

Soaring to new heights

Governance considerations for nomination
and remuneration committees with
commentary from 2020 annual reports

September 2021





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Introduction

Stakeholder capitalism¹ and moving away from a focus on maximising shareholder value was the theme of the **Davos Manifesto 2020**. Whilst this concept dates as far back as 1932², its more recent revival, with a specific focus on 'people' and 'planet', has reignited the debate about the role of governance and the board in the context of, what often seem like, competing stakeholder priorities. As a result, the concept of purpose as the North Star that helps navigate this complexity has come to the fore in recent years.

The changes in the UK's governance framework resulting from the 2018 UK Corporate Governance Code (2018 Code or the Code) and Companies Miscellaneous Reporting Regulations (MRR) reflected these global trends. However, high profile business failures keep resurfacing the underlying sentiment and concerns that some critical aspects of governance are not being addressed in their entirety, or in some cases, potentially at all. These concerns were only exacerbated by the impact that COVID-19 has had on all aspects of the economy.

Contrary to the expectations of some, the much anticipated White Paper issued in March 2021 by the Department for Business, Energy & Industrial Strategy (BEIS)³, went beyond proposals to reform the audit market and product solely. Welcomingly titled "Restoring trust in audit and corporate governance", it recognises that rebuilding public trust in business also requires changes in how the UK's largest companies are run and the frameworks governing the oversight of directors' duties.

Given this broadened focus on planet and people, the prospects of increasing directors' accountability and new requirements likely to be placed on companies and those running them, we decided to shift gear this year. Instead of our traditional review of narrative reporting practice in the FTSE 350, we have instead focussed on analysing what reporting can tell us about FTSE 350 governance practices and how governance is likely to continue to evolve in light of the Government's reform proposals, the shift towards stakeholder capitalism and the pandemic. We cover this analysis in three parts:

Part 1

Part 1 is dedicated to the board, with a specific emphasis on governance over social, environmental and other sustainability matters.

Part 2

Published in July 2021, Part 2 is focussed on the audit (and risk) committee – the committee most impacted by the BEIS proposals.

Part 3

This report, addressing the oversight of human capital (HC) and matters related to people, with a focus on the evolving roles of the nomination and remuneration committees.

¹ **A form of capitalism in which companies do not only optimise short-term profits for shareholders, but seek long term value creation, by taking into account the needs of all their stakeholders, and society at large.**

² Referring to the publication, *The Modern Corporation and Private Property* by Adolf A. Berle and Gardiner C. Means.

³ Referred to throughout this publication as the BEIS consultation.

Each part follows a similar structure:



We start by setting the scene and cover investor expectations based on
i) direct engagement we have had with investors
ii) highlights on investor priorities and responsible stewardship from EY's annual investor report.

We then provide points of view, thoughts and analysis under the broad headings of:

- ▶ Governance
- ▶ Strategy
- ▶ Risk
- ▶ Targets and metrics

supplemented with disclosure extracts from a sample of over 100 FTSE 350 annual reports (ARAs) to illustrate specific points.

We close with high level questions that boards and board committees can use to
i) think about their current roles and how they may evolve; and ii) debate their effectiveness.

Our ambition is for boards and board committees to be able to use these three parts when they are debating their roles and their forward rolling agenda.

For those of you, who look forward to our annual narrative reporting analysis, we have your backs! The only new narrative reporting requirement applicable for 31 December 2021 year ends relates to companies' disclosures against the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and we covered this separately in our publication "**Towards TCFD compliance**" issued in May 2021. For those looking for a broader review of narrative reporting, we believe that our September 2020 report "**From intent to action**" remains relevant. Looking back at this report, we stated that change in the governance and reporting arena and adapting to it seems to be set as a constant fixture for some years to come. This statement couldn't be truer given the events of the last 18 months and the Government's future agenda.

We hope that this report will help boards, nomination and remuneration committees with their governance over HC and people related matters.

Best regards,

Mala and Maria





Nomination and remuneration committees



The Organisation for Economic Co-operation and Development (OECD) defines human capital (HC) as ‘the knowledge, skills, competencies and other attributes embodied in individuals or groups of individuals acquired during their life and used to produce goods, services or ideas in market circumstances’.

Commonly, the concept of HC is associated with a company’s workforce; recruitment and selection, learning and development, remuneration, culture and diversity being some of its core elements. HC can, however, be seen more broadly to include people from across the stakeholder ecosystem, including suppliers, distributors and even communities. Throughout, we refer to HC in the more traditional sense.

3.1 Introduction

When we produced our report **“Nomination committees – coming out of the shadows”** in 2016, we identified that leading nomination committees (NC) had moved away from focussing purely on board level succession and appointments, and started looking deeper into the organisation to oversee and seek assurance on how management was developing its future leaders. The 2018 Code formalised this by expanding the NC’s responsibilities to include oversight of talent development in the executive pipeline. A stronger focus on reporting actions and outcomes was also added e.g., on the NC’s approach to succession planning and how its activities support developing a diverse pipeline.

The 2018 Code also expanded the responsibilities of the remuneration committee (RC) to include review of workforce remuneration and related policies (including pension arrangements) and the alignment of incentives and rewards with culture, taking these into account when setting the policy for executive

remuneration. The RC is also responsible for determining senior management remuneration and for engaging with the workforce to explain how executive remuneration aligns with wider company pay policy. Many premium listed companies introduced a designated non-executive director (DNED) to comply with Provision 5 of the 2018 Code on workforce engagement. From our 2020 report **“Designated NEDs: The journey from scepticism to meaningful insights”**, we found that unsurprisingly, a large proportion

of the DNEDs were also the senior independent director (SID) or RC chairs. There was consensus that these positions involve complementary responsibilities, already interacting with the workforce: the SID, alongside the Chair, is viewed as a representative of the board; the RC Chair often interacts closely with the workforce due to their responsibilities in the 2018 Code to consider wider employee pay policy and practices.

“

Although some may quote Juliet Capulet and challenge, “What’s in a name?” has the time come for the NC and/or RC to rebrand to a broader 'human capital committee' in order to better reflect their expanded remit and signal to the organisation and its stakeholders the importance the board places on human capital?

Maria Kępa, Director, EY UK Corporate Governance team

Changes to the Code, reinforced by the **2018 Guidance on Board Effectiveness**⁴, along with evolving societal expectations, especially in respect of diversity and inclusion (D&I) and social equality, created a clear momentum for the NC and RC to take on oversight over workforce-related matters more broadly. This impetus has only grown stronger with the pandemic.

Two notable examples of changing committee remits include:

- ▶ **BP** (2020 ARA, pp87-92) renamed its NC in 2020

to become the People and Governance Committee, reflecting its wider remit in covering workforce engagement, wellbeing and talent management. The committee's agenda is structured to cover four matters: talent and capability, D&I, engagement, and culture and governance, and the committee oversees workforce engagement.

- ▶ **Antofagasta** (see **Figure 3.1**) has a Remuneration and Talent Management Committee, and under its terms of reference it is responsible for talent retention,

employee engagement and D&I. In 2020 this committee, amongst other things, reviewed and monitored the implementation of the 2020 human resources plan, reviewed results from workforce surveys, reviewed progress of the implementation of the D&I strategy, monitored collective bargaining negotiations and a "New Ways of Working" project to generate a more flexible and adaptable organisation following the COVID-19 pandemic.



As part of their more traditional remit relating to board composition, NCs will also need to consider:

- ▶ how the expansion in matters that boards and their committees now have to oversee e.g., ESG matters, are factored into their respective terms of reference and agendas. NCs will need to assess whether these are best dealt with by existing committees taking into account directors' time commitment and the existing workload of the committee or whether a new committee is warranted.
- ▶ the cognitive diversity of the committee they are allocating the oversight of these matters to (see section 3.3.1⁵).
- ▶ whether the committees are being adequately supported – the audit committee (AC) has strong interaction with and support from the finance and risk functions. As new committees are formed or remits expanded, the support structure at management level may also need to evolve.

⁴ Working with human resources, the nomination committee will need to take an active role in setting and meeting diversity objectives and strategies for the company as a whole, and in monitoring the impact of diversity initiatives (Guidance on Board Effectiveness 2018).

⁵ See **section 3.3.1**.

3.2 Investor expectations

Several factors, including the revised Stewardship Code, changing societal expectations and government action have led to investors sharpening and expanding their focus on D&I and remuneration, and being much more attuned to the ethical and business case for diversity. The government's growing attention to social factors is demonstrated for example, by the **Department for Work and Pensions consultation** in March 2021 on 'Consideration of social risks and opportunities by occupational pension schemes' which highlights the need for pension schemes to better integrate social themes, including D&I, into their investment strategies. Recently, several pension schemes have signed up to the newly launched **Asset Owner Diversity Charter** that commits them to incorporating D&I into manager selection and monitoring.

3.2.1 Diversity

Investors have traditionally focussed on gender diversity, and this has been supported by successive government-sponsored reviews, notably the Davies Review and, latterly, the **Hampton-Alexander Review**⁶. Their focus is broadening to other elements of diversity, particularly ethnicity which the Parker Review has shone a light on. In September 2020, **Legal and General Investment Management (LGIM)** warned 35 FTSE 100 companies that from 2022 it will start voting against the chair of their board or of the NC if there is still no ethnic diversity at board level. In 2021, **State Street** stated it would vote against the chair of the NC at FTSE 100 companies that do not disclose the racial and ethnic composition of their boards, and in 2022, it will vote against the NC chairs at FTSE 100 companies that do not have at least one director from an under-represented community on their boards.

Diversity is about differences. We think broadly about differences, which include nationality, background, education, gender, ethnicity, generation, age, working and thinking styles, religious background, sexual orientation, abilities, experiences and technical skills. There are also differences according to geography, sector and function. Visible diversity is necessary (e.g., important for role models etc.) but not sufficient on its own.

Inclusion is about leveraging these differences to achieve better business outcomes. It is about creating an environment where people feel they are valued, where they feel they belong and contribute their personal best in every encounter. Inclusion is necessary to ensure diversity leads to value creation and not just box-ticking.

Increasingly we are seeing a move from D&I to **diversity, equity and inclusion (DEI)**.



