Inspiring **business**

The 2017 Good Governance Report

The great governance debate continued

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Contents

Executive summary

- The IoD Good Governance Index (GGI) is an innovative way for external stakeholders to assess the overall standard of corporate governance at the largest UK-listed companies. Launched in 2015, it is now in its third year. The GGI initiative is an important component of the IoD's Royal Charter commitment to promote the study, research and development of corporate governance.
- The GGI is intended to stimulate an ongoing debate about the importance of good corporate governance and how it can be measured and improved. Going forward, we would like to broaden the scope of this debate beyond the largest listed companies and consider how our findings can be applied to other kinds of organisation. Consequently, the intended readership of this report encompasses anyone with an interest in the design and application of sound corporate governance.
- The GGI is calculated by looking at how companies score across 47 governance indicators. These indicators are grouped into five broad categories of corporate governance: Board Effectiveness; Audit and Risk/External Accountability; Remuneration and Reward; Shareholder Relations; and Stakeholder Relations. Specific indicators are chosen in order to reflect a broad conception of corporate governance which not only takes into account the interests of shareholders but also considers how governance is working for other key stakeholders.
- The indicators included in the GGI are selected by an advisory panel of leading corporate governance experts from both within and outside the IoD. The panel is chaired by Ken Olisa, the deputy chair of the IoD. In addition, the design and publication of the GGI is supported by two partner institutions: Cass Business School, who serve as academic advisors, and the Chartered Quality Institute (CQI), who bring an operational perspective to the GGI's development. In 2017, the number of indicators included in the Index increased from 34 to 47, reflecting the advisory panel's efforts to widen the scope of corporate behaviour captured by the GGI.
- For 2017, the highest GGI scores are achieved by Diageo, Aviva, GKN, Barclays, Smiths Group, Prudential, RSA Insurance Group, International Consolidated Airlines Group, InterContinental Hotels Group and Compass Group. We find no particular correlation between the GGI score and company size. However, the average score of companies from the energy and utilities sectors is significantly higher than the overall GGI mean score. In contrast, the average score of the information technology sector is significantly lower.
- A unique feature of the GGI methodology is that a stakeholder survey of governance perceptions is used to calculate the weights that are applied to each governance category in the calculation of final company scores. This contrasts with the approach used by many other corporate governance indices, which attach equal weight to each individual indicator. As a result, our methodology is less vulnerable to manipulation and attaches greater importance to those indicators that exert the greatest impact on external governance perceptions.
- Among our five categories of corporate governance, those indicators measuring Audit and Risk/External Accountability are most strongly correlated with external governance perceptions. Those indicators seeking to measure Board Effectiveness are the least correlated. This finding may reflect the importance placed by stakeholders on the robustness of risk governance systems at the current time. It may also suggest that we must continue with our efforts to identify insightful indicators which better capture the crucial contribution to good governance provided by boards of directors.

Preface from the Institute of Directors

by Ken Olisa OBE, chairman of the advisory panel and deputy chair, IoD

Welcome to the Good Governance Report, the Institute of Directors' third annual corporate governance ranking of the top UK companies.

Two years ago, the IoD launched the Great Governance Debate with the twin objectives of:

- Fulfilling our Royal Charter obligation to promote development of the law and practice of UK corporate governance
- Ensuring that the debate was led by practitioners – directors – rather than policy specialists, professional advisors and legislators

Twenty-four months later, while we can chalk up significant success on the first objective, we still have much work to do on the second.

Admittedly, although it is a topic which has rarely been out of the headlines since we first set about creating a way to rank the UK's top companies' performance, the IoD can't really claim credit for the recent and unprecedented interest in corporate governance.

Instead the minds of parliamentarians, shareholders, employee organisations and the media have been concentrated by market events such as the collapse of BHS, Sports Direct's continuing battles and the mooted listing of five per cent of Saudi Aramco coupled with a rumbling undercurrent of rebellions over boardroom pay.

One of the biggest interventions came from the Department for Business, Energy and Industrial Strategy select committee which, having conducted an exhaustive and detailed inquiry, published their recommendations in an April 2017 report:

"British businesses must act on corporate governance, executive pay including long-term incentive plans, and boardroom diversity to maintain the country's strong international standing in corporate governance and address a worrying lack of trust of business among the public."

In parallel, the government responded to concerns about that "worrying lack of trust" with a green paper and a manifesto pledge which has resulted in proposed legislation to address three priorities:

- Executive pay
- Strengthening the boardroom voice of stakeholders, especially that of employees
- Extending application of the UK Corporate Governance Code beyond listed companies to encompass large private businesses

Although this activity has been welcome, it is a matter of regret that the bulk of the focus has been not on the broad complexities of corporate governance, but on the narrower matter of compliance with societally acceptable norms of behaviour. Just as the original Combined Code grew out of a reaction to the Maxwell, BCCI and Polly Peck accounting scandals, today's policy makers focus on tackling issues which are considered to be bad business conduct.

Closing the stable door after the horse has bolted is legitimate if it prevents a stampede but it doesn't begin to address the underlying causes of failure which, in the case of boards, is the breakdown of the system of control and direction.

The legislators' single-mindedness is underlined by the prime minister's preface to the government's green paper response, in which she said:

"We have also seen worrying evidence that a small minority of our companies are falling short of the high standards we expect. I want to tackle these problems and strengthen people's faith in a well-regulated free market economy."

While not in any way dismissing the importance of addressing that "worrying lack of trust", the IoD's approach to good governance has a higher-order objective. We aren't in the business of adding to regulation and its inevitable conclusion that one size fits all. Rather, we have set about identifying a set of instrumental factors which every board should seek to optimise in order to achieve competitive advantage for their business.

Our starting point is the law. The 2006 Companies Act requires directors to act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its shareholders as a whole and, in doing so, have regard to the long-term impact of their decisions on a wide range of stakeholders. Effective governance is a prerequisite to this – not when viewed through the lens of those who promote box-ticking compliance but rather as defined in the UK's seminal review of the subject, the Cadbury Report, published in 1992:

"Corporate governance is the system by which companies are directed and controlled. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship."

What we, the practitioners, are seeking to achieve is a better understanding of the behavioural engines and levers which enable an effective board to deliver the above objective. If the system can be understood, then directors can apply their collective skills and experience in any lawful way they see fit in pursuit of competitive advantage.

I would argue that business is a form of sport. And as with any sport, championship requires a comprehensive understanding of the human, the equipment, the arena and of course the rules. An obsession with only one of those elements – for example, the rules – won't win medals. And equally, conformity in which all of the participants are required to act in identical ways is antithetical to competition.

In the same way that a racing newspaper will analyse runners' form by reference to a set of performance-related criteria, the Good Governance Report is intended to assist boards to understand the implications of the many indicative factors which determine the quality or effectiveness of corporate governance.

Our methodology is explained elsewhere, but in essence we arrive at the set of indicative factors and their relative impact through a process of wide consultation with expert practitioners – corporate counsel, accountants, governance advisors, managers and, importantly, company directors.

With the help of a distinguished advisory board, to whom the IoD is deeply indebted, the Cass Business School has applied publicly available data to calibrate the set of indicative factors for each FTSE 100 company, resulting in an overall per-entity score and a subsequent ranking of the largest companies listed on the London Stock Exchange.

Although, as with all league tables, it is tempting to draw comparisons between the highest and lowest entries, this is to miss the power of our approach. In horse racing, any animal's form is a simplification of a complex set of interactions which in aggregate will produce a result. The same is true in the Good Governance Index. From any board's perspective, the GGI's power comes not from any intra-league comparisons, but by a thoughtful analysis of the 47 instrumental factors and their relevance to their own competitive position.

Our hope is that British boards will embrace the underlying subtleties of the third GGI and so will include as a regular agenda item the discussion of how well their company's high-level system of direction and control is contributing to the business' success.

If this happens, the IoD will have fulfilled our Royal Charter obligation to promote development of the law and practice of UK corporate governance and we will have shifted the centre of the country's governance debate away from the rule-makers and back into the hands of those responsible for generating the nation's wealth – company directors.

