclusion in the workforce are still being played out.

While there has been a 'return to the office' for many, this has been a slow and, in some cases, a partial return to the office meaning it is a return to workplaces "but not as we know it". According to the latest CBI/Pertemps annual survey[1], 76% of firms are expecting hybrid working patterns to increase compared with pre-pandemic levels. Steps that businesses are taking to support this transition, include:

- investing in new technology to facilitate new working patterns (60%)
- changing the layout of the office space to accommodate a hybrid/flexible workforce (55%)
- and creating tailored strategies for mental health and wellbeing to accommodate all workers regardless of working time/location (52%)[2].

Investors welcome a forward looking, staff focused approach to the return to workplaces, whilst understanding the complexity hybrid working presents.

> "There is the question of whether or not companies have the ability to require the return of staff. Where they can, companies should be allowing work to be done wherever.
>
> The interaction with office space is not simple, for example, needing the office 30% less of the time won't for most companies, mean needing 30% less office space."
>
> **Sid Chand-Lall, Canaccord Genuity Wealth Management**

Additionally, if only a proportion of the workforce are in the office at any one time, this has a knock-on impact for both transport and hospitality venues which are city based.

It is not just COVID-19 that companies are battling. In this rebooting period, shortage seems to be a familiar word impacting access to CO2, drivers, fuel and talent.

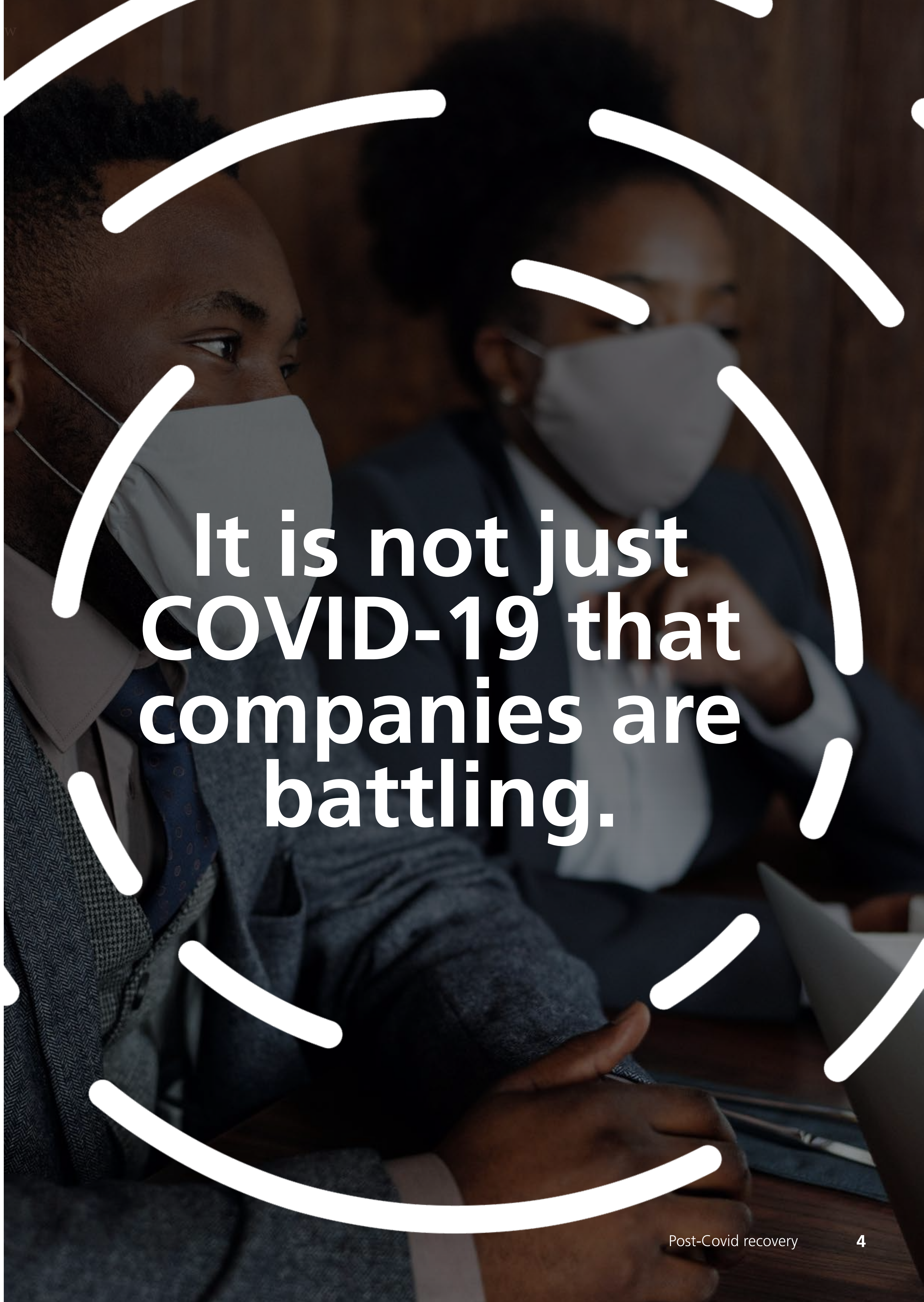
On the flip-side, there are emerging positives such as greater popularity of e-cars[3]; a growing awareness of the importance of clean air[4]; more acceptance of the need for flexible working (a current BEIS consultation includes the right to request flexible working from day one[5]); improvements in technology and easier communication among dispersed workforces. The challenges faced by companies are not new: the average age of a HGV driver is 50[6], for example, but COVID-19 has thrown some of these issues into sharp relief.