Many companies have started including 'equity' within the traditional D&I acronym. Equity is an important addition – not just a buzzword – acknowledging that there is an unequal starting point for some groups within society and/or the workplace. These groups may experience more setbacks, have less access, or greater barriers, which can challenge a well-intended notion of meritocracy. Organisations which are starting to think about equity are signalling their commitment to identifying and reducing inequities and barriers by using equitable practices to account for differences in opportunities or resources.

Simon Feeke, Director, EY Culture, Diversity and Inclusion Advisory
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⁶ The Hampton-Alexander review published its fifth and **final report** in February 2021. This showed its target of a third of women on boards had been achieved on average across the FTSE 350. The UK Government is considering whether to relaunch the review later this year with an expanded remit as part of a broader effort from regulators (such as the Financial Conduct Authority) to encourage companies to push for equality in senior leadership positions.

In addition, the Institutional Voting Information Service (IVIS), part of the **Investment Association (IA)**, will issue an amber top to FTSE 350 companies that do not disclose either the ethnic diversity of their board or a credible action plan to achieve the Parker Review's targets⁷. Given the above, we expect to see increased investor engagement and voting on ethnic diversity.

While the primary focus for policy makers, investors and regulators has been on board level diversity, this is shifting to looking at the make-up of senior management and the wider workforce. For instance, on gender, **IVIS** will issue a red top to any FTSE 350 company if female representation is 25% or less in their executive committee and its direct reports. Similarly, **EOS at Federated Hermes** recommends a vote against chairs of FTSE 100 companies where women make up 'materially less' than 20% of the executive committee and its direct reports. In its recent report, the **Commission on Race and Ethnic Disparities** echoed recommendations by the **2017 McGregor-Smith Review** relating to ethnicity pay gap transparency.

There is also growing collective action on D&I by investors in collaboration with business and industry bodies. **The Investor Leadership Network's (ILN) latest report⁸**, developed in partnership with EY, seeks to address D&I, both internally as employers and externally as active asset managers and owners. It is in the process of creating an 'Inclusive Finance Platform', designed to help investors and companies integrate D&I into their operations. In addition, several investors (**Aviva, Federated Hermes, Schroders** etc.) as well as corporates including **Pennon** (2021 ARA, p44) joined the **Confederation of British Industry's 'Change the Race Ratio'** campaign, to increase racial and ethnic participation in British businesses.



2020 was a stark reminder that the world is much more interconnected than we thought, and companies are part of a delicate stakeholder ecosystem. Appointments that are no more representative of the company's employees, customers or supplier base will not bring the different perspectives needed to counter groupthink.

The Ethics of Diversity; Institute of Business Ethics Board Briefing

⁷ Parker Review expects FTSE 100 companies to have at least one ethnically diverse board member by 2021 and for each FTSE 250 board to do the same by 2024.

⁸ ILN, **Creating a more inclusive economy: Practical insights from global institutional investors**, June 2021.



We use third-party data sources to form views on employee engagement, satisfaction and other aspects of corporate culture. We regularly ask company management and boards how they are measuring culture and employee engagement, what values and behaviours they are hoping to embed in corporate culture and how they are incentivising this.

While some boards have qualitative and quantitative data to support their views on corporate culture, there are also boards who cannot answer our queries, or cannot rebut third-party data and reviews. We inform companies where we view corporate culture as very weak or poorly aligned to the business model, that we will not invest. A strong positive culture is an important factor in judging the competitive dynamics of a company and hence its investability. We view a positive and aligned culture as a form of intangible ESG asset that should lead to strong long-term value creation.

Ben Yeoh, Senior Portfolio Manager, RBC Global Asset Management

3.2.2 Culture

Institutional shareholders are increasingly focussed on corporate culture, noting that D&I is one of its important dimensions. For example, in 2019, **State Street** issued a letter stating it will seek insights into how boards monitor corporate culture. It recommends a framework for assessing and monitoring culture, which includes considering the alignment of current culture and long-term strategy, implementing mechanisms to embed and monitor progress on culture, as well as reporting on the board's role in influencing culture.

3.2.3 Remuneration

With COVID-19, investors are scrutinising whether executives 'share the pain' with employees and shareholders. For example, the investor-led **International Corporate Governance Network** (ICGN) and the **IA** issued letters calling on corporate leaders to ensure that executive pay is reflective of the experience of the overall workforce, particularly if staff have been subject to redundancies, furlough, reductions in pay/bonus or the company has sought additional capital from shareholders.

We also note investors are increasingly interested in whether and how companies incorporate ESG targets into executive pay, though there isn't

consensus yet (for further information refer to **section 3.6.3**). The devil is in the detail of how this is implemented, and many investors are wary about the clarity, appropriateness and reliability of ESG data, especially if being used to determine incentives. As a result, where used, investors are encouraging companies to seek extended assurance to increase the rigour of material ESG information.

Examples that highlight investor focus on ESG metrics in executive remuneration:

- ▶ While the **IA's Remuneration Principles** do not seek to prescribe or recommend any particular variable remuneration structure, where companies incorporate the management of material ESG risks and opportunities into their long-term strategy, the IA advocates for RCs to consider the management

of these material ESG risks as performance conditions in the company's variable remuneration.

- ▶ In March 2021, **Cevian Capital** called upon European public companies to incorporate significant, measurable and transparent ESG targets into senior management compensation plans to be put to shareholder vote at AGMs in 2022.
- ▶ Where **Amundi Asset Management** voted against executive compensation plans, in almost a third of the cases this was because they did not contain ESG indicators.
- ▶ **APG Asset Management** monitors the remuneration policies of its portfolio companies and has called for compensation policies to reflect both financial and non-financial goals.

EY's 2020 Climate Change and Sustainability Services Institutional Investor survey⁹ found over 70% of respondents would see independent assurance as 'valuable' or 'very valuable' with regards to third-party assurance across the ESG spectrum of activities. This is an area we explore further in Part 1 of this publication.

⁹ 2020 Climate Change and Sustainability Services Institutional Investor survey.

3.3 Governance – oversight over D&I

Below are considerations for boards to accelerate firms' progress on D&I, consistent with many of the recommendations set out by the research, *Board Diversity and Effectiveness in FT350 Companies*¹⁰, published in July 2021 by the FRC in conjunction with London Business School, Leadership Institute and SQW.

3.3.1 Cognitive diversity on boards

Cognitive diversity is defined as the differences in perspectives or information processing styles¹¹. It is intrinsically linked, although different, to demographic diversity and has been associated with teams who solve problems faster. While there are important initiatives on demographic diversity such as gender, age and ethnicity, it is important that boards do not lose focus on the ultimate goal i.e., to achieve diversity of thought.

Cognitive strengths must therefore be factored into succession planning and from the disclosures we have reviewed there are signs that some companies are attempting to reflect this in board skill matrices. However, too often, these take a 'tick-box' approach and sometimes raise concerns about their completeness and accuracy. For example, one FTSE 250 board skills matrix indicated the lack of 'business leadership' skills for two directors, though their career histories disclosed in the ARA indicate otherwise. In such cases, it can be difficult to gauge the depth of a director's skills relative to those of other board members and/or to an expert in that field. But when done well and if combined with tenure and demographic diversity information and linked to succession planning, these can provide a more nuanced assessment of board skills, especially if a rating/ranking scale is used. Noteworthy is **Henry Boot** (2020 ARA, p95), which expanded

its assessment of technical skills to include D&I, Customer Relations and Environment. It also discloses the graduated outcomes of the board skills assessment process to help decide whether the board should buy in expertise, build expertise from within, or recruit expertise.

For the positive impact of cognitive diversity to be felt on boardroom discussions, enough representation is needed to avoid falling into the 'one and done' trap. For example, **studies** have shown that a critical mass of at least 30% women is required for them to have influence at the board table. It is therefore not enough to look simply at the diversity of individuals, but also consider the board as a group.

We have seen some transparent disclosures on what boards are doing in this area. **Jupiter Fund Management's** (2020 ARA, p68) directors undertook a Belbin

exercise (a behavioural test to understand strengths and support the establishment of high-performing teams) which facilitated a greater understanding of each other and how to enhance communications among them. **Greggs'** board (2020 ARA, p63) participated in the Heidrick & Struggles' Culture Signature review and disclosed findings, including areas for improvement.

Board evaluations, when done well, should incorporate an assessment of board culture and dynamics. **Spirax-Sarco** (2020 ARA, p92) will undertake an externally facilitated board dynamics assessment (as part of the external board review) to look at the most efficient structure of the board committees and the inter-relationship with the executive committee.

Diversity cannot be effective without inclusion and the board chair has a key role in facilitating this.



Diverse boards need to be actively facilitated by an able Chair who is a good listener, which involves developing a collaborative mindset and practices in the boardroom that explicitly recognise and build director capability to work with the uniqueness that each individual brings.

FRC Board Diversity and Effectiveness in FTSE 350 companies

¹⁰ **Board Diversity and Effectiveness in FT350 Companies.**

¹¹ Harvard Business Review, **Teams Solve Problems Faster When They're More Cognitively Diverse**, March 2017.

3.3.2 Nomination and succession planning processes for board and executive appointments

The lack of diversity can be attributed to many factors, but a lack of talent in minority groups is not one of them. Many a time it is a reflection of the limitations of traditional recruitment and selection processes, as discussed in **ILN's report** on D&I practices (see **section 3.2.1**).

It is encouraging to see boards are trying to address this issue by making their nomination and succession planning processes more inclusive and transparent. **SSE** (2021 ARA, p124) discloses the gender diversity of the long and short list of candidates that were in the running for the board chair role. **HSBC Holdings** (2020 ARA, p215) added social backgrounds to the board diversity policy as a factor for consideration when considering candidates for future appointments as directors.

The focus on socio-economic backgrounds is welcome to help overcome stereotypes around the 'old boys' networks and the 'boardroom atmosphere' which Warren Buffett famously attributed for the governance failures of otherwise 'intelligent and decent directors'¹². At the 2014 Berkshire Hathaway meeting, he **stated**: *"The nature of boards is they are part business organisations and part social organisations. People behave part with their business brain and part with their social brain."* It is harder to avoid groupthink and exercise objectivity when senior leadership belong to the same personal networks.