Thank you.

Ken Olisa OBE
Deputy chair, Institute of Directors
Chairman of the advisory panel

Supporting statement from the Chartered Quality Institute

by Estelle Clark

It would have been easy to keep the measures in the 2017 Good Governance Report the same as those used for last year's research, and I'm sure many would have liked the resulting comparability between years. However, society's views of what constitutes good governance change over time and it is important that the IoD/CQI research takes the lead in reflecting these changes in the way that governance is understood and measured. Many of the new indicators included this year move the research outside the boundaries of the traditional financial viewpoint and recognise that the challenges of good governance are as much, if not more, in execution as they are in the discussions and decisions coming from the boardroom.

Operational governance comprises the methods that boards and executive teams take to move the boardroom and C-suite aims and ambitions into the body of their organisations. Without it, the board knows what the board wants, full stop. Yet with it, the board also knows that the organisation understands what the board wants, delivers what the board wants, remedies any deviation from what the board wants and feeds back to the board that all these things have happened. Operational governance provides confidence that otherwise would only come from miracles or prayers. And, of course, it is what companies do that matters and it is rightly how they are judged by society. A culture which supports good governance is a long time in the making and mere moments in the unmaking. I doubt that any boards intended to lose the trust of their customers through multiple examples of financial shenanigans or to participate in 'emissionsgate' or to allow horse meat into their supply chain, but, somehow, they did – and paid heavily for it.

With this in mind, many of the new indicators move from measuring whether a policy or commitment exists to measuring whether a policy or commitment is delivered. An example is the addition of a measure seeking confirmation that an organisation is a signatory to upholding the UN Global Compact's 17 sustainable development goals. We then use RepRisk to check how organisations stack up against meeting those obligations throughout their operation, every day of the year.

One of the issues in attempting to introduce more measures of operational governance is that there is no recognised code of good practice; no equivalent to the Financial Reporting Council code. So, among a plethora of potential measures and views, how do we come up with a standard? A partial answer is that the International Organization for Standardization (ISO) is in the midst of developing the first ever global standard for organisational governance (corporate governance plus operational governance). The CQI is a full member of the ISO group developing the new standard and will be engaging with the IoD and other partners to ensure that, through us, they can influence this.

The CQI is proud to sponsor the 2017 Good Governance report. In addition to contributing to the measurement instrument, our chartered members played a key role in giving more operational input to the perception survey. We intend to continue to contribute to the Good Governance Debate, supporting its extension into other tiers of UK business and moving beyond London. And in line with our Royal Charter, the CQI will be working with individual business leaders to develop and optimise their operational governance.

Estelle Clark
Executive director: Policy, Chartered Quality Institute
Member of the advisory panel

Foreword from Cass Business School

by Professor Andrew Clare, Dr Nicholas Motson and Professor Paolo Volpin

Over the past 20 years, academics and practitioners have made several attempts at producing Corporate Governance (CG) indices, so far with limited success. Existing indices have been criticised for adopting a kitchen-sink approach where large numbers of indicators are combined using an arbitrary weighting scheme to produce CG index scores for companies. The 'tick-box' approach used to compile such indices can easily be gamed by companies, rendering them uninformative over time.

The Institute of Directors in partnership with Cass Business School and the CQI is taking on this challenge. Our approach to the challenge includes two important innovations. First, we use a list of corporate governance indicators that go beyond simple compliance with the UK CG code, by augmenting the usual set of indicator data with information contained in annual reports and other sources. Second, the weights we assign to five broad corporate governance categories to calculate our scores are derived from a unique survey of stakeholder views about the corporate governance regimes of the rated companies. This methodology automatically adjusts for the perceived importance of different governance mechanisms and creates a link between the index and firm performance. This also reduces the scope for gaming and preserves the relevance of the index over time.

This year's results indicate that different components of CG have a differential impact on stakeholder perceptions of CG. In other words, our methodology shows that the naïve approach of giving equal weights to different indicators, often adopted in the past, is inappropriate. Our results this year confirm the results of 2016's study: that the indicators we have included as measures of Audit and Risk/External Accountability appear to exert the greatest impact on governance perceptions. In contrast, the indicators we have chosen to measure Board Effectiveness appear to have only a relatively weak correlation with governance perceptions and are therefore less weighted in our calculations. This is likely because Board Effectiveness is hard to measure outside the boardroom, and we should redouble our efforts to identify indicators that better capture this important aspect of good governance.

Having measured the degree to which the objective indicators of CG are correlated with perceptions of CG, our final model shows that Diageo, Aviva and GKN generate the highest GGI scores of the large listed companies.

We believe that our approach is an important step forward in assessing the quality of corporate governance in the UK and, we hope, is an important contribution to the Great Governance Debate.

Professor Paolo Volpin

Dr Nick Motson

Professor Andrew Clare

Introduction to the report

According to the UK Corporate Governance Code, the purpose of corporate governance is to “facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company”. The overall UK corporate governance system involves the interaction of large numbers of actors and processes, although major roles are played by boards of directors, shareholders, internal and external auditors, corporate reporting and the legal/regulatory framework of national corporate governance regimes.

How can we be sure that good governance is being implemented and delivered at major UK-listed companies? As company ‘outsiders’, we are not necessarily in a position to directly assess the quality of boardroom discussions and decision making, which is probably the most important process underpinning good corporate governance.

We can observe whether governance policies and procedures – as defined by benchmarks such as the UK Corporate Governance Code – are being adhered to. However, such analysis only takes us so far. There are many historical examples of ill-fated enterprises (Enron, Lehman Brothers and RBS) that looked great on paper from a governance perspective but which failed to deliver good governance in a more substantive sense.

One way to go beyond an assessment of formal governance processes would be to undertake a comprehensive board evaluation at each company. While such evaluations are increasingly common, their key findings are usually confidential and seldom available outside the company.

In the face of this information asymmetry, the IoD Good Governance Index represents a new way for external stakeholders to gain a snapshot of the overall state of corporate governance at the main UK-listed companies. It seeks to achieve this objective on the basis of publicly available information and data sources which, when aggregated and combined into the GGI, provide a bellwether of underlying governance quality for each enterprise.

Overview of methodology and results

The GGI's unique methodology is primarily based on how companies score with respect to 47 corporate governance indicators across five broad governance categories. In addition, the results of a stakeholder survey of corporate governance perceptions are used to determine the relative importance of each governance category in the calculation of the final score for each company.

We apply our methodology to the 100 or so largest companies listed on the London Stock Exchange as of 31 March 2017, provided these companies are not investment trusts and we were able to obtain data for at least 80 per cent of the corporate governance indicators required for the rating process.

The GGI calculation methodology can be split into three main stages.

STAGE ONE	STAGE TWO	STAGE THREE
For each company, data is collected relating to 47 governance indicators: 1 2 3 – – – 45 46 47	For each company, a governance score is calculated in each of five governance categories: 1. Board Effectiveness 2. Audit and Risk/External Accountability 3. Remuneration and Reward 4. Shareholder Relations 5. Stakeholder Relations	The overall governance score is calculated for each company as a weighted average of five governance category scores. – Companies ranked on basis of overall governance score **= The Good Governance Index**

Stage one consists of gathering data for 47 corporate governance indicators which provide, either directly or indirectly, a barometer of governance practices or behaviours at each of our 100 or so listed companies.

Stage two involves combining the data for each of these 47 indicators into scores across five broad categories of corporate governance – Board Effectiveness; Audit and Risk/External Accountability; Remuneration and Reward; Shareholder Relations; and Stakeholder Relations.

Stage three involves calculating an overall governance score for each company after combining their scores across each of the five governance categories. Statistical results from a unique survey of governance perceptions (described in detail on page 19) are used to calculate the weights applied to each category.

The results of this process for 2017 are summarised in Table 1. This ranks our 100 or so companies on the basis of their overall governance scores. Company scores in each of the five main governance subcategories are available in Appendix 2.