Companies which had to make tough decisions to maintain or raise cash in the early stages of the pandemic are now faced with increased costs for fuel and labour; according to Office of National Statistics (ONS), in real terms (adjusted for inflation), total and regular pay are now growing at a faster rate than inflation, at 6.0% for total pay and 4.5% for regular pay[7].

> "The pandemic posed some real challenges for companies and the recovery will reveal some weaknesses. However this is a period where the most innovative, commercially astute, best run companies can take on incumbents and win market share while those external challenges put companies' leadership to the test."
>
> **Gervais Williams, Premier Miton Group Plc**

It is probably too early to tell whether enforced behavioural change due to lockdown has caused permanent changes to consumer buying habits, but certainly online shopping mushroomed during 2020. According to Ofcom "online retail spend in the UK increased by 48% to an estimated £113bn in 2020 (compared to an average annual increase of 13% in the previous four years)[8].

With stores transitioning to online sales, consumers found themselves just as capable, if not more so, of satisfying their demand even while physical shops were closed or less accessible.



Performance

UK gross domestic product (GDP) is estimated to have increased by 1.3% in Quarter 3 (Jul to Sept) 2021. This follows the 5.5% increase in the previous quarter, where there was an easing in many of the coronavirus (Covid-19) restrictions[9]. There were increases in services, production and construction output[10]. However, the Organisation for Economic Co-operation and Development (OECD) warns that "sizeable uncertainty remains" with vaccine rollout being a major factor[11]. GDP growth forecasts for the UK in 2021 as a whole have been lowered from 7.2% to 6.7% and forecasts from 2022 have dropped from 5.5% to 5.2%[12].

The FRC, in its review of Viability and Going Concern[13], examined a sample of report and accounts which have year ends between December 2020 and March 2021[14]. In its summary, it notes, "Although the effects of Covid-19 were uneven across the economy, all companies were impacted and many were, and still are, operating under severe pressure and high levels of uncertainty."

While many companies are picking up activity as restrictions are eased, some will struggle with the withdrawal of state support, notably the ending of Furlough support on 30 September 2021. However, the Treasury has revealed that £300m of Furlough payments was handed back in the last three months[15], which reinforces the notion that there have been and will be very different experiences for different companies as they emerge from the pandemic.

Purple Bricks Group plc (digital estate agency), notes in its Annual Report "having demonstrated the strength of the business this year, the Board was pleased to reimburse all of the £1.0m furlough support received and we now look to the future with confidence… The business has performed ahead of our expectations, despite the COVID-19 headwinds and the challenges felt by the industry."

Purple Bricks Group plc, Annual Report, 30 April 2021

While the general outlook from investors is broadly positive, they share doubts about how smooth the road to recovery will prove to be and call into question if it may be too soon to be speaking of a recovery while the pandemic is still ongoing and headwinds are still prevalent.

"Some companies have seen activity increase during COVID-19. IT and software companies have increased business during the crisis. Others have been forced to rely on government support.

For those companies impacted by the pandemic there has been something of a bounce-back as restrictions have lifted – hospitality and travel for example, but they remain vulnerable to any further lockdowns/restrictions."

Paul Stevens, Business Growth Fund (BGF)

"There have been a range of outcomes but at the start of the pandemic many boards were shocked at the speed of the impact on balance sheet security. This may have a lasting impact as companies become and remain more cautious about taking on debt."

Gervais Williams, Premier Miton Group Plc

Digital transformations across multiple sectors have enabled some operations to continue throughout the pandemic and technology related companies have benefited from this focus.

Structural changes have occurred in industries restricted by the inability to travel or the need to close physical operations.

Mulberry Group plc (luxury goods) notes the impact of store closures in its annual report: "Group revenue down 23% to £115.0m (2020: £149.3m) primarily reflecting impact of COVID-19 and closure of majority of physical stores during the period." However, a focus on the digital offering has mitigated some of the impact of COVID-19.

"Digital sales represented 49% of Group revenue (2020: 24%). This growth was largely driven by our customers switching to digital channels while stores were closed during lockdown periods, along with overall lower sales in the period, all of which were as a result of the COVID-19 pandemic..."

Some of the shift towards digital is expected to remain, despite the reopening of stores:

"For the coming period we expect the digital mix to drop back to a rate of c.36% as stores reopen, however we do expect an accelerated shift to digital/omni-channel shopping across all regions."

Mulberry Group plc, Annual Report and Accounts, 27 March 2021

Diurnel Group plc, (pharmaceutical company specialising in endocrinology) notes in its Annual report: "The impact of COVID-19 on global travel …. means that we must think about new ways of undertaking our business development activities, which have typically relied on face-to-face contact."

Diurnel Group plc, Annual Report, 30 June 2020

Pressures on supply chains are noted by Tandem Group plc (designer, developer, distributor and retailer of sports, leisure and mobility products):

"COVID-19 continues to have an impact on the supply chain and on our ability to travel overseas. …[we are] still paying much higher shipping rates than we were paying last year …Lead times are becoming an increasingly prevalent issue…due to global demand for components and we are therefore committing to purchases much further into the future…"

Tandem Group plc Annual Report, 31 December 2020

Risk management and cash preservation are also common themes.