To move the dial on diversity, considering overall board composition alone is insufficient. Boards should also consider diversity of the NC itself, as well as key leadership and

functional roles such as chairs, Senior Independent Directors (SIDs), Chief Financial Officers (CFOs) and Chief Executive Officers (CEOs). The latter suggestion is aligned with the **Hampton-Alexander Review's** recommendation that companies should as a matter of best practice have a woman in at least one of these four roles, and this is now a proposal that the Financial Conduct

Authority (FCA) is consulting on in CP21/24. The slow pace of change is also echoed by the recent **Women Count 2021** report which highlights that COVID-19 pandemic added four years to the projected moment when women achieve parity with men on executive committees, taking it from 2032 to 2036.

To build on the progress achieved so far under existing initiatives to improve diversity on the boards of the largest UK companies, in July 2021 the FCA issued a consultation on a change to the Listing Rules.

Under these new proposals, in-scope companies, including premium listed reporters but excluding open-ended investment companies and 'shell companies', would be required to disclose in their annual financial report whether they meet specific board diversity targets relating to gender and ethnicity on a 'comply or explain' basis.

The targets the FCA is consulting on are:

- ▶ At least 40% of the board should be women (including those self-identifying as women).
- ▶ At least one of the senior board positions (Chair, CEO, SID or CFO) should be a woman (including those self-identifying as a woman).

- ▶ At least one member of the board should be from a non-white ethnic minority background (as referenced in categories recommended by the Office for National Statistics).

Alongside this, the FCA is proposing that in-scope companies publish standardised data on the composition of their board and most senior level of executive management by gender and ethnic background. This would be produced in a standardised table format. The FCA is also seeking views on whether in future the disclosure should cover data on representation by sexual orientation at these levels, and/or whether to extend the diversity data reporting to capture one level below executive-level management.

CP21/24: Diversity and inclusion on company boards and executive committees | FCA

¹² Warren E. Buffett, 2002 Chairman's Letter, Berkshire Hathaway, February 2003.

3.3.3 Oversight of D&I strategy across the wider workforce

Based on our engagement with companies and our review of disclosures, some boards are enhancing their oversight of D&I strategies across the wider workforce. **Derwent** (2020 ARA, p128) discloses the board's diversity focus areas from attracting diverse and talented employees through to retention and promotion. **Taylor Wimpey** (2020 ARA, p86) explains the objectives of the D&I strategy and provides an update of progress. For more examples see **section 3.4.3**.

There is also a growing trend for boards to appoint a chief diversity officer (CDO) at executive level to lead on diversity initiatives relating to the workforce, suppliers, and strategic partners. **LinkedIn data** shows diversity roles are up 71% over the last five years, with twice as many D&I positions (per 10,000 employees) in the UK compared to any other country. **Monzo Bank**

appointed its first Head of D&I in 2019 and **National Grid** (2021 ARA, p80) appointed a CDO in January 2021 to work towards the creation of a Global Diversity, Equality and Inclusion function which while part of the People function will have elevated reporting lines, independence and importance. Whilst there are concerns that the CDO position could largely be window dressing and is subject to high turnover (average tenure for CDOs is under **three years**), the creation of such a role can help elevate the focus on D&I, instead of potentially falling through the cracks in HR/People departments that may not have the resources or skills to give it the attention it deserves.

In addition, several companies, like **Derwent** (2020 ARA, p35) and **Greggs** (2020 ARA, p39) are seeking third-party specialist input and/or seeking independent accreditation on D&I, e.g., National Equality Standard (NES), to assess progress, benchmark against peers and enhance D&I strategies.

Our findings indicate that few companies disclose ambitious diversity targets beyond the board. Of those that do, most are in the financial services (FS) sector and are signatories of the Women in Finance Charter (which requires the setting and publishing of own gender diversity targets in senior management). Some FS companies which set diversity targets include **M&G Investments** (2020 ARA, p61) which references its commitment for 40% of senior leaders to be women and 20% to be from a Black, Asian or minority ethnic background by 2025, **Lloyds Banking Group** (2020 ARA, p25) which states its goal to increase Black representation in senior roles from 0.6% at senior roles to at least 3% by 2025, and **Barclays** (2020 ARA, p11) which aims to achieve 28% female Managing Directors and Directors globally by end of 2021. One company outside of FS is **Rio Tinto** (2020 ARA, p67) which discloses targets of improving diversity by increasing women in senior leadership by 2% each year; and for 50% women in its graduate intake with 30% from places where it is developing new businesses.

As D&I strategies mature, the focus will need to shift from viewing facets of diversity in silos to considering intersectionality i.e., how different elements of a person's identity (e.g., origin, gender, disability etc.) overlap and impact their life. While nascent, there is some reporting on this. **United Utilities** (2021 ARA, p137) discusses and provides data on the intersection between gender and ethnicity in its executive team and its direct reports.



Examples of companies disclosing in their ARA how they lead on D&I initiatives

National Grid, Informa – CDO

Aveva, Unilever, Standard Life Aberdeen – Head of D&I

Bellway – Designated D&I champions in all operating divisions

Euromoney Institutional Investor, Meggitt – D&I council

Future – Inclusion and diversity forum

Improving how companies devise, implement and measure the impact of their D&I strategies – how EY can help

All organisations should ensure they are working to identify the barriers which are unique to their business in order to develop tailored recommendations which will drive the most change. Boards seeking to enhance their D&I should refer to The Directors’ Resource Toolkit (see “An update report from The Parker Review” (pp72-79), February 2020) that we developed. The toolkit sets out key questions companies and boards should ask to accelerate progress in diversity and drive long-term change. While the toolkit focusses on ethnic diversity, its contents could broadly be used in addressing other diversity dimensions, such as gender and disability.

EY has helped over 300 organisations improve their approach to devising, implementing and measuring the impact of their D&I strategies using the National and Global Equality Standards (NES/GES) framework which set clear criteria to guide a leading practice approach. The NES takes a holistic approach, incorporating all aspects of D&I covered into a single national standard. It addresses all nine protected characteristics covered in the UK Equality Act 2010 as well as broader D&I considerations (e.g. social mobility) and enables organisations to measure D&I across their regions, business units and departments. The Global Equality Standard drives consistency of

minimum standards in a way which balances global alignment with local context and provides a detailed roadmap with recommendations to help organisations improve their outcomes.

The assessment framework is a 35-competency model that has been developed by industry and government to drive change and increase representation (see below). To find out more on how EY can provide assessments visit: www.nationalequalitystandard.com. EY has also launched the Supplier Equality Standard (SES) which is a light-touch version of the NES for organisations to assess D&I maturity across their supplier base.

Overview of the NES framework

The NES is a holistic framework designed to enable progression in D&I in a structured and methodical way. Using the 35 competency model, we can help drive change across all parts of business, for organisations at all stages of their D&I journey.

1 Core components of DEI	2 Your talent	3 Your business	4 Your people	5 Your leadership	6 Your relationships	7 Review and measurement
1.1 Culture	2.1 Talent attraction	3.1 Strategy	4.1 Feedback mechanism	5.1 Commitment and accountability	6.1 External relationships and CSR	7.1 Pay gap
1.2 Policies and practices	2.2 Recruitment and on-boarding	3.2 Bias	4.2 Mental health and wellbeing	5.2 Visibility and messaging	6.2 Supplier relationships	7.2 Data analysis
1.3 Engagement survey	2.3 Appraisal and performance monitoring	3.3 Business case	4.3 Flexible working	5.3 Inclusive leadership	6.3 Customer insight	7.3 Action planning and implementation
1.4 Targeted training	2.4 Career progression	3.4 Governance	4.4 Adjustments and accessibility	5.4 Senior level scrutiny	6.4 Industry insight and regulations	7.4 Review
1.5 Communications	2.5 Learning and development	3.5 Setting priorities	4.5 Caring responsibilities	5.5 Middle management	6.5 Human rights and modern slavery	7.5 Measurement

Arun Batra OBE, EY Partner, Culture, Diversity and Inclusion Advisory, as well as Founder and CEO of NES/GES/SES abatra@uk.ey.com

Driving change on diversity and inclusion in the financial sector

The **FCA, PRA and Bank of England issued Discussion Paper 21/2** in July 2021 to engage financial firms and other stakeholders in a debate on how the pace of change can be accelerated and to discuss their regulatory approach and the role they can play to support this change. Their research shows evidence of correlations between D&I and positive outcomes in risk management, good conduct, healthy working cultures, and innovation. These outcomes directly contribute to the stability, fairness and effectiveness of the firms, markets and infrastructure that together make up the financial sector.

Their suggestions to help drive accountability and change include:

- ▶ Asking firms to collect D&I data with the view it may lead to regulatory reporting.
- ▶ Expecting firms to develop metrics that enable monitoring of their D&I initiatives.
- ▶ Clarifying how D&I is considered in board recruitment and succession planning.

- ▶ Making senior leaders directly accountable for D&I in their firms akin to Senior Manager Certification Regime requirements.
- ▶ Setting more explicit guidance on linkages of D&I in executive remuneration policy.
- ▶ Requiring RCs to have oversight of how obstacles that give rise to pay gaps and other adverse D&I outcomes are being managed.
- ▶ Having regulatory requirements or expectations for firms to have D&I targets for some or all of their boards, senior management population and the wider firm.
- ▶ Encouraging the use of D&I audits to ensure actions are in line with the organisation's values, ethics, risk appetite and D&I policies.

Whilst these proposals are still formative, they signal the direction of travel for companies both in financial services and outside.

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The primary conclusion of DP 21/12 is that there is no one-size-fits-all approach to improving D&I. It strikes the right balance between minimum standards and flexibility, but I think where firms will struggle will be in collecting and reporting on diversity data. It is also important for firms to consider publicising their targets to show that they are really trying to make a difference. Without the metrics, targets and data, we will not achieve change as we can't hold people accountable. As to how those accountability mechanisms might work and how much director pay is at risk if targets are not met, that is for individual boards to consider.

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3.4 Strategy – HC priorities and culture

Boards need to assess which HC matters are material, consider whether these should be elevated to being a strategic objective, and when that is the case, choose the right key performance indicators (KPIs) to monitor performance.