Table 1: Full list of 2017 GGI scores by company, and grouped by quartile

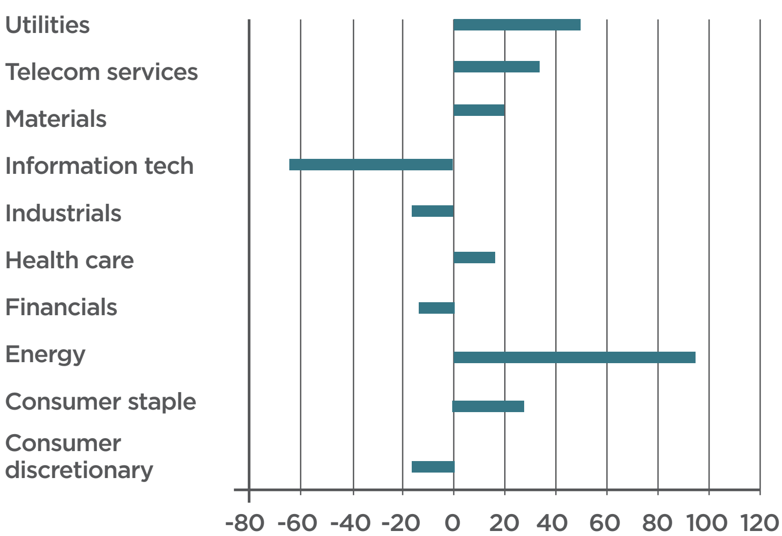
Full ranking		
Rank	Company	GGI Index score (out of max 1,000)
1	Diageo PLC	837
2	Aviva PLC	835
3	GKN PLC	824
4	Barclays PLC	815
5	Smiths Group PLC	813
6=	Prudential PLC	808
6=	RSA Insurance Group PLC	808
8	International Consolidated Airlines Group SA	807
9=	InterContinental Hotels Group PLC	805
9=	Compass Group PLC	805
11	Kingfisher PLC	802
12=	Smurfit Kappa Group PLC	798
12=	Randgold Resources Ltd	798
14	TUI AG	795
15=	Unilever PLC	791
15=	Associated British Foods PLC	791
17=	Hikma Pharmaceuticals PLC	786
17=	Rentokil Initial PLC	786
19	British American Tobacco PLC	784
20=	Polymetal International PLC	780
20=	Shire PLC	780
20=	Centrica PLC	780
20=	Royal Mail PLC	780
20=	Direct Line Insurance Group PLC	780
25	Persimmon PLC	779
26	DCC PLC	778
27	Relx PLC	776
28	Smith & Nephew PLC	774
29=	Lloyds Banking Group PLC	773
29=	Provident Financial PLC	773
31	Coca Cola HBC AG	771
32	Merlin Entertainments PLC	769
33=	Sage Group PLC	768
33=	Weir Group PLC	768
35=	Admiral Group PLC	767
35=	Antofagasta PLC	767
37	BHP Billiton PLC	766
38=	Wolseley PLC	765
38=	Informa PLC	765
40	Berkeley Group Holdings PLC	764
41=	Legal & General Group PLC	763
41=	Standard Life PLC	763
43=	BP PLC	762
43=	Croda International PLC	762
45	Vodafone Group PLC	761
46	Bunzl plc	760
47=	Mediclinic International PLC	759
47=	Sky PLC	759
49=	Melrose Industries PLC	758
49=	Babcock International Group PLC	758
49=	J Sainsbury PLC	758
52=	Micro Focus International PLC	756
52=	AstraZeneca PLC	756
54	Imperial Brands PLC	755
55=	National Grid PLC	754
55=	3i Group PLC	754
57	WPP PLC	752
58=	BT Group PLC	751
58=	Intertek Group PLC	751
60=	Ashtead Group PLC	749
60=	Johnson Matthey PLC	749
62=	DS Smith PLC	748
62=	Royal Bank of Scotland Group PLC	748
64=	easyJet plc	747
64=	Severn Trent PLC	747
64=	Mondi PLC	746
64=	Paddy Power Betfair PLC	746
68	St James's Place PLC	742
69	ConvaTec Group PLC	741
70	Tesco PLC	739
71	Worldpay Group PLC	738

Full ranking		
Rank	**Company**	**GGI Index score (out of max 1,000)**
72	Old Mutual PLC	737
73	Hargreaves Lansdown PLC	736
74	Barratt Developments PLC	735
75	SSE PLC	734
76=	Schroders PLC	731
76=	London Stock Exchange Group PLC	731
76=	Rio Tinto PLC	731
79=	Next PLC	728
79=	Fresnillo PLC	728
81	Glencore PLC	727
82	ITV PLC	724
83	Marks and Spencer Group PLC	723
84	Taylor Wimpey PLC	722
85	Experian PLC	719
86	HSBC Holdings PLC	717
87	CRH PLC	713
88	Investec PLC	709
89	Pearson PLC	708
90=	WM Morrison Supermarkets PLC	707
90=	Royal Dutch Shell PLC	707
92	Reckitt Benckiser Group PLC	706
93	United Utilities Group PLC	702
94	Rolls-Royce Holdings PLC	701
95	Whitbread PLC	700
96	Burberry Group PLC	694
97	BAE Systems PLC	693
98	Standard Chartered PLC	690
99	ASOS PLC	680
100	Anglo American PLC	673
101	G4S PLC	665
102	Carnival PLC	658
103	GlaxoSmithKline PLC	627

A statistical analysis of the ranking in Table 1 does not identify any strong correlation between the GGI score and the size of the company (as measured by market capitalisation). However, there is some degree of correlation between the GGI score and industry sector, although these sectoral results should be treated with caution due to the small number of companies that are used to calculate some of the sector averages.

Hence, Figure 1 shows that the average GGI score of companies from the energy and utilities sectors was significantly above the overall mean, whereas those from the information technology sector fell below the overall mean.

Figure 1: Sector GGI score relative to overall mean



Selection of corporate governance indicators

A key step in our methodology is the judgement concerning which indicators should be included. The selection of indicators was undertaken by our advisory panel and was informed by some key pillars of the UK corporate governance regime, including the legal duties for directors defined in the Companies Act 2006 (see box) and the governance practices recommended by the UK Corporate Governance Code. The aim was to adopt a broad perspective on corporate governance which is not only focused on securing the interests of shareholders but also takes into account a wide range of key stakeholders.

Duty to promote the success of the company – Section 172, Companies Act 2006

A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to the:

(a) likely consequences of any decision in the long term

(b) interests of the company's employees

(c) need to foster the company's business relationships with suppliers, customers and others

(d) impact of the company's operations on the community and the environment

(e) desirability of the company maintaining a reputation for high standards of business conduct, and

(f) need to act fairly as between members of the company.

Section 172, Companies Act 2006

This year, following discussions with the advisory panel and through engagement with the wider business community, including a meeting to discuss corporate governance issues raised by last year's report organised by the CQI, we expanded the list of corporate governance indicators from 34 to 47[1]. The aim was to expand the scope of the indicators in a way that captured a broader range of stakeholder concerns and corporate behaviours. We grouped these 47 indicators into the five broad governance categories:

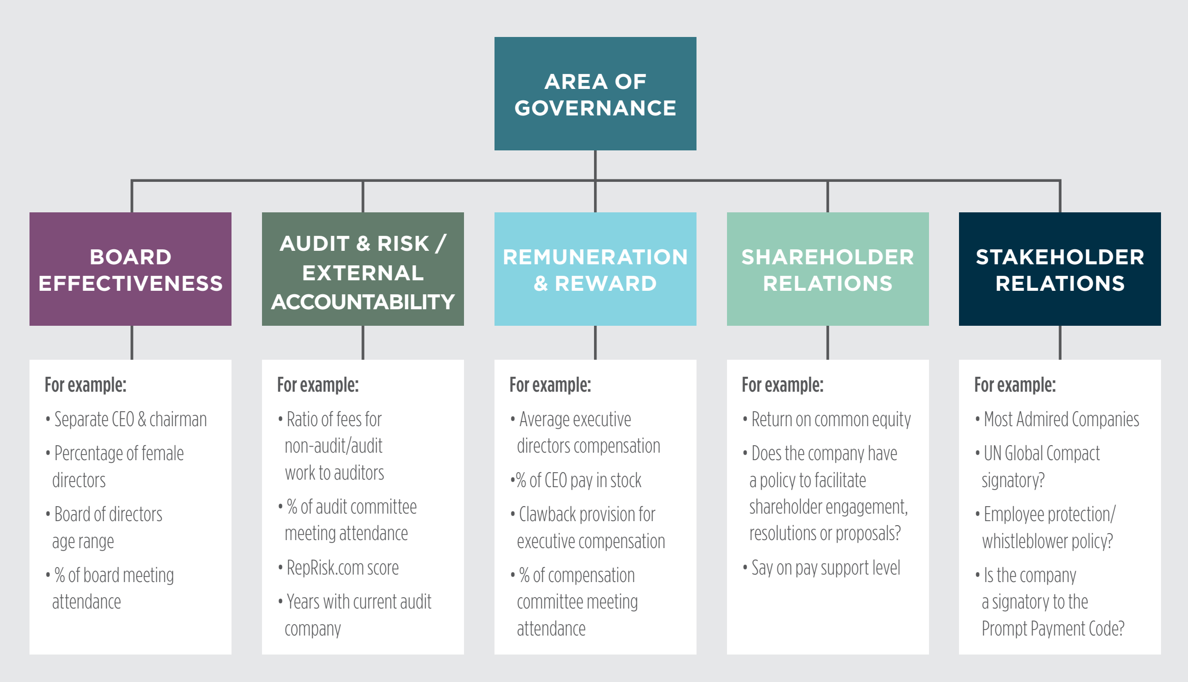
1. **Board Effectiveness (BE)**
2. **Audit and Risk/External Accountability (AR)**
3. **Remuneration and Reward (RR)**
4. **Shareholder Relations (SHR)**
5. **Stakeholder Relations (STR)**

Figure 2 shows the five broad governance categories, giving examples of the indicators that fall into each one. The full list of indicators, along with their justification, can be found in Table 2.

Some of these indicators will be familiar to those that have been already engaged in the Good Governance Debate. For example, several indicators have been directly inspired by specific provisions of the UK Corporate Governance Code (also referred to as the Code), such as the indicator that captures whether there is a split between the roles of chairman and CEO at a company.

[1] Each company in the study was given the opportunity to review and correct the data we had collected about them. 43 companies took the opportunity to engage with us in this data verification exercise.

Figure 2: The five broad corporate governance categories



However, other indicators are not necessarily derived directly from the Code. Most large premium-listed companies nowadays tend to comply with most of the Code's provisions, even though the Code offers them the option of explaining any deviations in their annual reports. As a result, if we were to rely entirely on indicators derived from the Code, it would be difficult to differentiate between standards of underlying governance at the largest listed companies.

Our methodology therefore has sought to be more than merely a checklist of compliance with Code provisions. For example, we have also included a number of new and innovative indicators, such as a measure of reputational risk, which has been developed by RepRisk (reprisk.com). This measure quantifies reputational risk exposure related to environmental, social and corporate governance (ESG) issues. We include this indicator in the Audit and Risk/External Accountability grouping.

Furthermore, not only have we chosen indicators that show whether a company has adopted formal governance practices or policies, we have also included indicators that suggest how governance is impacting on the company's underlying behaviour.

For example, indicators such as recent share price volatility are not in themselves direct measures of corporate governance practice, but may be useful proxies for how the company's underlying corporate governance processes are performing in practice.

Such indicators may also provide a way for us to capture some key aspects of governance which are not necessarily directly observable from outside the company, such as the extent to which the board of directors is delivering good decision-making.

Hence, while each individual indicator may not provide a direct measure of a company's corporate governance, we hypothesise that in aggregate they may offer a useful barometer of how well overall governance is being delivered.

Ultimately, the choice of our 47 indicators reflects the subjective judgement of our advisory panel. Indeed, one of the purposes of the Good Governance Debate is to generate a discussion on the type of indicators that can be used to capture the reality of good or bad underlying governance.

The full set of indicators in this year's GGI is shown in Table 2, along with the justification for each indicator. This list has evolved over the past three years and may change further based on developments in the corporate governance environment and the feedback that is generated from this year's debate.

Table 2: Full list of corporate governance indicators and their justification

Board Effectiveness Description of Indicator	**Assumed impact on Corporate Governance**	**Justification**
1. Separate CEO and chairman (Yes/No)	Yes = positive impact	Power is not concentrated in one person and board leadership is independent of management
2. Independent chairman (Yes/No)	Yes = positive impact	Board leadership is independent of management
3. % of non-executive directors on the board	Higher value = positive impact	Greater independence and objectivity of the board
4. % of female directors on the board	Higher value = positive impact	Improved board decision-making due to more diverse perspectives
5. % of non-British directors on the board	Higher value = positive impact	Improved board decision-making due to more diverse perspectives
6. Fewer than eight or more than 15 directors (Yes/No)	Yes = negative impact	Outside of this range, sub-optimal board decision-making due to either excessively narrow or unwieldy board size
7. Board of directors age range	Higher value = positive impact	Improved board decision-making due to more diverse perspectives
8. Number of board meetings held	Higher value = positive impact	Higher level of board diligence and commitment
9. % of board meeting attendance	Higher value = positive impact	Higher level of board diligence and commitment
10. % of directors on the board longer than nine years	Higher value = negative impact	High values could indicate lack of board independence and/or the entrenchment of long-serving directors

Audit and Risk/External Accountability Description of Indicator	**Assumed impact on Corporate Governance**	**Justification**
11. % of independent directors on audit committee	Higher value = positive impact	Greater independence and objectivity of audit committee
12. % of audit committee meeting attendance	Higher value = positive impact	Higher level of audit committee diligence and commitment.
13. Years with current audit company	Higher value = negative impact	A lack of auditor rotation could suggest entrenched relationship with external auditor, with risks for the independence/objectivity of audits
14. Ratio of fees for non-audit/audit work to auditors	Higher value = negative impact	Relying on auditor for large amounts of non-audit services could suggest a conflict of interest between the company and the external auditor
15. Auditor's report is qualified/unqualified (Yes/No)?	Yes = negative impact	Could be suggestive of underlying problems of financial governance at the company
16. Is the company in the process of a material earnings restatement? (Yes/No)	Yes = negative impact	Could be suggestive of underlying problems of financial governance at the company
17. RepRisk (provided via CQI)	Higher value = negative impact	Indicative of the company's ESG risk management culture
18. Size of audit committee	Higher value = positive impact	Indicative of a higher level of audit committee expertise
19. Number of audit committee meetings	Higher value = positive impact	Higher level of audit committee diligence and commitment

Remuneration & Reward Description of Indicator	Assumed impact on Corporate Governance	Justification
20. Is the CEO's compensation linked to total shareholder return (TSR)? (Yes/No)	Yes = positive impact	Indicative of a strong link between executive pay and company performance
21. Clawback provision for executive compensation? (Yes/No)	Yes = positive impact	Robust board oversight over executive pay
22. CEO remuneration	Higher value = negative impact	Could be suggestive of a lack of robust oversight over executive pay
23. Ratio between CEO remuneration and market cap	Higher value = negative impact	Could be suggestive of a lack of robust oversight over executive pay
24. Average executive directors compensation	Higher value = negative impact	Could be suggestive of a lack of robust oversight over executive pay
25. Average non-executive directors compensation	Higher value = negative impact	Could be suggestive of a lack of robust oversight over non-executive pay
26. % of independent directors on compensation committee	Higher value = positive impact	Independence and objectivity of the compensation committee
27. Size of compensation committee	Higher value = positive impact	Could be indicative of a higher level of compensation committee expertise and resources
28. % of compensation committee meeting attendance	Higher value = positive impact	Could be indicative of a higher level of compensation committee diligence and commitment
29. % of CEO pay in stock	Higher value = positive impact	Suggests a strong link between executive pay and company performance