Getech Group plc (provides data, knowledge, software and analytical products and services to help governments and investors locate and manage new energy and mineral resources) explains "we do not know how long COVID-19 disruption and energy demand weakness will last, and so to preserve capital we implemented a range of actions that have lowered Group monthly costs by c26%..."

Getech Group plc, Annual Report and Accounts, 31 December 2020

Mpac Group plc, (Packaging for healthcare, pharmaceutical, food & beverage) states: "It continues to be difficult to predict the length and depth of the impact of the pandemic and therefore management continue to critically appraise discretionary spend and investment plans"

Mpac Group plc, Annual Report & Accounts, 31 December 2020

Delays to sales and the fulfilment of orders due to COVID-19 have caused challenges and future performance is dependent on the ability to avoid further disruption.

Watkins Jones plc (property developer) notes: "We remain in highly uncertain times…However, the resumption of forward sales, the increase in the number of student beds for delivery in FY21 and the scheduled completion of four BtR developments should see us return to growth in the coming year, assuming we do not see further significant disruption to our activities from COVID-19"

Watkins Jones plc, Annual Report and Financial Statements, 30 September 2020

For companies with international operations, the challenge is navigating multiple sets of national guidance and regulation.

Strategic Minerals PLC, (mining) advises: "Uncertainty remains as to the long-term implications of the pandemic as the Company continues to closely monitor governmental guidance in our various locations."

Strategic Minerals Plc, Annual Report, 31 Dec 2020

While there are plenty of signs of optimism in annual reports among AIM quoted companies, generally companies remain cautious, although there are variations between sectors.

"Structural changes have occurred in industries restricted by the inability to travel"

Environmental, Social and Governance

Research conducted by the Henley Business School for the QCA and Downing LLP points to the growing importance of Environmental, Social and Governance (ESG) policies among small and mid-sized quoted companies: "a quarter of companies began to recognise the value of ESG over the last one to two years[16]." This is not just about doing the right thing, but also makes good business sense: "there is a powerful groundswell of feeling that effective and transparent ESG communication is quickly becoming something that can and does drive material competitive advantage."[17]

Watkins Jones: "[the] Board has increased its focus on ESG matters and looked at how they should be embedded in our decision frameworks. For example, the Group has begun to include sustainability judgements when considering potential new sites…

As a condition of obtaining planning consent for our developments, we often undertake improvement work in the local area, which can range from providing affordable homes to contributions towards new schools, landscaping and enhancing roads and public realm areas."

Watkins Jones plc, Annual Report and Financial Statements, 30 September 2020

Investors are taking a similar view about the dual benefit of taking ESG as not just a responsibility but an area for potential benefit for company performance.

> "There is no set way of reporting environmental and social issues, but we do want to see evidence and examples of companies charting progress. This is the beginning of a journey. We welcome standardisation and the introduction of reasonable and relevant objectives/targets."
>
> **Paul Stevens, BGF**

Not all companies have an ESG statement, but reference to ESG policies may be contained within various parts of the Annual Report. Much depends on the size and maturity of the company and perhaps more importantly the sector in which it operates. For example, mining companies and energy companies will be accountable to national regulators in the countries in which they operate.

Savannah Resources plc (mining) who have an exploration project in Portugal, Mina do Barroso, have emphasised the sustainable aspects of their project to the local population. "These include the creation of a Foundation funded by endowments from income generated by the project. This will be governed by a combination of local stakeholders, Savannah representatives and independent experts and will invest in community focused programmes. Savannah has also committed to sharing its facilities, such as the onsite medical facilities with the local community and communicating regularly and clearly with the stakeholders about its activities and environmental performance on the Project."

Savannah Resources Plc, Annual Report and Financial Statements, 31 December 2020

Strategic Minerals Plc (mining) recognises its responsibility "not only to shareholders but in the broader community. As such, it has adopted a policy to ensure adequate community consultation is undertaken in the areas where we operate. …Additionally, the Company has a policy to, where possible, employ local residents when undertaking operations."

Strategic Minerals Plc, Annual Report, 31 Dec 2020

Investors want to see bespoke disclosures which tell a story and credit companies that are willing to be descriptive.

> "We recognise that there are differences between sectors and between businesses and we assess on a company by company basis: How has the company performed by comparison with last year and what is the board's stance on ESG? Qualitative information is as important as quantitative. It is the 'direction of travel' that is important."
>
> **Paul Stevens, BGF**

> "There is the potential for companies that are currently not in environmentally friendly industries to pivot. These companies are normally well run with entrepreneurial and skilled staff and leadership internally. For investors it is vital that these companies have a clear strategy to significantly improve their environmental performance."
>
> **Sid Chand-Lall, Canaccord Genuity Wealth Management**

While the focus on climate issues and the environment has intensified during the current health crisis, and with the UK's role as host nation to COP26[18], the Henley Business School research notes that the use of ESG standards, such as the United Nations Sustainable Development Goals (UN-SDG), Global Reporting Initiative (GRI), or Sustainability Accounting Standards Board (SASB) "are only a reality for 18.5% of small and mid-caps, with larger companies having twice the chance of using a standard."[19] However, there are some examples of good practice among AIM quoted companies.

Large companies and LLPs are currently required to report on their UK greenhouse gas emissions, energy consumption and energy efficiency (for accounting periods on or after 1 April 2019) in accordance with The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report).