Despite the increasing focus on HC matters, less than half of companies in our sample (44%) disclosed a strategic objective that explicitly referenced their workforce and not all of those had a KPI(s) associated with that objective. A fifth of those that did failed to articulate why the chosen KPI was an effective measure of strategic progress. In summary, only

28%

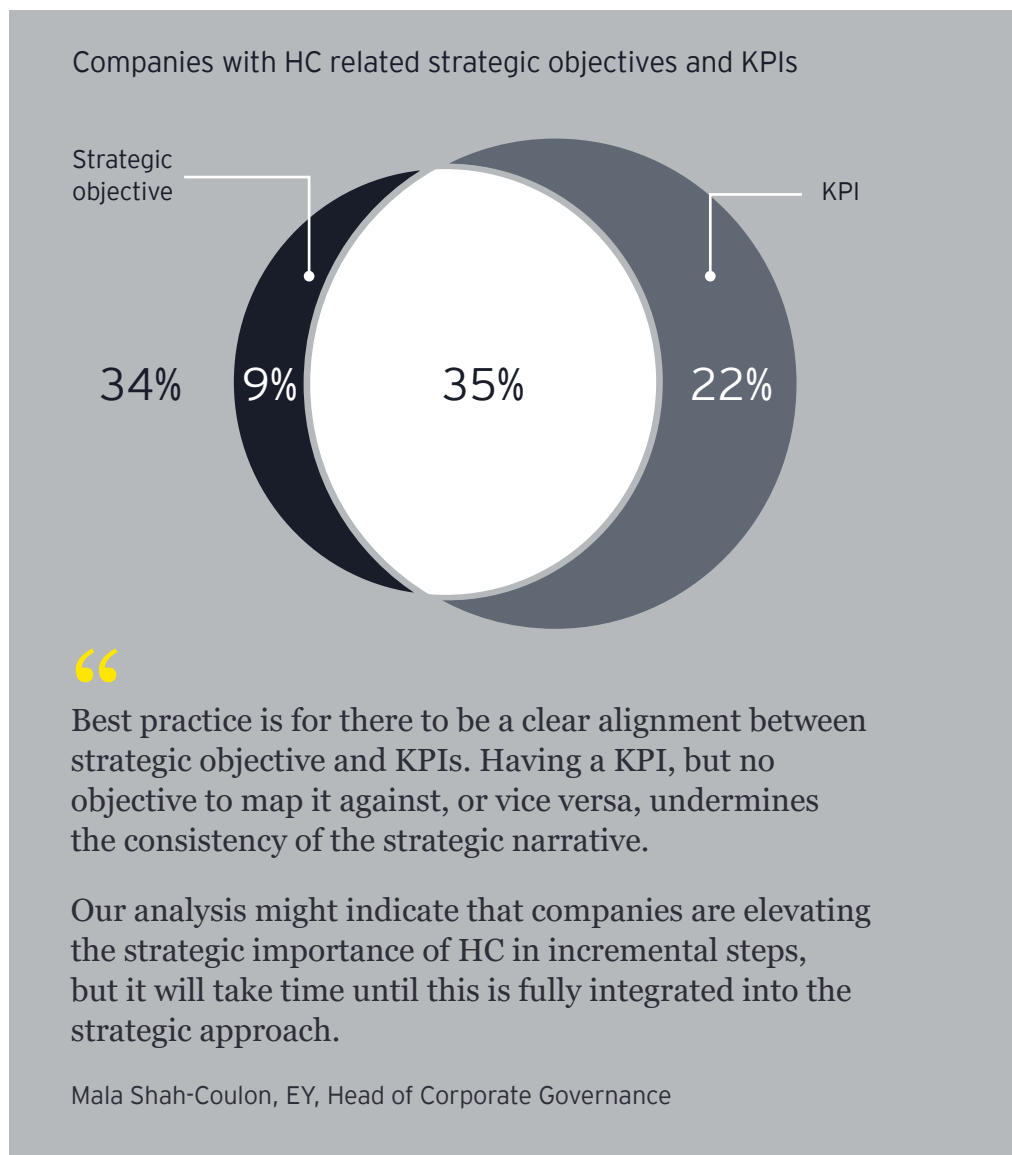
of companies within our sample had an HC related strategic objective, with a meaningful KPI tracking progress against it.

Exceptions include **Taylor Wimpey** (see **Figure 3.2**). The company’s strategic priority to ‘Be the employer of choice in our industry’ is underpinned by four KPIs: voluntary employee turnover, directly employed key tradespeople, number recruited into early talent programmes and health and safety annual injury incidence rate. Taylor Wimpey explains why these are key for their strategy, provides insight on the performance during the year and discusses priorities going forward.

3.4.1 Monitoring culture – progress on last year

The **EY Global Board Risk Survey 2021** found that 80% of companies leading on risk management often or always talk about the culture needed to support the organisation’s strategy at board meetings. In comparison,

63% of organisations that are classified as 'developing' in their risk management approach do the same. 80% of boards of organisations that lead on risk management (as opposed to 40% of those considered developing) discuss the metrics needed to assess talent and culture risks.



In our 2020 review “**From intent to action**” we noted that the majority of companies made some reference to monitoring culture, but very few included any detail on exactly how they do this or the resulting actions. From our analysis we made three proposals to enhance the narrative:

- ▶ Explain why the desired behaviours are critical to the achievement of strategic objectives.
- ▶ Lift the bonnet and be transparent about the metrics used to assess the actual culture.
- ▶ Articulate the actions that need to be taken to close any identified gaps and report on progress.

A year on, our analysis indicates little progress. Whilst there are increased references to culture across the Strategic Report and companies have continued to emphasise its importance, the narrative regarding governance over culture remains sparse. Based on our engagement with companies, to some extent this is because many boards do not approach culture monitoring as a standalone task, but rather rely on insights gained from discharging other duties. This may make capturing the activities and outcomes more difficult. **National Express'**

disclosure (2020 ARA, p65) is an example of the variety of methods through which the board and its committees monitor aspects of its culture framework. Similarly, **ITV** (see **Figure 3.3**) and **Experian** (2021 ARA, p92) set out the key ways in which the board and/or committees monitored culture during 2020 and how these contributed to delivering insights on their culture.

The lack of a compelling narrative may also be due to limited board involvement in culture monitoring beyond workforce engagement. Given the requirement has only been in place for two reporting cycles, boards' approaches are still evolving. This is partly evident from the number of companies that reference plans to build on or enhance culture related activities. For example:

- ▶ **ITV's** 2021 internal audit plan will include a standalone review of management's approach to monitoring culture and assessment against **ITV's** values (see **Figure 3.3**).
- ▶ **Lloyds Banking Group** (2020 ARA, p92) makes reference to a proposed 2021 Culture Change Acceleration Plan to embed improvements and accelerate transition towards its desired culture.

- ▶ **SSE** (2021 ARA, p113) discloses the board's culture dashboard, the maturity of which was furthered in 2020/21, with work undertaken to enhance the linkage of data to accompanying observations.
- ▶ **Spectris** (2020 ARA, p66) states that it is developing a culture dashboard that will be monitored by the NC and will include metrics such as engagement, values adoption, the employees' experience of business culture; progress on D&I, ethical business management and behaviours through reporting from the confidential Spectris Helpline, ethics training etc.
- ▶ **IAG** (2020 ARA, pp91 and 100) references a study undertaken with the help of McKinsey to evaluate culture for each business unit and an internal audit of culture at IAG Tech scheduled for 2021.

Whilst we are seeing some more detail in ARAs about the data/ sources of information that boards are reviewing to get insights on culture (e.g., **Synthomer** – see **Figure 3.4** – discloses numerous cultural aspects that the board monitors and maps these against relevant sources of information),



there is still very little that is being disclosed about outcomes and actions. Similar statements about plans for the upcoming year were made in some prior year ARAs, however very few of those companies followed through with enhanced disclosures explaining progress or insights from the new initiatives/ monitoring mechanisms in the current cycle. Whether this is due to the complexity of interpreting findings from monitoring activities and turning them into action plans or whether plans failed to come to fruition e.g., due to COVID-19 is unknown.

Monitoring and managing corporate culture is further complicated by the increasing use of contractors, outsourcing and zero-hours contract workers. There is limited narrative in annual reports to suggest that boards monitor the culture of such outside workers, and, in fact, although the Code refers to engagement with the 'workforce,' the focus of such interactions remains on employees. Some argue that a change to the section 172 duty, replacing the word 'employees' with 'workforce' is needed to elevate the issue and bring non-employees firmly into the scope of an organisation's HC.

3.4.2 Diversity and inclusion as a key dimension of culture

The extent of D&I-related disclosures within ARAs has been growing steadily over the last few reporting cycles. One of the trends we noticed reviewing 2020 ARAs was that a very significant portion of the narrative regarding culture, and often its monitoring, was dedicated to this important dimension of culture, sometimes at the expense of other aspects.

An increasing number of companies are attempting to articulate why D&I is critical to the success of their business, often linking this to their cultural archetype of innovation. Others are not attempting to articulate a business case for diversity, focussing rather on it being the right and moral stance to take.

Irrespective of which approach a company takes, noting that they are not mutually exclusive, a commitment to D&I requires careful oversight of diversity initiatives together with a roadmap for how targets are going to be achieved. Moreover, through their monitoring activities, boards also have to ensure that their ultimate aims e.g., creating and retaining a diverse pool of talent, are not hampered by poor company behaviours and norms and that inclusion is firmly embedded within company culture. **AstraZeneca** (2020 ARA, pp8, 68) updated its corporate values to clearly reflect its commitment to D&I.

Too often, organisations discuss D&I strategies solely or mostly in the context of talent management, without considering broader links to the company's strategy. However, this is slowly changing, e.g., we have seen a few companies applying an inclusive lens to product and service development. **HSBC Holdings** (2020 ARA, p65) discloses that its insurance business uses a D&I framework to ensure product development and engagement opportunities are designed to address needs across different customer groups. **GSK** explains (2020 ARA, p5) that it is focussed on improving diversity in clinical trials to ensure that they represent – and its medicines are safe and effective – in real-world patient communities.



Strong governance is needed to translate easy corporate rhetoric into tangible action through clearly defined goals.

At a tipping point, Andrew Parry, Newton Investment Management.