Shareholder Relations Description of Indicator	Assumed impact on Corporate Governance	Justification
30. Does the company have a policy to apply the one-share, one-vote principle? (Yes/No)	Yes = positive impact	Greater power enjoyed by minority shareholders
31. Does the company have a policy to facilitate shareholder engagement, resolutions or proposals? (Yes/No)	Yes = positive impact	Greater power enjoyed by minority shareholders
32. Return on common equity	Higher value = positive impact	The board and management are committed to shareholder interests
33. Share price volatility over last 260 trading days	Higher value = negative impact	Could indicate that shareholders have concerns with the governance of the company
34. Say on pay provision (Yes/No)	Yes = positive impact	Greater power enjoyed by minority shareholders
35. Frequency of say on pay votes	Higher value = negative impact	Shareholder concerns over executive pay
36. Say on pay support level	Higher value = positive impact	Board takes account of shareholder perspectives
37. Dual class unequal voting rights - common shares (Yes/No)	Yes = negative impact	Weaker voting position for minority shareholders
38. Change of control benefits/golden parachute agreements (Yes/No)	Yes = negative impact	Lack of concern for shareholder interests
39. Shareholder rights controversies	Higher value = negative impact	Problems in board-shareholder relations

Stakeholder Relations Description of Indicator	Assumed impact on Corporate Governance	Justification
40. CSR/sustainability committee (Yes/No)	Yes = positive impact	A commitment to stakeholder interests
41. Employee protection / whistleblower policy? (Yes/No)	Yes = positive impact	A commitment to employee interests
42. Is the company a signatory to the Prompt Payment Code? (Yes/No)	Yes = positive impact	A commitment to good relationships with suppliers
43. Most Admired Companies (Yes/No)	Higher value = positive impact	A positive reputation amongst stakeholders
44. UN Global Compact signatory (Yes/No)	Yes = positive impact	A commitment to socially responsible business
45. GRI criteria compliance (Yes/No)	Yes = positive impact	A commitment to reporting around sustainability issues
46. Does the company explain how it engages with its stakeholders? (Yes/No)	Yes = positive impact	A commitment to stakeholder interests
47. Does the company claim to have an ISO 9000 certification? (Yes/No)	Yes = positive impact	Company activities aligned with stakeholder interests

Calculating the Good Governance Index

In order to construct an overall score for each company, we need a way to quantify and combine our data in a clear and comparable manner.

For indicators that are a "yes/no" answer, the process is quite simple. If an affirmative value of the indicator is considered to be positive for governance, such as having a "separate CEO and chairman", then the score is 1,000 for "yes" and zero for "no". If, however, an affirmative value of the indicator is considered to be negative for governance, such as a board size with "fewer than eight or more than 15 directors", then the score is zero for "yes" and 1,000 for "no".

For indicators that are continuous, such as "CEO salary", the comparison across companies becomes more complex, so we rely on a process known as minimum–maximum normalisation. If a higher value of the indicator is considered to be positive for governance, the company with the highest value is awarded 1,000, and the company with the lowest value is awarded zero.[2] For all other companies the score is 1,000 times the difference between their value and the minimum divided by the difference between the maximum and minimum according to the following formula:

$$\textit{Indicator Score} = 1{,}000 \times \frac{\textit{Company Indicator Value} - \min(\textit{Indicator Value})}{\max(\textit{Indicator Value}) - \min(\textit{Indicator Value})}$$

If higher values of the indicator are seen as a negative barometer of corporate governance – for example, an indicator which measures share price volatility – we follow the same process but subtract the factor score from 1,000. Where data for an indicator is not available for a particular company, they are awarded the average factor score.

We then calculated the arithmetic average of each of the standardised indicator scores for each of the five broad corporate governance categories. This allowed us to create a score for each company in the sample.

Previous governance indices have tended to add together the scores derived from their component indicators on an equally-weighted basis. They have typically not attempted to determine whether some indicators should be regarded as more important than others in a calculation of a company's overall governance score.

However, a unique feature of our methodology is that we seek to avoid such an arbitrary approach to the weighting of the component indicators. Aside from ease of calculation, it is hard to justify an approach that treats each indicator as equally crucial to determining overall governance outcomes. Based on this approach, it would be easy to manipulate the final score for each company by adding additional indicators into the calculation process.

[2] To minimise the influence of outliers, all continuous variables are winsorized at the fifth and the 95th percentile.

Our approach is to derive weights from a statistical analysis of a survey of governance perceptions. Between 6 April and 10 June 2017, we conducted a stakeholder survey designed to elicit the views of the respondents about the governance of the 100 companies in our report. The survey is available at iod-ggr-survey.com. A link to the survey was emailed to IoD members, CQI chartered members, FTSE 350 company secretaries, the Institute of Chartered Accountants in England and Wales and other professional bodies.

Before beginning the survey, participants were asked to provide their email address and professional affiliation. They were then presented with a random sample of 30 companies. From this list, they were invited to choose those companies they felt qualified to rate in terms of corporate governance (this random sample could be refreshed multiple times). Once the companies had been chosen, the participant was asked to provide details of their relationship with these companies – for example, investor, customer, media – before rating each company's corporate governance on a scale of one to 10. To simplify the comparison with our other results, we multiply these survey ratings by 100.

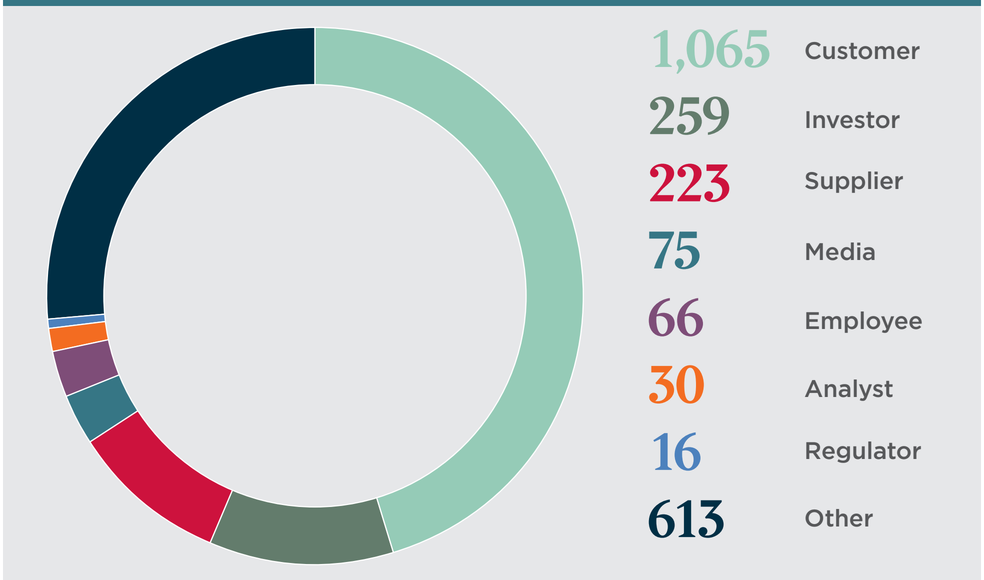
In total, 810 participants logged on to the site and provided 2,347 ratings of the sample of 100 companies. The number of survey respondents was nearly 10 per cent higher than last year. A summary of the backgrounds and affiliation of the respondents is presented in Table 3, which also shows the wide spread of respondent affiliations, although members of the CQI and IoD provided the highest number of ratings.

Table 3: Background of survey respondents

	Responses	Ratings
Association of Chartered Certified Accountants	4	11
Institute of Directors	233	536
Institute of Chartered Secretaries and Administrators	14	24
CFA Institute	2	7
FTSE 350 company secretary	23	40
Tomorrow's Company Good Governance Forum	6	15
Institute of Chartered Accountants in England and Wales	11	29
The Chartered Quality Institute (CQI)	480	1,547
The Chartered Institute of Internal Auditors (CIIA)	3	20
Other	34	118
	810	**2,347**

Figure 3 presents a summary of the relationships that the respondents had with the companies they rated. Customer was the most common relationship (45.4 per cent), followed by investor (11 per cent) and supplier (9.5 per cent).