Good Energy has achieved ISO14001 accreditation "which confirms we're meeting international standards for measuring and improving our environmental performance."

Good Energy Group plc
Annual Report and Account, 31 December 2020

Volex plc (power cables and cords manufacturer) reports that one of its sites "has already achieved zero landfill status" and nine of its manufacturing sites "are ISO 14001 certified"

Volex plc, Annual Report and Accounts, 4 April 2021

Fulcrum (multi-utility services and solutions) reports implementation of the Carbon Trust's cloud based Footprint Manager software and as a result "can now measure its carbon footprint more efficiently across its Scope 1 and 2 emissions, helping the Group to better manage and reduce them"

Fulcrum Utility Services Limited,
Annual Report and Accounts 31 March 2021

Discussions around social have included health and safety, particularly in relation to COVID-19, but have extended to include diversity and inclusion and wellbeing as we all wake up to the importance of mental health and some of the challenges from increased remote working. There are differences between companies depending on their sector, vision and culture.

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Discussions around the social aspect of ESG have included health and safety, particularly in relation to COVID-19, but have extended to include diversity and inclusion and wellbeing as we all wake up to the importance of mental health and some of the challenges from increased remote working. There are differences between companies depending on their sector, vision and culture.

Watkins Jones have demonstrated their social conscience in announcing a cost of £14.8 million to remediate cladding on a number of previous developments: "We feel we have a responsibility to help in making the buildings safe, even though we're not legally liable, and we've been working closely with the building owners concerned…."

Watkins Jones PLC, Annual Report and Financial Statements 30 September 2020

James Cropper PLC has provided employees with access to a range of services to support wellbeing including: "access to physiotherapists and annual medicals, an Employee Wellbeing Helpline and trained on site mental health first aiders". The company also provide a cycle to work scheme and encourage physical activity by providing a discount to local gyms. There is a James Cropper outdoor swimming club.

James Cropper PLC, Annual Report, 27 March 2021

The wellbeing of teams, particularly mental health and morale, has also been an area of focus for investors.

> "Mental health was an acute problem during the pandemic but now there are new resources as greater focus has been placed on it. Investors would like companies to be more aware of their employees' mental health."
>
> **Sid Chand-Lall, Canaccord Genuity Wealth Management**

> "The mental health of staff was one of the top questions from investors at the height of the pandemic. Companies' reports have reflected this and are much more populated with information regarding their approaches to ensuring staff wellbeing and morale and flexible working. This feeds into reflecting the company culture but it still seems hard for companies to put this across in a single statement."
>
> **Judith MacKenzie, Downing LLP**

Diversity throughout companies is being actively encouraged by fund managers. Investors are also interested in the company's approach to staff retention as it reflects if the leadership have the right priorities.

> "Companies need to work harder than ever to retain staff as it is more cost effective than needing to rehire for the same roles repeatedly. Companies should make themselves more appealing by trying to show how they are good for their people and the wider society. A concern for investors is that if companies choose not to highlight their positive external impact, they will be at greater risk of being targeted by regulators. Investors now expect to see companies highlight positive social impact prominently in their reports and not solely focus on financial metrics."
>
> **Gervais Williams, Premier Miton Group Plc**

An obvious challenge of ESG policies and reporting is the breadth of the subject matter and the resource requirement.

Serinus Energy (oil and gas) reports that, the "Group has subject to Board approval on 25 March 2021 formally established an Environmental, Social and Governance ("ESG") Committee, led by the Chief Executive Officer, supported by other key personnel, and overseen by the Board". The expectation is that the focus will be around the following:

Environmental Performance	Social Performance	Governance Standards
• Greenhouse Gases • Waste • Water • Land Use	• Safety Management • Workforce & Diversity • Training & Development • Communities	• Structure & Oversight • Code & Values • Transparency & Reporting • Cyber Dangers & Systems

Serinus Energy plc, Annual Report, 31 December 2020

There are big differences in the detail provided, with some AIM quoted companies omitting any information in their Annual Report relating to the 'E' or 'S' aspects of their business. The research conducted by Henley for the QCA and Downing LLP[20] identified "a number of significant gaps between companies and investor views of existing capabilities and constraints to implementing ESG." For example:

- 73% of firms believe they understand the impact that ESG can have on their long-term financial performance, but only 50% of investors believe this to be the case
- Only 20% of companies, versus 50% of investors, recognise that companies are too short-term focused to understand the long-term impact of ESG
- Companies (48%) and investors (52%), agree that companies understand ESG, but don't know how to measure it.

Investors do acknowledge that companies are making progress but state that they may largely be behind the curve and underprepared for the upcoming disclosure requirements from April 2022 in line with TCFD recommendations for certain of the UK's biggest companies.

Most companies appear to be slightly behind the curve, but UK companies are actually doing better generally than in other countries. It appears only a minority of companies are up to date with regulatory requirements but, given how engaged fund managers are, the outlook is positive overall.

In terms of reporting, there are still a number of boilerplate declarations in statements and the approach of proxy advisers sometimes doesn't help. When "comply or explain" is just treated as "comply" and recommendations to vote against a board's decisions are made on that basis, companies deemphasise explaining their approaches properly as it is deemed ineffective.

The QCA advises that in order to target ESG reporting in the right way, companies should communicate with their investors: "Small and mid-sized companies need to work with investors and understand the issues they face, and assess how to integrate ESG into their business models, cultures and strategies."[21]

Board performance reviews

The QCA advises "A regular review of board performance is a fundamental component of a good corporate governance framework."[22] The importance of a well-run, transparent and agile Board is recognised in Principle Seven of the QCA Code[23] (for small and mid-sized companies): "Evaluate board performance based on clear and relevant objectives, seeking continuous improvement."