Five culture archetypes

Companies generally fall into one of five culture archetypes:

- ▶ **Innovation** – We are entrepreneurial, focus on anticipating market needs, encourage and recognise ideas, and support prudent risks.
- ▶ **Brand** – We build strong commitment and pride in our products and services while operating with integrity and respect.
- ▶ **Customer** – We gear everything we do to the customer, are relationship-based and empower our people locally to drive success.
- ▶ **Efficiency** – We optimise and are productive through a formal structure, defined roles and effective organisation-wide coordination.
- ▶ **Quality** – We strive for precision and excellence through continuous improvement, collaboration and a long-term view.

3.4.3 Committee trends

There are differing approaches to allocating responsibilities for HC matters and culture monitoring. Majority retain responsibility at board level (in line with the Code). However, given the complexity and breadth of the topics, we are seeing the mandatory committees (under the Code) expand their focus on HC more broadly and specifically on culture. Also, committees whose responsibilities cover sustainability or ESG matters often include people matters in their remit, including oversight over workforce engagement (e.g., **Centrica**) or diversity and inclusion (e.g., **Direct Line** and **GSK**).

It is clear from our analysis that boards will need to determine a bespoke approach that is appropriate for their organisation. But in order to be effective, the various sources of insights and outcomes of monitoring will need to be collated, compared and analysed at board level. **AstraZeneca** (see **Figure 3.6**) explains how the various sources are summarised in a workforce culture report and supplementary reports collated within a board portal.

Around

12%

of NCs within our sample are now explicitly tasked with oversight of diversity initiatives in the broader organisation.

Examples of committee trends

Employee engagement

Research commissioned on workforce engagement by the FRC (conducted by Royal Holloway, University of London and the Involvement and Participation Association) notes that 56% of 280 FTSE350 companies had appointed a designated non-executive director (NED) or a combination of a designated NED and an advisory panel. Some companies, however, have allocated this responsibility to a board level committee, e.g., **Spirax-Sarco** (2020 ARA, p96) has a dedicated Employee Engagement Committee; at **BAE** (2020 ARA, pp116-177) the Corporate Responsibility Committee is responsible.

Diversity and inclusion

Around 12% of NCs within our sample are now explicitly tasked with oversight of diversity initiatives in the broader organisation (e.g., **Capita**, **Prudential**, **ITV** (see **Figure 3.3**)).

Where this is the case, some committees have indicated a broadening of their HC remit going forward to extend beyond D&I, for example **Rentokil's** NC in 2021 will additionally focus on monitoring and fostering a successful performance culture (2020 ARA, p107).

Policy, procedure and compliance

Many aspects of culture monitoring have found a home on the AC's agenda. This is not surprising given there are aspects of policy, procedure and compliance associated with sources of culture insights, and these tend to fit into the broader risk management and internal controls remit of the AC. Similarly, whistleblowing/speaking up mechanisms are often monitored by the AC for the same reasons. As more companies involve internal audit in performing culture reviews, the role might expand further.

Fresnillo's AC monitors and discloses granular information on whistleblowing cases (2020 ARA, p84). **ITV's** AC (see **Figure 3.3**) reviewed the company's duty of care processes and performed a deep dive into wellbeing during COVID-19 for its people, talent and programme participants.

Health and safety

Within the extractive industries sector, monitoring adherence to a safety culture is very often in the remit of a specific committee, often constituted as a Health, Safety and Sustainability committee (e.g., **BP**, **Polymetal International**, **Glencore** (see **Figure 3.5**)). The pandemic has also raised awareness of mental illness, with more

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Historically, oversight over whistleblowing was an AC duty, being seen predominantly as a means of raising concerns in relation to financial improprieties and therefore within the traditional remit of the AC. However, the 2018 Code introduced a clear link between whistleblowing arrangements and the board’s role in ensuring that behaviours align with culture, hence elevating whistleblowing oversight to the board and for it to cover matters beyond financial. Nonetheless, many ACs have continued to review these arrangements and report on them to the board. In such circumstances, boards might want to consider whether committees with a delegated HC focus should share the AC’s responsibilities in respect of cases that relate to matters of diversity, inclusion, harassment etc.

Maria Kępa, Director, EY Corporate Governance Team



companies acknowledging that mental wellbeing needs to be managed in the same way as physical health and safety. **Morgan Sindall's** (2020 ARA, pp77-78) Health, Safety and Environment committee monitors each division’s progress against the health and safety framework, of which mental health is a key aspect. The committee noted that mental health was one of its key focus areas and recognised the importance of having put in place employee mental health support programmes in previous years.

Ethics and conduct

Some boards have set up committees with a specific focus on compliance, conduct and ethical culture, often combined with corporate social responsibility. These committees are often tasked with oversight of how well embedded a company’s code of conduct is and of the effectiveness of the speak-up mechanisms (e.g., **Reckitt, Aggreko**).

Values and culture

A few boards have set up committees with a specific reference to culture or values in their name. These often cover conduct and compliance matters, but have a more holistic remit in respect of culture and include workforce engagement oversight.

Glencore has a dedicated Ethics, Compliance and Culture committee (see **Figure 3.5**). Its main responsibilities include overseeing the implementation of the ethics and compliance programme; assessing and monitoring culture to ensure alignment with purpose and values and monitoring the Group’s stakeholder, including workforce, engagement.

Standard Chartered has a Brand, Values and Conduct committee (2020 ARA, pp121-124) with responsibility for overseeing the Board’s engagement framework with the workforce and ensuring workforce policies and practices remain consistent with the Group’s valued behaviours. In respect of culture and values, it reviewed:

- ▶ the culture transformation progress.
- ▶ key insights from the Brand and Culture Dashboard, including developments to the dashboard to increase its adoption across the Group, aiming to drive discussion and action on culture change.
- ▶ employee survey results and interpretation, assessing and monitoring the Group’s culture and valued behaviours.
- ▶ the Group’s approach to D&I.

3.5 Risk management

Given the extent of investor and public scrutiny on the outputs of the RC and the volume and detail of regulatory disclosure requirements in remuneration reports, it is important that new members of RCs undergo a thorough induction process and refresher training is undertaken on an ongoing basis for all members. Further pressure on this could come from the BEIS proposals for the full annual report including the Directors' Remuneration Report to fall within the scope of the new regulator's corporate reporting review powers.

3.5.1 Flexibility, discretion and judgement

Designing executive remuneration schemes to incentivise desired behaviours and outcomes and minimise excessive risk taking is a key facet of risk management. There is little tolerance for 'pay for failure', and this is why RCs must have the ability to exercise discretion and

Malus – refers to action to forfeit all or part of incentive awards before they have vested and been paid to an individual.

Clawback – refers to the recovery of amounts of monies already paid to an individual

Typically, incentive plan rules will set out the triggers that may result in the application of malus or clawback, and these will usually include misconduct and material misstatement of accounts.

Discretion – refers to the ability of the RC to override formulaic remuneration outcomes in a positive or negative manner due to significant factors which may have been unforeseen, and which are not otherwise factored into remuneration design.

apply malus and clawback to short and long-term incentives.

To date, there have been few cases of RCs invoking malus and clawback provisions, with the governance narrative more commonly referring to the exercise of downward discretion. This has been more common recently as a result of COVID-19, for example, to protect against windfall gains as a result of rebounding share prices or to adjust salary levels in line with wider employee compensation. **Quilter's** RC (2020 ARA, p124) at the recommendation of the executive directors reduced their short-term incentive awards to zero and redirected this funding to employees; similarly **Meggitt's** (2020 ARA, p116) RC cancelled salary increases, fee

increases and short-term incentive plan payments for 2020 owing to the overall financial performance and to reflect the wider stakeholder impact of COVID-19.

RCs have perhaps been reluctant to invoke these punitive and perhaps impossible (i.e., attempts to clawback monies already paid) powers except in the highest profile cases. **WPP** blocked pay outs of share awards to its former group chief executive Sir Martin Sorrell following media leaks¹³; and **Rio Tinto's** (2020 ARA, p143) former CEO had a malus adjustment of £1m applied to his 2016 long-term incentive plan (LTIP) as a result of the Juukan Gorge event. A noted case of clawback is **Volkswagen AG**, whose supervisory board announced

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There is often confusion regarding discretion, malus and clawback – in which situations should each apply? Companies define these differently and sometimes discretion and malus are used interchangeably – the definitions alongside should help clarify this. Typically, companies have specific triggers for malus and clawback which may be narrowly defined. The BEIS consultation aims to change this by setting out a broader list of triggers and also suggests a minimum period of application.

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¹³ Martin Sorrell in legal battle with former employer WPP over payout, The Guardian, April 2021.

agreements to recover compensation from former executives following the Dieselgate emissions scandal¹⁴.

Despite what is already in existing law and the 2018 Code, the BEIS consultation includes proposals to further strengthen clawback and malus provisions in directors' remuneration arrangements. The proposal suggests this will be implemented by recommending RCs include a broader list of specific conditions or 'trigger points' such as reputational damage or misconduct. Many companies have already disclosed their own 'discretion frameworks', including **Croda** (2020 ARA, p83) and **John Wood Group** (see **Figure 3.7**) or how they intend to operate malus such as **Weir Group** (2020 ARA, p111), but the proposals seek to broaden the specific circumstances in which malus and clawback should be considered.

If implemented, these changes will strengthen the position of the RC when considering whether to exercise malus or clawback, with the expectation that investors will have better reassurance against rewards for failure.

3.5.2 Impact of remuneration on culture

Executive remuneration can be used as a tool for rewarding executives who demonstrate values and behaviours that embed the desired culture. Whilst the RC does not have responsibility to determine cultural strategy or drive cultural change, the RC should ensure (as per Code Provision 40) that the overall remuneration philosophy, as well as the specific design of incentive plans supports and reinforces desired values and behaviours. **BT** (2021 ARA, p96) applies an underpin in their restricted share plan awards that states there must have been no ESG issues which have resulted

in material reputational damage for the company and **Yorkshire Building Society's** remuneration policy (2020 ARA, p99) sets out clear aims and principles of reward helping to align actions with the organisation's values.

RCs may consider the following to ensure that incentives are aligned to an organisation's culture:

- ▶ **Metrics** – are there key cultural indicators that should be incorporated in incentive plans e.g., net promoter score or ESG measures. Such measures, if sufficiently weighted, could help to reinforce the company's culture and values.
- ▶ **Malus, clawback or discretion** – ensuring the RC makes the right decisions appropriate to the cultural and social context e.g., considering how remuneration design supports the governance agenda on issues such as diversity or societal contributions. In the case of **Rio Tinto** (2020 ARA,

p143) following the Juukan Gorge event, in addition to the exercise of malus, the RC designed a new remuneration policy to safeguard against rewarding executives in the future where there have been events that materially impact the company's social licence to operate. Remuneration has been re-designed to recognise the importance of culture and the reputational impacts of failures.