Figure 3: Background of survey respondents



We then used the results of the perception survey in a regression analysis, where the governance perception score (PS) is the dependent variable and where the five corporate governance categories are the independent variables (BE, AR, RR, SHR and STR). We estimated the following regression:

$$PS_i = \alpha_i + \beta_1 BE + \beta_2 AR_i + \beta_3 RR_i + \beta_4 SHR_i + \beta_5 STR_i + \varepsilon_i$$

where PS_i is the perception score for company i; α is an OLS constant term; β_1 to β_5 are the OLS coefficients, which represent the partial correlation between the perception score and each of the corporate governance categories (BE_i, AR_i, RR_i, SHR_i and STR_i) are the category scores of company *i*; and finally, ε_i is an error term

Having estimated the regression, we can use the coefficients to determine the weights to the five categories of governance. Using the scores and the weights we can then derive a measure of governance for each company.

The regression model, based on 2,347 observations, is presented in the column 2 of Table 4, where those weights that are statistically significant at the 10 per cent level of significance are highlighted in bold. To make it easier to understand the relevance and scale of the coefficients, we have rescaled them so they sum to 100 per cent.

Table 4: The relationship between governance perceptions and measures of corporate governance

	Full sample	Customers	Suppliers	Investors
Board Effectiveness β_1	**9.4%**	0.10%	20.71%	-9.25%
Audit and Risk/External Accountability β_2	**51.5%**	**73.5%**	**35.0%**	**33.8%**
Rumuneration and Reward β_3	**15.4%**	**15.8%**	8.15%	18.08%
Shareholder Relations β_4	**21.2%**	9.86%	**31.2%**	**44.4%**
Stakeholder Relations β_5	2.47%	0.78%	5.00%	**13.0%**
	100.0%	100.0%	100.0%	100.0%
Constant, α	-70	-66	-40	-51

Column 2 in Table 4 shows that the corporate governance category that is most correlated with governance perceptions is Audit and Risk/External Accountability (51.54 per cent). This category is as important to our survey respondents as all of the other categories combined. However, Shareholder Relations (21.2 per cent), Remuneration and Reward (15.43 per cent) and Board Effectiveness (9.35 per cent) all have an important role to play.

All the categories play an economically and statistically significant role in perceptions of corporate governance with the exception of Stakeholder Relations (2.47 per cent), where the scaled coefficient is not only small but is statistically insignificantly different from 0.0 per cent.

The table also confirms our suspicion that indicators of corporate governance can have a different impact on perceptions of corporate governance as perceived by the survey respondents. This reinforces our view that it is not justifiable to equally weight indicators in any index of corporate governance.

The other columns in Table 4 show the same regression, but here we have used only the survey responses from customers (column 3), suppliers (column 4) and investors (column 5). Given the smaller sample sizes, fewer of the coefficients are statistically significant at the 90 per cent level of confidence, but the pattern is fairly consistent. The weight on Audit and Risk/External Accountability is still largest in each case. Interestingly, in the investors column, the greatest coefficient weight is on Shareholder Relations, which would seem to be a natural result.

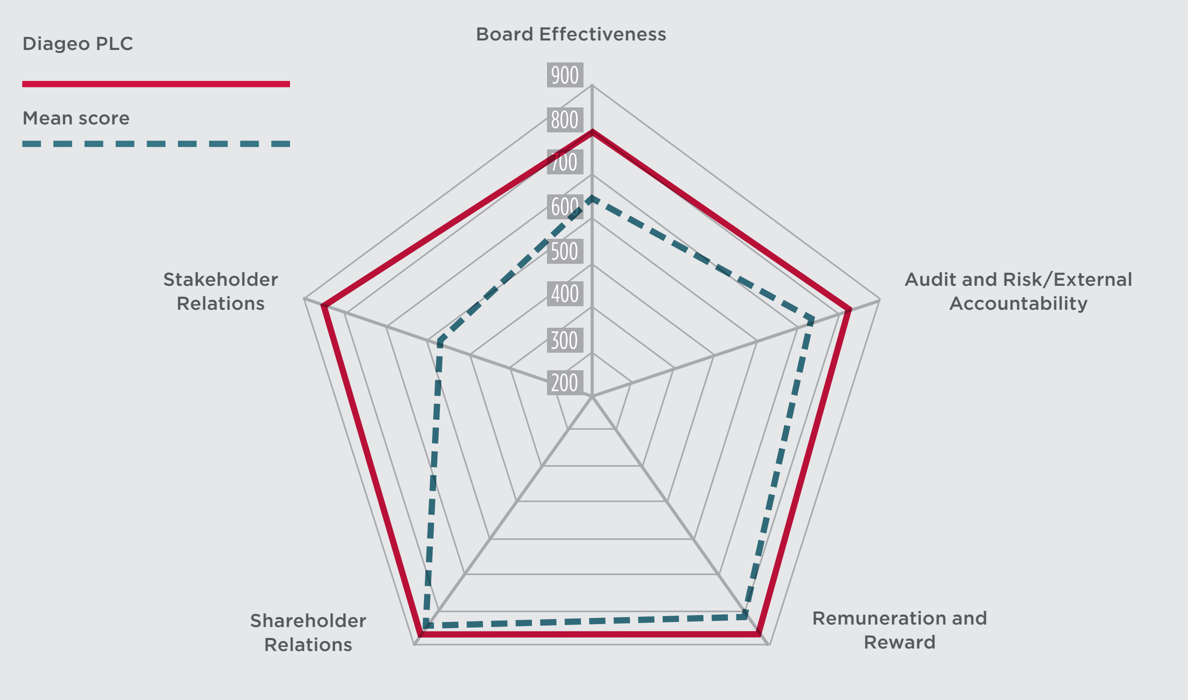
Our final step is to calculate the IoD Good Governance score for each company. This is achieved by combining the weights described in column 2 of Table 4 with the score that each company received from the five broad categories as follows:

$$GGI_i = (9.35\% \text{ x } BE_i) + (51.54\% \text{ x } AR_i) + (15.4\% \text{ x } RR_i) + (21.2\% \text{ x } SHR_i) + (2.47\% \text{ x } STR_i)$$

where GGI_i is the Good Governance Index score of company i. This leads to the results shown in Table 1.

Another interesting way to view the results of our process is to create a pentagon chart where each of the rays from the centre represents one of the five corporate governance categories. We present this chart using the results for Diageo (the company with the highest score) in Figure 4. The pentagon chart shows that Diageo achieved a higher score in each category than the median score, but scored particularly highly, relatively speaking, in Stakeholder Relations.

Figure 4: Pentagon chart for Diageo



Following publication of this year's GGI report, each individual company will be able to obtain a summary report containing a breakdown of their GGI score at both the governance category and indicator level. The IoD welcomes the opportunity to engage with companies in respect to the governance issues or findings that arise from these reports.

Appendix 1 – Data sources for corporate governance indicators

Board Effectiveness		
Data Point	**Measure**	**Primary Data Source**
Separate CEO and chairman	Yes/No	Bloomberg
Independent chairman	Yes/No	Bloomberg
Percentage of NEDs	%	Bloomberg
Percentage of female directors	%	Bloomberg
Percentage of non-British directors	%	FAME
Fewer than eight or more than 15 directors	Yes/No	Bloomberg
Board of directors age range	Number	Bloomberg
Number of board meetings held	Number	Bloomberg
Percentage of board meeting attendance	%	Bloomberg
Percentage of directors on board more than nine years	%	FAME

Audit and Risk/External Accountability		
Data Point	**Measure**	**Primary Data Source**
Percentage of independent directors on audit committee	%	Bloomberg
Percentage of audit committee meeting attendance	%	Bloomberg
Years with current audit company	Number	Bloomberg
Ratio of fees for non-audit/audit work to auditors	Number	Reuters
Auditor's report is qualified/unqualified	Qualified/Unqualified	FAME
Is the company in the process of a material earnings restatement?	Yes/No	Reuters
RepRisk (provided via CQI)	Number	reprisk.com
Size of audit committee	Number	Bloomberg
Number of audit committee meetings	Number	Bloomberg