The FRC Corporate Governance Code[24], which applies to premium listed companies, requires an annual board performance review; for FTSE 350 companies an external review is required every three years.

According to the FRC "An effective board defines the company's purpose and then sets a strategy to deliver it…The boardroom should be a place for robust debate where challenge, support, diversity of thought and teamwork are essential features. Diversity of skills, background and personal strengths is an important driver of a board's effectiveness…"[25]

Research by Henley Business School for the QCA and Downing LLP[26], (including 30 in-depth interviews with experienced directors and investors plus 100 survey responses from small and mid-sized quoted companies) sought to provide a snapshot of how small and mid-sized quoted companies are currently using board performance reviews.

The research showed:

- of the 100 companies that completed the survey, 22 had no formal board performance review
- the remaining boards surveyed were classified as either "reactive" or "proactive boards" depending on their approach to the performance review:[27] only 22 were classed as proactive in their approach, the majority of which were from larger companies (over 250 employees).

Both proactive and reactive boards highlighted the same areas as of benefit from board performance reviews, although the benefits are more pronounced for proactive boards:

Benefit from board performance reviews

	Proactive	Reactive
Improved board performance	86%	69%
Improved individual performance of board members	68%	56%
Improved governance	68%	58%
Strategy and competitive advantage	27%	16%
Value creation	32%	15%
Improved sustainability	23%	11%
Added stakeholder value	32%	16%

The recent challenges faced by companies has perhaps made their board performance a more stark area for consideration.

> "We have seen a continuity in the composition on boards during the health crisis, and board members have been able to draw on their knowledge and experience of the business. What has set some companies apart has been their ability to communicate effectively with stakeholders. We experienced non-executive directors in many businesses playing an important role in helping to mitigate some of the impact of the pandemic and maintained confidence. Teamwork among the board and the pooling of a collective wisdom is important."
>
> **Paul Stevens, BGF**

Investors are also noticing the increased emphasis on board performance reviews crediting companies for both increasing regularity and formality.

> "Board performance reviews have provided much more detailed feedback in the past year as reflected by the findings. We are getting the impression that this progress is set to continue."
>
> **Judith MacKenzie, Downing LLP**

However, it is noted that reviews could be made more effective by being more bespoke and occurring at times when they are deemed needed during the year rather than just annually.

> "The annual process for board performance reviews is not live enough. Companies should take an approach which addresses the needs of the business more directly. Also, the evaluations do not currently do a great job of saying how performance has progressed or evolved so it is hard to map the success of implementing prior years' recommendations. It is likely that these improvements will come as the approach to reviews matures."
>
> **Judith MacKenzie, Downing LLP**

Board evaluations generally lack commercial drive currently. They reflect the issue that many board members are overly concerned with personal reputational risks.

The UHY/QCA research conducted for this report in September 2021 showed that most companies surveyed in 2021 (86%) are including a high-level explanation of the board performance effectiveness process. This compares with 72% in 2020. This suggests an increased recognition of the importance of transparency regarding board performance and management.

However, in terms of how much detail is provided regarding any evaluation exercise, companies are less forthcoming. Just under three quarters of companies surveyed (74%) provide a brief overview, although this is an improvement on 2020 (46%). When it comes to a more detailed description of the evaluation process, the figures are lower again (60%), but still a big improvement on 2020 and 2019.

Case studies - board performance reviews

A number of the companies reviewed are open about their lack of formal assessment.

Fox Marble Holdings plc (extraction and processing of marble) notes: "Fox Marble has yet to carry out a formal assessment of Board effectiveness, given its stage of development as an entity. The Board are considering how this first assessment will be carried out. The Board will keep this under consideration and put in place procedures when it is felt appropriate."

Fox Marble Holdings plc,
Annual Report and Financial Statements 31 December 2020

Strategic Minerals Plc (metals and minerals extraction) reports: "Given the size of the Company and the small but critical nature of the roles of the Directors, board performance measures have not been independently developed. The Company relies upon the market and shareholder feedback to assess the Board's performance."

Strategic Minerals Plc,
Report and Financial Statements 31 December 2020

Other companies reviewed conducted formal reviews, but provided little information regarding results or resulting actions.

Getech Group plc (provides data, knowledge, software and analytical products and services to help governments and investors locate and manage new energy and mineral resources) advises: "The board undertakes an annual company health-check, where the board performs an appraisal of its effectiveness as a whole. Where areas for improvement are identified, specific actions are set, to be completed in a suitable timescale. Progress of these actions are monitored on a regular basis…"

Getech Group plc,
Annual Report and Accounts 31 December 2020

Some companies highlighted areas requiring action or greater focus:

Diurnal Group plc (pharmaceutical company specialising in endocrinology) reports: "The Board has completed an effectiveness evaluation tool during the year and has reviewed the results at a Board meeting. The evaluation did not identify any significant deficiencies in the Board's performance; the evaluation did highlight a lack of diversity in the current Board structure. ….the company is currently recruiting new members and will be mindful of the need to increase diversity on the Board when undertaking this exercise."