- ▶ **Engagement** – with stakeholders to explain how decisions taken are aligned e.g., minimum wage or pension contribution levels. Our **research** last year showed it is challenging to engage the workforce on the topic of executive remuneration. This remains the case, but some companies explain their efforts. The RC chair of **DS Smith** (see **Figure 3.8**) discusses their approach to reward-related feedback from employees.



¹⁴ Volkswagen secures \$21.7m in executive clawbacks for Dieselgate roles, Compliance Week, June 2021.

3.6 Metrics and targets

3.6.1 HC metrics

Collection and monitoring of data is key to the success of HC programmes and necessary to satisfy investor expectations. Disclosure of HC matters is also a legal requirement. UK Companies Act 2006 requires certain companies to publish a Non-Financial Information statement with information relating to the company's employees, social matters and respect for human rights. Since August 2020, the U.S. Securities and Exchange Commission (SEC) requires companies filing 10-Ks to report on

HC metrics that are material to investors' understanding of the company's business. Neither of these requirements, however, includes a list of metrics to disclose and are instead qualitative.

Some companies, therefore, turn to the Sustainability Accounting Standards Board (SASB), which provides a variety of HC related metrics by industry or various Global Reporting Initiative (GRI) standards. Some disclose data to the Workforce Disclosure Initiative (an investor coalition which provides companies

with a framework to increase the quality and comprehensiveness of their workforce reporting). Others simply use their own internally defined indicators.

The absence of a common standard by which companies measure and report on HC matters makes benchmarking companies' HC performance challenging for investors and also creates uncertainty for companies on what to report.

This lack of consistency has prompted some international organisations to develop common standards for non-financial information, including or dedicated to HC:

- ▶ ISO (International Organization for Standardization) has issued guidelines¹⁵ on how to measure and report HC contribution to the organisation, including in respect of diversity, culture, recruitment and succession planning.
- ▶ One of the four pillars of the **World Economic Forum's (WEF's) International Business Council (IBC) common metrics** built on the basis of SDGs is 'people'.
- ▶ The European Commission (EC) has recently issued a Proposal¹⁶ for a **Corporate Sustainability Reporting Directive (CSRD)**, which would amend the Non-Financial Reporting Directive¹⁷ (NFRD) requiring all companies within the scope of the NFRD to report non-financial information (including HC related) in accordance with a common EU standard¹⁸.



¹⁵ **30414 Human Resource Management – Guidelines for Human Capital Reporting for Internal and External Stakeholders** is the world's first global standard focussed specifically on how to measure and report HC contribution to the organisation in order to support sustainability of the workforce.

¹⁶ Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting.

¹⁷ Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups Text with EEA relevance.

¹⁸ If the Proposal is approved EU companies would have to apply the standards for the first time in 2024. Although the UK would not fall within scope, UK companies may eventually end up making similar disclosures given investor demand.

- ▶ In December 2020, **SASB** released its preliminary HC framework which may develop into a set of industry-agnostic HC metrics.
- ▶ The International Financial Reporting Standards (IFRS) Foundation issued a consultation setting out constitutional changes to allow for the introduction of an International Sustainability Standards Board to support the development of a global set of standards intended to drive high-quality, consistent and comparable reporting.

The practice across UK companies as regards to non-financial metrics more broadly, and therefore as they related to HC metrics, varies. According to a recent **FRC report**, the UK is among the top three countries by number of companies, with 54 reporters adopting the SASB standards. Other frameworks used by UK companies include Carbon Disclosure Project (CDP), TCFD and GRI. **Persimmon** (2020 ARA, pp20-21) and **Pearson** (see **Figure 3.9**) incorporate SASB metrics within their ARAs. **IAG** (see **Figure 3.10**) includes a table showing alignment with external frameworks and GRI standards in the sustainability section of its ARA. **Barclays** (2020 ESG Report, p12) incorporates SASB disclosures and GRI standards into its sustainability report. **Croda's** 2020 Sustainability Report has been prepared in accordance with the GRI standards. The company also issues a separate GRI report. In January 2021, **Shell** (2020 ARA, p85) and **HSBC Holdings** (2020 ARA, p43) agreed to adopt the WEF IBC stakeholder capitalism metrics.

Other companies like **Derwent London** (2020 ARA, p129) do not align their HC reporting to any common standards but instead disclose a wide range of metrics relevant for its business across its ARA (e.g., employees by age,

employees gender diversity and ethnic origin, response rate to their staff survey, staff satisfaction or employee retention rate).

But collecting and reporting data is just part of the equation. Directors, as part of their oversight, need to ensure that management analyses the information (i.e., identifies root causes of the issues/variances), assesses progress against targets, and proposes actions to be taken in response, in line with the approach discussed earlier for culture monitoring. **Antofagasta** (2020 ARA, pp19, 121 and 122) acknowledges the difficulty in attracting female talent in mining and identified that in Chile female participation in the workforce remains well behind more developed economies such as the UK. In response it has various initiatives including sponsoring the creation of a Chilean equivalent of the 30% Club, including metrics related to D&I in its bonus plan etc, to act on its commitment to doubling the percentage of women in its workforce by 2022 from a 2018 baseline. It reports progress monthly to the Executive Committee and discloses the progress made during the year. Developments are monitored by the board. **Direct Line** (see **Figure 3.11**) completed an analysis of ethnicity data and identified a gap in the experiences of different colleagues (i.e., for Black, mixed ethnicity, or those from one of the smaller ethnic groups, it wasn't as positive to work for the Group as it was for other colleagues). In response, the company has signed up to Business in the Community's Race at Work charter and has introduced new targets to hold itself to account for improving Black, Asian and Minority Ethnic representation in leadership roles by the end of 2022. During the year, Direct Line has several initiatives such as launching an awareness and education programme to build a greater understanding and

the introduction of new principles for senior-level recruitment to help protect from bias. In our view, disclosing the plans to achieve targets and the progress made during the year as done by these companies is key to increasing confidence in the company's preparedness to achieve them and creates much needed accountability. This is particularly important for those companies which include HC matters as part of the strategy (see **Taylor Wimpey** example in **section 3.4**).

The **Society for Human Resource Management** estimates the average replacement cost of a salaried employee to be six to nine months of salary. Regardless of the cost, the reasons behind turnover may highlight issues regarding culture or employee satisfaction. Many companies disclose voluntary employee turnover in their ARAs, including **ITV** (2020 ARA, p105) **Bunzl** (2020 ARA, p90) and **Taylor Wimpey** (2020 ARA, p25). Not all companies, however, track turnover in a manner that is decision-useful; especially in large, complex organisations a rate that has been averaged out across business units/divisions and geographies might disguise issues and not serve as a risk indicator alerting management or the board of the need to understand the root causes and take corrective actions. Directors should set clear targets at an appropriately disaggregated level and have a variance threshold for information to be reported to them. Management should also identify critical roles for which retention is key and boards may want to consider a different reporting threshold for these.

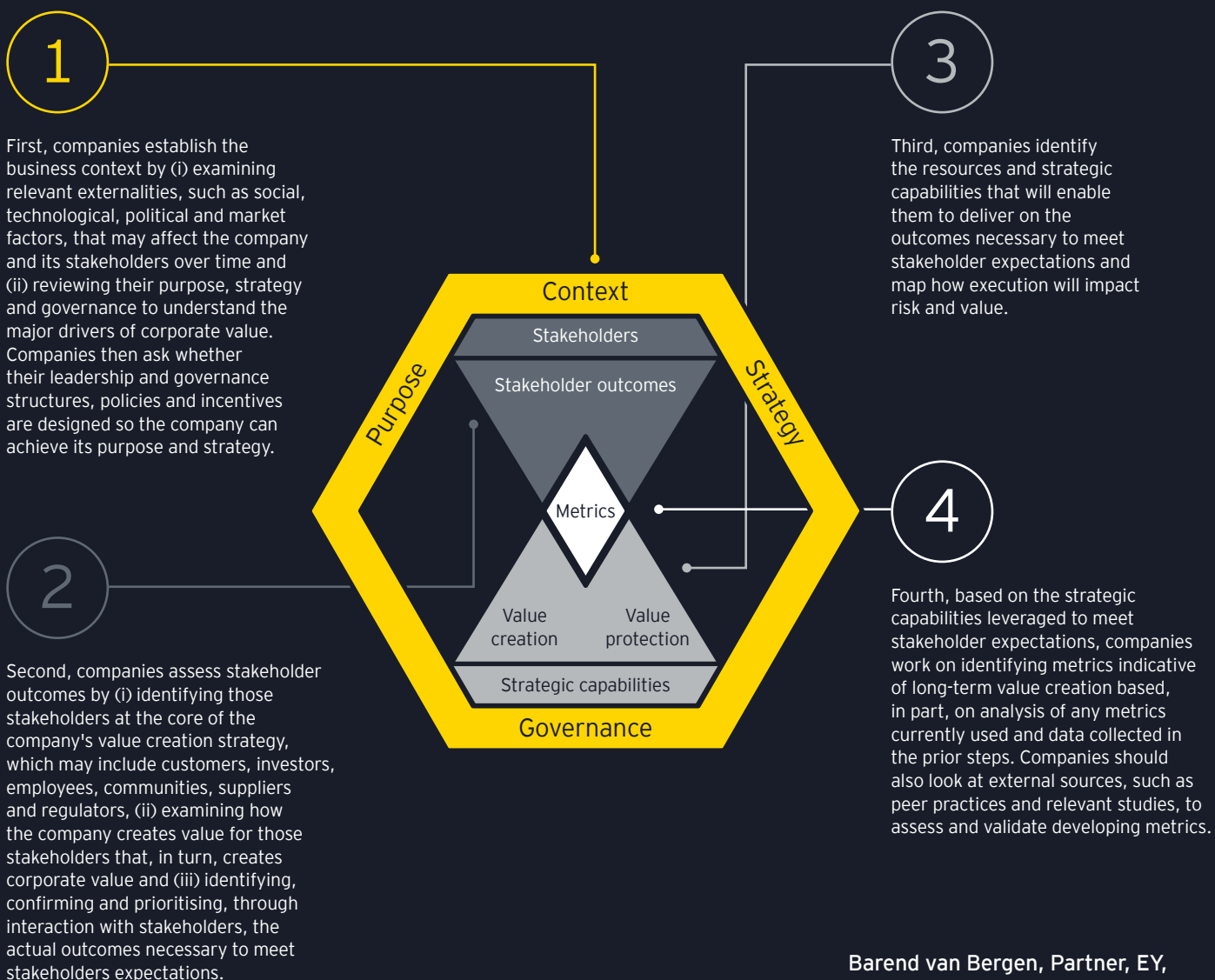
Similarly, an increasing number of companies disclose employee survey participation and results (see **section 3.6.2**). However, there is seldom reference to any arising actions or director views.