Remuneration & Reward		
Data Point	**Measure**	**Primary Data Source**
Is the CEO's compensation linked to total shareholder return (TSR)?	Yes/No	Reuters
Clawback provision for executive compensation	Yes/No	Bloomberg
CEO remuneration	Number	BoardEx
Ratio between CEO remuneration and market cap	%	Calculated
Average executive directors compensation	Number	BoardEx
Average non-executive directors compensation	Number	BoardEx
Percentage of independent directors on compensation committee	%	Bloomberg
Size of compensation committee	Number	Bloomberg
Percentage of compensation committee meeting attendance	%	Bloomberg
Percentage of CEO pay in stock	%	BoardEx

Shareholder Relations		
Data Point	**Measure**	**Primary Data Source**
Does the company have a policy to apply the one-share, one-vote principle?	Yes/No	Reuters
Does the company have a policy to facilitate shareholder engagement, resolutions or proposals?	Yes/No	Reuters
Return on common equity	Number	Bloomberg
Share price Volatility over last 260 trading days	%	Bloomberg/Reuters
Say on pay provision	Yes/No	Bloomberg
Frequency of say on pay votes	Number	Bloomberg
Say on pay support level	%	Bloomberg
Dual class unequal voting rights – common shares	Yes/No	Bloomberg
Change of control benefits/golden parachute agreements	Yes/No	Bloomberg
Shareholder rights controversies	Number	Reuters

Stakeholder Relations		
Data Point	**Measure**	**Primary Data Source**
CSR/sustainability committee	Yes/No	Bloomberg
Employee protection/whistleblower policy?	Yes/No	Bloomberg
Is the company a signatory to the Prompt Payment Code?	Yes/No	promptpaymentcode.org.uk
Most Admired Companies	Yes/No	managementtoday.co.uk/bmac
UN Global Compact signatory	Yes/No	Bloomberg
GRI criteria compliance	Yes/No	Bloomberg
Does the company explain how it engages with its stakeholders?	Yes/No	Reuters
Does the company claim to have an ISO 9000 certification?	Yes/No	Reuters

Appendix 2 – Company scores in each of the five corporate governance categories

Rank	Name	Board Effectiveness	Audit Risk & External Accountability	Remuneration and Reward	Shareholder Relations	Stakeholder Relations	Average score (unweighted)
1.	Diageo PLC	803	819	866	877	839	841
2.	InterContinental Hotels Group PLC	814	760	920	823	854	834
3.	Aviva PLC	800	819	826	901	796	828
4.	Kingfisher PLC	804	752	905	851	780	818
5.	Unilever PLC	771	720	934	876	750	810
6.	British American Tobacco PLC	761	733	765	931	809	800
7.	National Grid PLC	789	709	688	877	935	800
8.	BT Group PLC	712	683	800	878	917	798
9.	Barclays PLC	795	787	784	931	676	795
10.	Shire PLC	785	720	862	875	697	788
11.	WPP PLC	719	666	808	926	818	787
12.	Rio Tinto PLC	785	672	833	767	811	774
13.	Legal & General Group PLC	680	752	932	701	800	773
14.	BHP Billiton PLC	811	725	780	846	700	772
15.	BP PLC	657	788	632	819	949	769
16.	International Consolidated Airlines Group SA	598	793	850	918	677	767
17.	Compass Group PLC	688	807	730	919	684	766
18.	Johnson Matthey PLC	736	709	848	783	738	763
19.	Relx PLC	669	782	943	694	711	760
20.	TUI AG	548	808	843	845	754	760
21.	GKN PLC	697	784	942	939	433	759
22.	Coca Cola HBC AG	511	742	829	913	796	758
23.	Randgold Resources Ltd	730	779	875	847	559	758
24.	Mondi PLC	696	721	692	864	809	756
25.	Centrica PLC	723	770	860	789	639	756
26.	Tesco PLC	728	655	810	905	680	756
27.	Royal Dutch Shell PLC	754	733	672	613	999	754
28.	Severn Trent PLC	716	700	866	794	687	753
29.	Polymetal International PLC	661	779	814	824	684	752
30.	Royal Mail PLC	771	738	744	939	559	750
31.	Weir Group PLC	728	743	692	914	665	748
32.	AstraZeneca PLC	753	689	845	876	577	748
33.	Smurfit Kappa Group PLC	601	826	762	858	684	746
34.	Vodafone Group PLC	709	682	889	913	524	743
35.	Rentokil Initial PLC	570	759	949	851	582	742
36.	Rolls-Royce Holdings PLC	723	579	835	894	676	741
37.	Reckitt Benckiser Group PLC	680	618	891	796	720	741
38.	Royal Bank of Scotland Group PLC	768	742	744	763	684	740
39.	Croda International PLC	646	700	862	913	577	740
40.	DS Smith PLC	658	720	831	805	684	740
41.	Antofagasta PLC	538	745	804	904	684	735
42.	SSE PLC	640	686	858	808	675	733
43.	Smith & Nephew PLC	751	765	736	858	555	733
44.	Standard Chartered PLC	794	657	445	880	889	733
45.	Persimmon PLC	611	749	914	860	529	733
46.	Pearson PLC	775	637	669	885	684	730
47.	RSA Insurance Group PLC	679	793	913	874	388	729
48.	Merlin Entertainments PLC	775	684	910	919	343	726
49.	Sky PLC	508	697	933	916	575	726

Rank	Name	Board Effectiveness	Audit Risk & External Accountability	Remuneration and Reward	Shareholder Relations	Stakeholder Relations	Average score (unweighted)
50.	Provident Financial PLC	482	726	946	914	558	725
51.	Associated British Foods PLC	650	764	841	924	446	725
52.	Hikma Pharmaceuticals PLC	376	779	937	895	632	724
53.	Prudential PLC	609	807	840	920	440	723
54.	Imperial Brands PLC	681	718	726	923	559	721
55.	3i Group PLC	599	722	804	887	559	714
56.	Direct Line Insurance Group PLC	679	760	843	868	421	714
57.	G4S PLC	736	592	699	776	766	714
58	J Sainsbury PLC	676	697	867	904	411	711
59.	Smiths Group PLC	760	792	964	852	184	710
60.	Glencore PLC	656	695	697	872	602	704
61.	Lloyds Banking Group PLC	717	770	731	879	417	703
62.	GlaxoSmithKline PLC	692	527	677	783	832	702
63.	Marks and Spencer Group PLC	701	723	669	782	636	702
64.	Berkeley Group Holdings PLC	479	788	782	835	619	701
65.	CRH PLC	711	699	912	624	555	700
66.	Anglo American PLC	580	638	676	782	809	697
67.	Old Mutual PLC	648	715	809	803	508	697
68.	Wolseley PLC	702	800	851	685	443	696
69.	Standard Life PLC	518	731	891	895	433	694
70.	Paddy Power Betfair PLC	706	679	918	853	293	690
71.	DCC PLC	621	773	942	797	309	688
72.	Schroders PLC	615	685	908	802	428	688
73.	HSBC Holdings PLC	575	712	925	658	558	686
74.	Intertek Group PLC	569	743	843	817	453	685
75.	Sage Group PLC	719	770	751	849	326	683
76.	BAE Systems PLC	676	615	666	931	526	683
77.	Next PLC	675	706	826	767	440	683
78.	Informa PLC	731	763	894	751	270	682
79.	United Utilities Group PLC	540	673	719	840	631	681
80.	Fresnillo PLC	453	699	807	881	559	680
81.	Barratt Developments PLC	557	762	779	735	564	679
82.	Mediclinic International PLC	518	797	605	910	559	678
83.	ITV PLC	674	642	876	887	292	674
84.	Admiral Group PLC	708	781	721	846	310	673
85.	ConvaTec Group PLC	701	776	559	834	489	672
86.	Carnival PLC	406	647	828	654	816	670
87.	Investec PLC	497	683	747	858	559	669
88.	easyJet plc	754	721	903	756	209	669
89.	London Stock Exchange Group PLC	664	749	757	732	438	668
90.	Melrose Industries PLC	493	746	838	896	352	665
91.	Bunzl plc	672	774	635	909	312	660
92.	Burberry Group PLC	581	640	763	858	434	655
93.	Ashtead Group PLC	504	721	837	916	294	654
94.	Worldpay Group PLC	560	720	845	835	309	654
95.	Babcock International Group PLC	512	757	832	872	293	653
96.	Experian PLC	544	732	678	822	472	650
97.	St James's Place PLC	535	764	883	727	324	647
98.	Hargreaves Lansdown PLC	522	734	816	824	334	646
99.	WM Morrison Supermarkets PLC	647	662	847	793	268	643
100.	Taylor Wimpey PLC	499	696	899	804	316	643
101.	Micro Focus International PLC	539	779	855	794	165	626
102.	Whitbread PLC	735	706	781	669	211	620
103.	ASOS PLC	441	672	669	843	434	612