Diurnel Group plc, Annual Report 30 June 2020

Wynnstay Properties PLC (property management) reports: "These actions are being taken forward in 2021 and include changes to the scheduling and content of Board meetings and discussions over the year…The Board will carry out a similar evaluation exercise during the current financial year, which will include the effectiveness of the changes implemented."

Wynnstay Properties PLC, Annual Report 25 March 2021

Where companies used an external adviser, the reporting was considerably more detailed.

Watkins Jones plc (property developer) report looked at a number of key areas for example: "The evaluation identified a number of areas for the Board to address in FY20. Progress in each of these areas is shown below:

Area to address Progress in FY20

Consider longer-term arrangements for company secretarial support. The Company has appointed a Company Secretary who will join the Company in 2021.

Continue to improve risk management and audit processes. We have continued to evolve our processes in these areas. See the Audit Committee report ….

Keep the Board's diversity and mix of skills under review. The Nomination Committee has continued to review the Board's composition during the year. See ….for more information.

The Board considered the need for an evaluation exercise during FY20 and concluded that the priority should be to continue to focus on the Group's response to COVID-19. The Board therefore intends to undertake its next evaluation during FY22"

Watkins Jones plc
Annual Report and Financial Statements, 30 September 2020

One company in the sample reviewed conducted a formal in-house review and describes the process and results in some detail.

Chaarat Gold Holdings Limited (gold mining) reports: "The review of the Board was conducted by means of a questionnaire agreed with the Company chairman comprising 40 questions covering the key board functions, governance roles, board effectiveness, improving board processes, board behavioural dynamics, and overall performance.

…Responses to all Board and committee questionnaires were collated, anonymised, and included in reports which were considered by the Company chairman and, for the committees, the relevant committee chair and subsequently the relevant committee. The Board as a whole then discussed the outcome of the Board and individual committee evaluations."

Chaarat Gold Holdings Limited,
Annual Report and Financial Statements 31 December 2020

Regardless of where companies are on the journey towards effective board performance reviews, there are a number of tools available to help companies. In particular, the QCA Board Performance Review Guide[28] which provides practical guidance for small and mid-sized quoted companies in assessing and improving their approach. The guide is the outcome of the research by Henley Business School for the QCA[29]. The guide makes six key recommendations for effective performance reviews. Namely such reviews should:

1. be led by the Chair. The Chair's performance is also reviewed.
2. be dynamic and context-specific.
3. focus on value-adding board activities.
4. take into account the views of a variety of internal and external stakeholders.
5. be understood as continuous improvement.
6. be transparent and disclosed in appropriate detail in the annual report and on the company website[30].

In addition, The Chartered Governance Institute UK & Ireland has produced guidance for quoted companies when concerning their board performance review[31]. This has followed a review into the effectiveness of independent board evaluation in the UK listed sector[32]. The Chartered Governance Institute notes that the guidance is "written primarily with FTSE 350 companies in mind" although "we hope they will also be of use to other organisations". In its guidance on reporting on board performance reviews[33] the Institute acknowledges that some actions to be taken as a result of evaluation exercises may be commercially sensitive, although there is a balancing act involved as:

> "boards that can demonstrate that they have carried out a robust evaluation of their effectiveness and that they are intent on delivering continuous improvement of their performance will have greater credibility with investors and other stakeholders."
>
> **The Chartered Governance Institute**

Our analysis

This section details our measure of corporate governance behaviour by showing the percentage of the sample that included the minimum disclosures of the QCA Code.

Deliver growth

Principle 1

Establish a strategy and business model which promote long-term value for shareholders

	2021	2020	2019
Explain the company's business model and strategy, including key challenges in their execution (and how those will be addressed).	**100%**	100%	100%

Principle 2

Seek to understand and meet shareholder needs and expectations

	2021	2020	2019
Explain the ways in which the company seeks to engage with shareholders and how successful this has been. This should include information on those responsible for shareholder liaison or specification of the point of contact for such matters.	**98%**	98%	98%

Principle 3

Take into account wider stakeholder and social responsibilities and their implications for long-term success

	2021	2020	2019
Explain how the business model identifies the key resources and relationships on which the business relies.	**98%**	96%	86%
Explain how the company obtains feedback from stakeholders and the actions that have been generated as a result of this feedback (e.g. changes to inputs or improvements in products).	**90%**	94%	66%

Principle 4

Embed effective risk management, considering both opportunities and threats, throughout the organisation

	2021	2020	2019
Describe how the board has embedded effective risk management in order to execute and deliver strategy. This should include a description of what the board does to identify, assess and manage risk and how it gets assurance that the risk management and related control systems in place are effective.	**98%**	100%	n/a

Maintain a dynamic management framework

Principle 5

Maintain the board as a well-functioning, balanced team led by the chair

	2021	2020	2019
Identify those directors who are considered to be independent; where there are grounds to question the independence of a director, through length of service or otherwise, this must be explained.	**98%**	100%	84%
Describe the time commitment required from directors (including non-executive directors as well as part-time executive directors).	**38%**	54%	92%
Include the number of meetings of the board (and any committees) during the year, together with the attendance record of each director.	**82%**	88%	84%

Principle 6

Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

	2021	2020	2019
Identify each director.	**100%**	100%	100%
Describe the relevant experience, skills and personal qualities and capabilities that each director brings to the board (a simple list of current and past roles is insufficient); the statement should demonstrate how the board as a whole contains (or will contain) the necessary mix of experience, skills, personal qualities (including gender balance) and capabilities to deliver the strategy of the company for the benefit of the shareholders over the medium to long-term.	**94%**	98%	46%
Explain how each director keeps his/her skillset up-to-date.	**14%**	56%	52%
Where the board or any committee has sought external advice on a significant matter, this must be described and explained.*	**36%**	50%	16%
Where external advisers to the board or any of its committees have been engaged, explain their role.*	**26%**	42%	38%
Describe any internal advisory responsibilities, such as the roles performed by the company secretary and the senior independent director, in advising and supporting the board.	**88%**	92%	64%

* This does not consider whether or not the disclosure is applicable to 100% of the companies tested and therefore could actually be 100% of the relevant companies.