Determining metrics which help companies to measure and demonstrate long-term value creation to investors and other key stakeholders – how EY can help

Any given general metric may not be relevant to all companies. The Long-Term Value Framework, a concept originally created by EY, working with Cambridge University, and further developed in collaboration with Coalition for Inclusive Capitalism and validated by **Embankment Project for Inclusive Capitalism (EPIC)** participants, provides a four-step approach to identifying and evaluating company-relevant key value drivers and to developing non-financial metrics that can help identify, measure and clarify value and value creation.

EY’s cross-service line teams work with companies in applying this approach to determine the most relevant metrics of value creation. **EY Long-term value teams** also help companies shape their strategy, drive transformation and measure progress in providing sustainable value.

Building on the work with EPIC, EY also played a leading role in the development of the metrics in the WEF IBC initiative. We are therefore uniquely placed to advise on their adoption.



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According to the World Health Organization¹⁹, depression and anxiety will cost global economy \$1 trillion a year in lost productivity and has urged companies to take a central role in addressing mental health issue.

3.6.2 Employee surveys

Surveying the workforce remains the most common way for companies to measure employee engagement. In our publication “**From intent to action**” we noted that companies were being more transparent about their annual employee survey results, including reporting different metrics with historical trends.

Leading practice disclosures include actions being taken in response to the survey results as done by **Pearson** (2020 ARA, p28). Its first quarter employee pulse survey found that employees wanted more support in understanding career pathways, navigating learning resources and making learning part of their work. In response, Pearson held its first Global Learning at Work week, where it delivered 70+ hours of learning to 11,000 employees.

Our analysis shows that the pandemic prompted companies to engage more frequently with their employees, especially on what they could do to improve wellbeing and understand their employees' needs regarding the future of work.



Employee engagement is not the same as engaging employees. Employee engagement is the outcome of actively engaging employees through a strategy that drives improved performance — achieving engagement is simply not as easy as putting together a survey to measure employees' level of engagement. Organizations miss the mark on engaging employees when they emphasize moving the overall engagement number but overlook the tactical elements that lead to improved business outcomes.

Make no mistake about it: Measurement does matter. But companies that base their engagement strategy on a survey or metrics-only solution can get caught up in a 'rinse and repeat' pattern that does nothing to improve their business. They focus on engagement periodically — usually around survey time. As a result, these organizations make false promises to employees, pledging change through intensive communication campaigns but providing little actual follow-through.

Gallup, **State of the American Workplace** 2017

This year, many conducted shorter but more frequent pulse surveys. For example, **Landsec** (2021 ARA, p63) adapted its approach to surveys by conducting a full survey in May 2020 in response to the first lockdown, followed by quarterly surveys in June, September and December. **ITV** (2020 ARA, p7) undertook a number of employee pulse surveys to help monitor wellbeing. **Smith+Nephew** (2020 ARA, p13) launched a survey to better understand what flexibility meant to its employees.

Checking in with employees and soliciting their views more regularly on targeted aspects can help organisation respond to employee concerns more promptly, adapt HC

programmes and tailor the next intervention in light of the latest results. It also allows companies to report back quickly to their workforce on the actions they are taking. Just as boards do not wait for the ARA to be issued to get an update on financial results, directors should not be satisfied with once-a-year updates on strategic progress on HC issues. We expect the trend above to continue. Wellbeing needs and new working models will require ongoing considerations and agile responses. Continuous listening and reporting findings to the board regularly will be critical as the long-term consequences of the pandemic on the workforce unfold.

More than half (54%) of employees surveyed from around the world would consider leaving their job post-COVID-19 pandemic if they are not afforded some form of flexibility in where and when they work, according to the EY 2021 Work Reimagined Employee Survey²⁰.

¹⁹ World Health Organization.

²⁰ EY 2021 Work Reimagined Employee Survey.

Introducing ESG metrics in executive incentive plans – how EY can help

Investors and other stakeholders expect companies to give proper consideration to ESG risk for their business, and to report in a clear and concise manner so that they can make informed investment decisions. Many companies have previously focussed on statements of intent, but there is now a need to demonstrate action, and assessment and measurement are key enablers to show progress in this area. One lever which can be used to demonstrate action is reward, and, in particular, incorporating ESG measures into short and long-term incentive plans.

EY helps companies navigate the current corporate governance environment and diverse investor expectations when considering non-financial metrics for incentive plans, providing insight from the strategic planning through design to reporting and engagement. We have outlined below a framework to support RC consideration of ESG metrics.

Strategy

- ▶ The RC should consider the board approved strategy and KPIs and the role of ESG within this. If ESG metrics are linked to incentives then there needs to be clear alignment with strategic goals.
- ▶ If the strategy does not include clear ESG KPIs and timelines then perhaps now is not the right time to incorporate such measures into incentive plans.

Structure

- ▶ If key ESG metrics are identified, what are the timescales associated with these?
- ▶ If long-term, are there key milestones?
- ▶ Can broader goals be broken down into operational must-dos?
- ▶ Are targets clearly articulated or are they more general statements of intent?
- ▶ Which metrics are viewed as being business critical?
- ▶ Does the approach demonstrate commitment (specified targets) or is it window-dressing (e.g., general discretion)?

Reporting and engagement

- ▶ Is the narrative across the Strategic Report and the Directors' Remuneration Report cohesive?
- ▶ Do the messages reflect and support the organisation's culture and purpose?
- ▶ Can the approach be easily explained to investors, employees and other stakeholders?

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3.6.3 Non-financial metrics used in remuneration plans

Central to the concept of delivering sustainable value for stakeholders is the need for incentivising leaders to meet long-term financial and non-financial objectives. **The EY Long-Term Value and Corporate Governance Survey** found the internal factor that had the greatest negative impact on an organisation's ability to generate long-term value was that a significant portion of CEO and executive compensation is tied to short-term performance. This indicates that change is needed in how remuneration policies are designed.

To combat the focus on traditional financial, profit-driven metrics that are insufficiently linked to strategic objectives, many are for linking executive remuneration to ESG targets. **The UN Principles for Responsible Investment** have even stated that, if appropriately structured and effectively implemented, ESG-linked pay could increase firm

value, rebalance excessive focus on short-term performance targets and create better accountability on sustainability-related performance across management.

There are, however, numerous challenges with including non-financial metrics in remuneration plans and some, like Professor Alex Edmans, London Business School, caution that many ESG measures omit important qualitative dimensions²¹.

Choosing the right metrics

There should be a clear correlation between the KPIs set out in the Strategic Report and the metrics used in incentive plans, closely linking strategic achievement to remuneration and setting the tone of what is strategically important. The choice of metrics is complicated by the proliferation of benchmarks and standards on non-financial information referred to in **section 3.6.1.** and the challenge of determining which ESG issues should take precedence. Those metrics that influence executive remuneration should relate to material issues only.

Setting targets

Shareholders are critical of measures which have no clear targets to allow them to assess progress, but setting targets for many ESG metrics can be challenging and controversial. What are the 'right' or 'acceptable' levels of diversity, inclusion or societal contributions to aim for? There is also a danger that targets could lead to quick fixes which do not address the heart of the matter.

It is also worth noting that ESG targets are not necessarily always long term in nature and, hence, incorporating ESG metrics within remuneration is not a panacea for short-termism.

Reliability of data

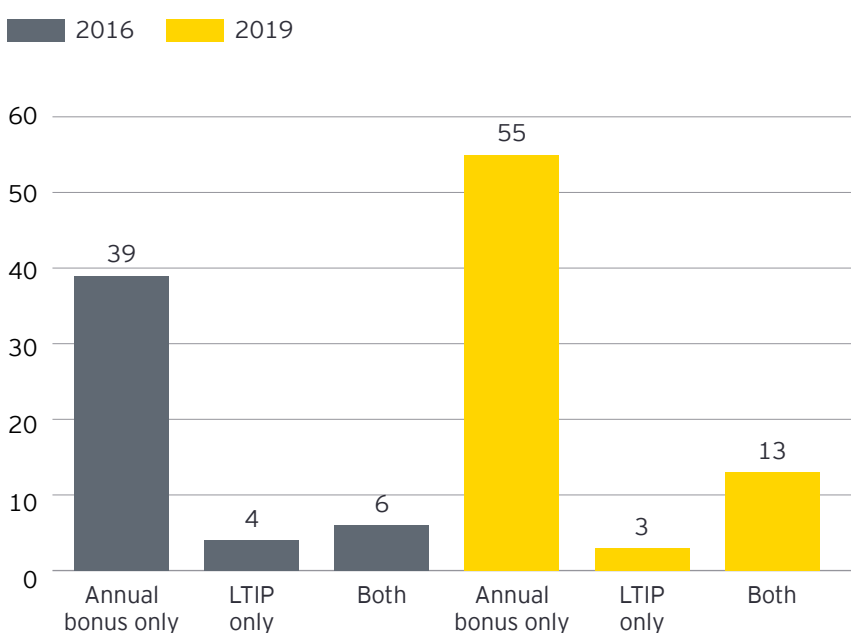
A key consideration when metrics have been chosen is determining the reliability of the data. Although we note currently levels of assurance over non-financial information, especially beyond greenhouse gas emissions, remain low, the RC may find value in having key non-financial metrics assured, particularly if the metric is complex to determine, highly judgemental or there is significant investor interest in the issue e.g., environmental metrics. These considerations should factor into discussions about the audit and assurance policy, which we discuss in Part 2 of this publication.