Advisory panel

Ken Olisa, OBE

Chairman of the advisory panel and deputy chair, IoD

Ken Olisa is founder and chairman of Restoration Partners, the boutique technology merchant bank and architects of the Virtual Technology Cluster model. His technology career spans more than 30 years, commencing with IBM, from whom he won a scholarship while at Fitzwilliam College, Cambridge University. In 1992, after 12 years as a senior executive at Wang Labs in the US and Europe, he founded Interregnum, the technology merchant bank. He was elected as a fellow of the British Computer Society in 2006. He has considerable public company board-level experience on both sides of the Atlantic and as a former director of Reuters is a director of Thomson Reuters. He was also a non-executive director of Eurasian Natural Resources Corporation (ENRC) where he coined the expression "More Soviet than City" to describe its governance practices. He is also deputy chair of the Institute of Directors.

He is a freeman of the City of London; past master of the Worshipful Company of Information Technologists; a director of the Thomson Reuters Foundation; president of Thames Reach (for which he received his OBE in 2010) and of Shaw Trust, and was an original member of the Postal Services Commission (PostComm) and of the Independent Parliamentary Standard Authority and founder and chairman of the Aleto Foundation. In 2009, he was named the *Sunday Times* Not for Profit Non-Executive Director of the Year. In 2015, the Queen appointed him as her Lord-Lieutenant of Greater London.

Dr Roger Barker

Dr Roger Barker currently serves as head of corporate governance at the Institute of Directors, and is also managing director of Barker & Associates, a corporate governance advisory firm. Previously, Roger served as the director of corporate governance and professional standards at the IoD for eight years. He is a UK member of the European Economic and Social Committee (the EU advisory body), senior adviser to the board of the European Confederation of Directors Associations (ecoDa) and chairman of ecoDa's education programme for European directors. He is also an honorary associate at the Centre for Ethics and Law at UCL. A former investment banker, he spent 13 years in a variety of research and management roles in the equities businesses of UBS and Bank Vontobel, both in the UK and Switzerland. He is the holder of a doctorate from Oxford University and the author of several books on corporate governance and board effectiveness.

Professor Andrew Clare

Andrew Clare is the professor of asset management at Cass Business School. He was a senior research manager in the monetary analysis wing of the Bank of England, which supported the work of the Monetary Policy Committee. While at the Bank, he was responsible for equity market and derivatives research. He also spent three years working as the financial economist for Legal and General Investment Management (LGIM), where he was responsible for the group's investment process and where he began the development of LGIM's initial liability-driven investment offering. He is the co-author of *The Trustee Guide to Investment*. He has published extensively in both academic and practitioner journals on a wide range of economic and financial market issues. He serves on the investment committee of the GEC Marconi pension plan, which oversees the investments and investment strategy of this £4bn scheme. He is a trustee and chairman of the investment committee of the £2.5bn Magnox Electric Group pension scheme, and was recently appointed a trustee of the £500m Amey pension scheme.

Estelle Clark

Estelle Clark is the CQI executive director of policy. She was previously the chair. She is also a member of the ISO technical committee responsible for the development of the first ever global standard for organisational governance, a member of the Policy Advisory Council of the UK Accreditation Service (UKAS), chairman of the technical and advisory board of Lloyd's Register Quality Assurance (LRQA) and chairman of the stakeholder board of Riversimple (a Wales-based company making hydrogen-powered cars). She also judges a number of quality awards. Before focusing on governance, she was group director of safety and business assurance for Lloyd's Register, responsible for ensuring the organisation was effective in delivering the strategic ambitions while managing business risk. She joined Lloyd's Register in 2007 having held similar director-level roles at ABB Alstom Power, Fujitsu and the UK Financial Ombudsman Service. Her professional background is in management systems, customer engagement and project management. In 2009, she was awarded the Women in the City (of London) Lifetime Achievement award by Coutts Bank. In 2006-07, she won the awards as both UK and European Quality Leader of the Year. She is a chartered fellow of the CQI and a fellow of the Royal Society of Arts.

Tracy Gordon

Tracy Gordon is one of the leaders of the Deloitte UK Centre for Corporate Governance and specialises in corporate governance matters. She heads Deloitte's governance activities across a range of stakeholder communities and regularly presents to clients on the latest governance and corporate reporting developments. She is a regular presenter at the Deloitte Academy and as part of Deloitte's Next Generation CFO Programme. She also undertakes benchmarking exercises for many companies keen to meet current standards for best practice and bespoke training for board members new to the UK governance framework.

Jonathan Knight

Jonathan Knight is COO and head of software services at Board Intelligence, the board reporting and governance experts. He heads the firm's technology arm, which provides secure software products for directors and company secretaries. Highlighted as a *Guardian* Rising Star in 2015, he also serves as an advisor for technology start-ups and holds an MSc from Cambridge University.

Dr Nick Motson

Dr Nick Motson holds a BSc from City University Business School, an MSc from London Business School and a PhD from Cass Business School. Following a 13-year career as a proprietary trader of interest rate derivatives in the City of London for various banks, including First National Bank of Chicago, Industrial Bank of Japan and Wachovia, he returned to Cass in 2005 to pursue his doctoral studies. Upon completion, he joined the faculty of finance full-time in 2008 and is now associate dean of the MSc programme. His research interests include asset management, portfolio construction, smart beta, hedge funds and structured products. In 2009 he was awarded the Sciens Capital Award for Best Academic Article in *The Journal of Alternative Investments* for his paper "Locking in the Profits or Putting It All on Black? An empirical investigation into the risk-taking behaviour of hedge fund managers". He teaches extensively at master's level on alternative investments, derivatives and structured products and in recognition of the quality of his teaching he was nominated for the Economist Intelligence Unit Business Professor of the Year Award in 2012. As well as teaching and researching at Cass, he actively consults for banks and hedge funds.

Peter Swabey

Peter Swabey is policy and research director at ICSA. Based in London, he is responsible for developing the profile of ICSA and the governance profession with members, regulators, policymakers, employers and other stakeholders by delivering thought leadership and lobbying campaigns promoting strong governance as the vital ingredient for success in organisations. Though he joined ICSA in 2013, he has more than 30 years' experience of company secretarial work. He was formerly company secretary and industry leadership director at Equiniti and a director of Equiniti David Venus, a company secretarial services provider. He is a member of a number of industry committees and working parties, and is a regular speaker at conferences and events, with an industry-wide reputation as an expert on shareholder and governance matters.

Professor Paolo Volpin

Professor Paolo Volpin is the head of the finance faculty at Cass Business School. He is also a research fellow of the Centre for Economic Policy Research and a research associate of the European Corporate Governance Institute. Prior to joining Cass Business School, he was an associate professor of finance at the London Business School. He has published in the *American Economic Review*, *Journal of Finance*, *Journal of Financial Economics*, *Review of Financial Studies*, *Review of Finance*, *Journal of Economic Perspectives* and other journals. His research in corporate finance, especially in the field of corporate governance, has won several awards. He holds a PhD in economics from Harvard University.

Chris Walton

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Secretary

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If you have any comments about the content of this report please email James Jarvis, secretary to the advisory panel, at james.jarvis@iod.com

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