Principle 7

Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

	2021	2020	2019
Include a high-level explanation of the board performance effectiveness process.	**86%**	72%	78%
Where a board performance evaluation has taken place in the year, provide a brief overview of it, how it was conducted and its results and recommendations. Progress against previous recommendations should also be addressed.	**74%**	46%	38%
Include a more detailed description of the board performance evaluation process/cycle adopted by the company. This should include a summary of: • The criteria against which board, committee, and individual effectiveness is considered; • How evaluation procedures have evolved from previous years, the results of the evaluation process and action taken or planned as a result; and • How often board evaluations take place.	**60%**	14%	16%
Explain how the company approaches succession planning and the processes by which it determines board and other senior management appointments, including any links to the board evaluation process.	**70%**	86%	48%

Principle 8

Promote a corporate culture that is based on ethical values and behaviours

	2021	2020	2019
Include in the chair's corporate governance statement how the culture is consistent with the company's objectives, strategy and business model in the strategic report and with the description of principal risks and uncertainties.	**96%**	96%	96%
Explain how the board ensures that the company has the means to determine that ethical values and behaviours are recognised and respected.	**86%**	94%	94%

Principle 9

Maintain governance structures and processes that are fit for purpose and support good decision-making by the board

	2021	2020	2019
Describe the roles and responsibilities of the chair, chief executive and any other directors who have specific individual responsibilities or remits (e.g. for engagement with shareholders or other stakeholder groups).	**88%**	94%	n/a
Describe the roles of any committees (e.g. audit, remuneration and nomination committees) setting out any terms of reference and matters reserved by the board for its consideration.	**94%**	100%	n/a
Describe which matters are reserved for the board.	**90%**	82%	n/a
Describe any plans for evolution of the governance framework in line with the company's plans for growth.	**56%**	62%	n/a

Principle 10

Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

	2021	2020	2019
Describe the work of any board committees undertaken during the year.	**86%**	94%	n/a
Include an audit committee report (or equivalent report if such committee is not in place).	**68%**	70%	n/a
Include a remuneration committee report (or equivalent report if such committee is not in place).	**80%**	92%	n/a
If the company has not published one or more of the disclosures set out under Principles 1-9, the omitted disclosures must be identified and the reason for their omission explained.*	**6%**	14%	n/a
Disclose the outcomes of all votes in a clear and transparent manner.	**40%**	62%	n/a
Where a significant proportion of votes (e.g. 20% of independent votes) have been cast against a resolution at any general meeting, the company should include, on a timely basis, an explanation of what actions it intends to take to understand the reasons behind that vote result, and, where appropriate, any different action it has taken, or will take, as a result of the vote.*	**30%**	6%	n/a
Include historical annual reports and other governance-related material, including notices of all general meetings over the last five years.	**100%**	100%	n/a

* This does not consider whether or not the disclosure is applicable to 100% of the companies tested and therefore could actually be 100% of the relevant companies.

Market	Number of companies in the sample	Average number of disclosures	Min number of disclosures	Max number of disclosures
AIM Companies	50	23	16	29

* Out of a total of 31

Methodology

The initial analysis was conducted on 50 annual reports and accounts and their corporate websites of a range of small and mid-sized companies with equity securities admitted to trading on the London AIM market across all sectors.

UHY Hacker Young assessed these subject annual reports and accounts and governance disclosures on their corporate websites against the minimum disclosures of the The QCA Corporate Governance Code 2018

The key areas of focus for the 2021 review were: ESG, Post Covid-19 recovery disclosures and Board performance review; including all ten out of the ten Quoted Companies Alliance Corporate Governance Code principles.

The assessment was predominantly completed on a binary measure: did the company disclose the requirement or not. However, where there was evidence that the company has made a strong attempt to meet the disclosure, some judgement was made on the qualitative nature of the disclosure.

Other comments on the findings of our analysis

> “The main priority is that companies have the right skills on their boards and it should have been possible to continue training so it is surprising that it seems there are fewer board members taking on training opportunities this year compared to last year.”
>
> **Sid Chand-Lall, Canaccord Genuity Wealth Management**

Whilst the survey highlighted a big drop in disclosures regarding the time commitment of directors (38% of companies surveyed in 2021 versus 92% in 2019), this is not a surprise.

> “In our experience, lots of Non-Executives have been putting significantly more time in than their contracted hours in response to the health crisis. They have effectively rolled their sleeves up and done what needed to be done to support the board.”
>
> **Paul Stevens, BGF**

> “Where a significant proportion of votes have been cast against a resolution at a general meeting, the company should enable this to be easily found on its website, and include an explanation of how it intends to follow-up.
>
> **Paul Stevens, BGF**

> “Particularly candid reporting is always welcome. Where the company has shown how it intends to make improvements investors will appreciate the transparency compared to reporting that aims to cover up poor performance.”
>
> **Judith MacKenzie, Downing LLP**

References

1. Three quarters of UK business concerned about impact of labour shortages on competitiveness - CBI / Pertemps Network Group, CBI Press Release, 20 September 2021
2. ibid
3. Electric car sales in the UK rose 186% to 108,000 in 2020, up from just 38,000 in 2019. UHY Press Release, 27 September 2021
4. Air pollution linked to greater risk of COVID-19 hospitalisation,The Mayor of London, London Assembly Press Release, 6 September 2021
5. Making Flexible Working the Default, Department for Business, Energy & Industrial Strategy, 1 September 2021. Closing date for consultation: 1 December 2021
6. HGV driver shortage: UK firms embark on the long road to plug the gap, The Guardian, 1 September 2021
7. Average Weekly Earnings in Great Britain. September 2021. ONS
8. Online Nation. 2021 Report. Ofcom
9. GDP third quarterly estimate, UK: July to September 2021, ONS
10. ibid
11. OECD Economic Outlook, Interim Report September 2021
12. ibid
13. Thematic Review: Viability and Going Concern, FRC, September 2021
14. Although this was a small sample focused on the main market, some AIM quoted companies were included.
15. Firms hand back £1.3bn in furlough cash, official figures show, People Management, 22 September 2021
16. QCA Research Report ESG in Small and Mid Sized Quoted Companies Quoted Companies Alliance and Henley Business School. Research was carried out in June and July 2020
17. ibid
18. COP26, 31 October – 12 November 2021, Glasgow
19. QCA Research Report ESG in Small and Mid-Sized Quoted Companies Quoted Companies Alliance and Henley Business School.
20. ibid
21. ibid
22. Board Performance Review Guide, QCA, 2021
23. QCA Corporate Governance Code, 2018
24. The UK Corporate Governance Code, FRC, July 2018
25. Guidance on Board Effectiveness, FRC, July 2018
26. QCA Research Report: Board Performance Review in Small and Mid-Sized Quoted Companies, 2021
27. Proactive boards are those that: i) undergo regular formal board performance reviews; ii) make the reviews’ objectives explicit from the outset; iii) proactively follow up from previous evaluations; iv) are effective in applying recommendations from the reviews; v) change the objectives of their board performance reviews in response to arising actions. Reactive boards are those that fail to meet one or more of these conditions. QCA
28. QCA Board Performance Review Guide, 2021
29. QCA Research Report: Board Performance Review in Small and Mid-Sized Quoted Companies, 2021
30. QCA Board Performance Review Guide, 2021
31. Code of Practice for board reviewers, icsa, January 2021; Principles of Good Practice for listed companies using external board reviewers, icsa, January 2021; Reporting on board performance reviews: Guidance for listed companies, icsa, January 2021
32. Final report: Review of the effectiveness of independent board evaluation in the UK listed sector, Chartered Governance Institute UK & Ireland, January 2021
33. Reporting on board performance reviews: Guidance for listed companies, icsa, January 2021

About us

UHY Hacker Young

At UHY it is our mission to be exceptional accountants and business advisers delivering integrated client service. Through our international network of over 270 offices across over 100 countries, we harness global intelligence and combine this with local presence and knowledge to share technical and commercial insight.

Our people have a deep understanding of a number of diverse sectors ranging from education to natural resources, from automotive to healthcare. It is this depth and breadth that gives us tangible and proven insight into the commercial landscapes in which our clients operate. It also allows us to apply our expertise to our clients, particularly those listed on the UK markets, irrespective of their market and sector.

AIM services

As AIM specialists, we offer a range of AIM admission and support services, backed by our wide AIM market experience.

Whether your company is looking to raise funds ahead of an IPO, requires assistance selecting a NOMAD or broker, is seeking reporting accountants to conduct the due diligence necessary to meet the admission requirements for an AIM admission or seeking advice on tax related matters, our team of AIM accountants will spend the time getting to know your company and working with you to achieve your goals.

Our corporate governance services

Whatever kind of company you have, whether listed or unlisted, UHY’s team can advise on all aspects of your governance, including:

- assessing compliance with your chosen corporate governance code
- providing insight into best practice, using our work as part of this report to benchmark your business against your competitors
- working with you to identify risks and potential process improvements, ensuring that the governance practices you have put in place meet the expectations of your stakeholders
- reviewing your procedures and the effectiveness of your board to improve the performance of your business.

Quoted Companies Alliance

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small and mid-sized quoted companies.

The value of our members to the UK economy is vast – as is their potential. There are around 1,250 small and mid-sized quoted companies in the UK, representing 93% of all quoted companies. They employ approximately 3 million people, representing 11% of private sector employment in the UK, and contribute over £26bn in annual taxes.

Our goal is to create an environment where that potential is fulfilled. We identify the issues that matter to our members. We keep them informed. And we interact to build the understanding and connections that help our members stay ahead. The influence we have, the influence we use, and the influence we grow ensures that our members always benefit from the impact of our initiatives.

theqca.com

The QCA Corporate Governance Code

The QCA Code is a practical, outcome-oriented approach to corporate governance that is tailored for small and mid-sized quoted companies in the UK. Since its initial release in 2013, it is a valuable reference for growing companies wishing to follow good governance examples.

The QCA Code was published in 2018 and includes 10 corporate governance principles that companies should follow, and step-by-step guidance on how to effectively apply these principles.

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