Current trends

Despite the challenges noted above, companies are increasingly linking remuneration to strategic ESG objectives. Linking environmental objectives, particularly net zero commitments, is more prevalent as compared to social or governance objectives. Environmental measures, though, have a noted concentration across the extractive, consumer and financial industries; in line with expectations driven by TCFD.

Lloyds Banking Group (2020 ARA, p119) discusses the shift in the 2021 approach to reduce the number of reward measures, rebalance the scorecard to ensure a clear weighting between financial

The number of companies in the FTSE 100 which use an ESG measure has increased to c.70% from less than 50% three years ago:



Source: ESG metrics in executive incentive plans, EY People Advisory Services, March 2021

²¹ **Why Companies Shouldn't Tie CEO Pay to ESG Metrics**, Alex Edmans, The Wall Street Journal, June 2021.



Overall, the higher prevalence of ESG metrics suggests that companies increasingly recognise the importance of considering a definition of value beyond just financial. However, a closer look at the way in which these metrics are being used demonstrates that for the majority of companies either the weighting attached to the metric is relatively low, or they are simply incorporated into a broader scorecard of personal or discretionary measures and no specific targets are disclosed. Investors have expressed a clear view that financial performance should remain the primary driver of payments under annual and long-term incentive plans and current practice suggests that the inclusion of ESG may, for some companies, have been more of a communication exercise rather than a real driver of behaviour.

There is no doubt that this is a topic at the forefront of remuneration committees' minds. There are early signs from reporting in 2021 that practice is continuing to evolve with more detailed targets being set and disclosed by some companies.

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and non-financial metrics while appropriately capturing ESG dimensions such as reducing operational carbon emissions and increasing gender and ethnic representation in senior roles. **Henry Boot** (2021 ARA, p97) introduces equality and diversity-related personal objectives for each executive director. **London Stock Exchange Group** (2020 ARA, p106) includes a range of strategic deliverables, including the completion of transactions, gender representation, measures related to improved cyber security etc. **Experian's** (see **Figure 3.12**) RC set out remuneration reporting in the context of the experiences of their stakeholders and discusses its considerations on whether ESG metrics will be incorporated into executive incentive plans.

Companies are starting to demonstrate more holistic approaches to how ESG metrics used in remuneration link to broader company strategy. **Rotork** (see **Figure 3.13**) includes sustainability as a strategic objective, which is deconstructed into three pillars, each tracked by non-financial metrics aligned to management's incentives. Two of the metrics are strategic KPIs. Data underpinning the carbon emissions KPI disclosed in its sustainability report has been independently verified. **Rotork** also provides a good explanation of how non-financial metrics are calculated. This goes some way to addressing concerns highlighted in the FRC's 2020 Review of Corporate Governance Reporting around the lack of clarity on selection and calculation of non-financial KPIs used in remuneration decisions.

Whilst some companies have taken steps to shift remuneration design to incorporate longer-term thinking, it is still early days. The answer is not just a quick introduction of a few ESG metrics rather a transition to understanding how non-financial considerations can be incorporated to incentivise creation of sustainable organisations.

Examples of use of D&I metrics in remuneration schemes

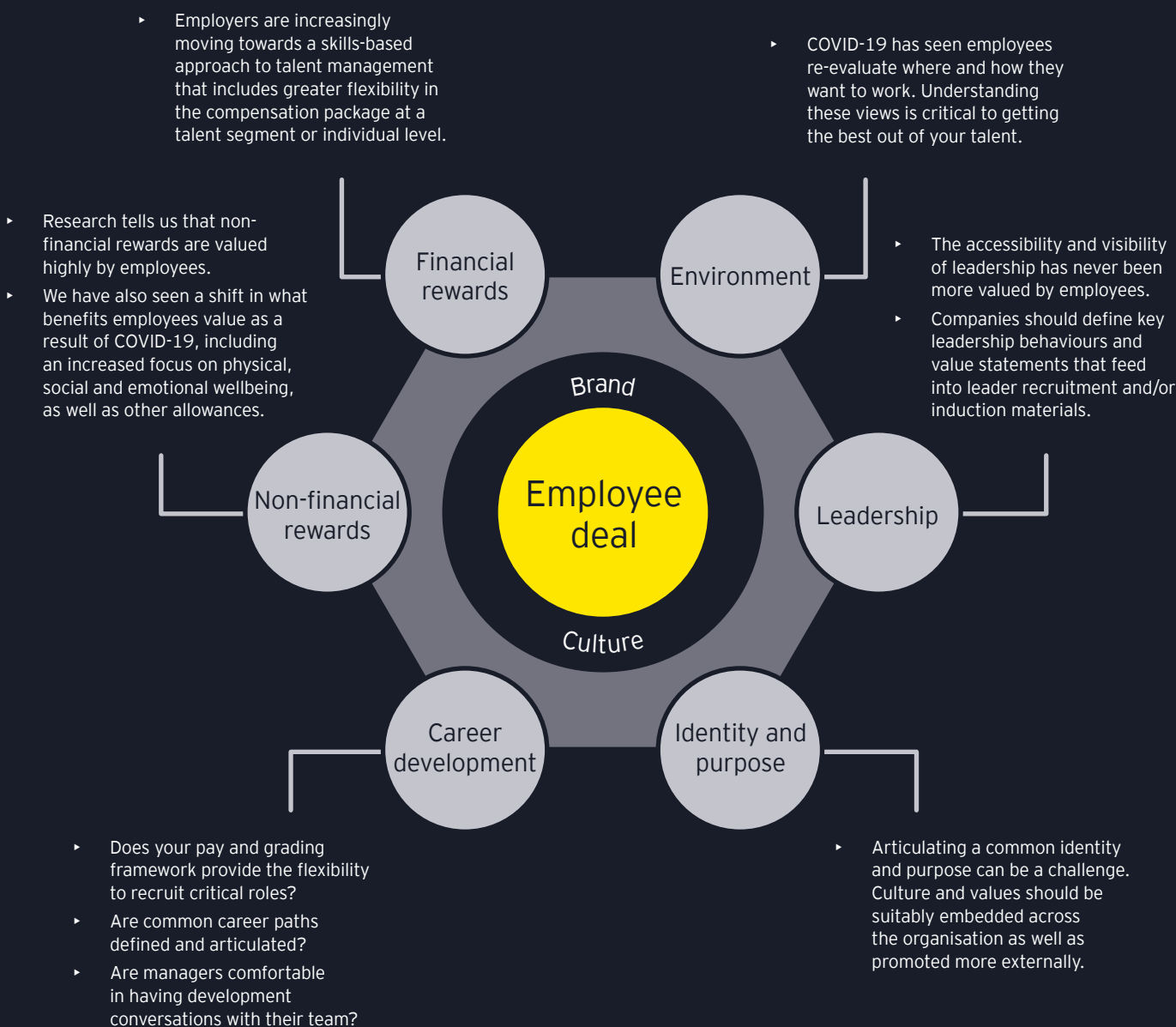
- ▶ **Prudential** (2020 ARA, p189) has a diversity measure included in the LTIP, weighted between 6.25-7.5%. It is measured as the percentage of the leadership team that is female at the end of 2020. Prudential set a target of 30% females by the end of 2021 in line with the goal it set when it signed the Women in Finance Charter.
- ▶ **SSE** (2021 ARA, p152) includes diversity and inclusion measures, with a weighting of 2.5%, to assess performance for the annual incentive plan and performance share plan. The measure is based on progress made closing SSE's median UK gender pay gap and progress made against SSE's Inclusion Strategy, including progress on Return on Inclusion.
- ▶ **Barclays** (2020 ARA, pp120-133) has weighted measures for the annual bonus and LTIP, between 3.5-5%, as well as weighted personal objectives that incorporate diversity matters. These are noted as strategically important non-financial matters, including targets for women in senior leadership positions and initiatives such as establishing a Race at Work Steering Committee.
- ▶ **Diageo** (2021 ARA, p120) has targets for the percentage of female leaders and percentage of ethnically diverse leaders in its LTIP, weighted at 2.5%.



Shaping the 'employee deal' – how EY can help

COVID-19 has transformed the employer-employee relationship and, as companies emerge post-pandemic, they will quickly need to adapt to changing employees' preferences and behaviours. In this context, the need for employee-centric reward models and retention strategies becomes even more critical. Attracting and retaining critical talent depends not only on financial rewards but the aggregate value of everything an employee receives or experiences from their organisation in exchange for their work, which we have termed the 'employee deal'. We expect that going forward RCs will take a more prominent oversight role over wider reward matters and employee value proposition.

All organisations have an employee deal and for the lucky few, this will have naturally become something which plays to their strengths, distinguishes them from their competition and allows them to attract, retain and motivate critical talent. For others, a more holistic and considered approach is required. To help companies design and communicate their employee deal, we have developed the framework below which considers six key elements of the employee deal.



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3.6.4 CEO pay ratio

It can be misleading to look at one number, measure or sentence from the Directors' Remuneration Report in isolation. With numerous regulatory disclosures on pay, we recommend that the upfront narrative in the Directors' Remuneration Report holistically discusses remuneration policy and approach across the company rather than taking a piecemeal disclosure-by-disclosure approach against each requirement.

The focus on the supporting narrative is especially important for the recently introduced requirement to publish the ratio between CEO and average staff pay.

Investors view the CEO pay ratio on its own as a less useful data point; not only is there no target ratio, it is also difficult to compare across companies and even across years for one company. Indeed, **Aviva** (2020 ARA, p115) points out the challenges of understanding movements in the ratio due to specific outcomes or circumstances of a particular year. Compounded with this are the skewed outcomes that may result due to COVID-19, such as the use of furlough. That said, investor discussion is focussing on the employee quartile data that is reported as part of the CEO pay ratio i.e., how is workforce pay changing year on year. This is in line with wider concerns of how a company treats its stakeholders rather than just blunt, headline CEO pay figures.

Our research indicates that there has been limited progress in disclosure quality in the second year. **SEGRO** (see **Figure 3.14**) contrasts what is available to employees versus executive directors for each element of reward. Such transparency is positive, particularly given widening awareness of social inequality which has exacerbated in the past year as well as rising shareholder dissent on remuneration.



3.7 Key questions to assess effectiveness

The practice for allocating responsibilities for oversight over HC matters varies and the remits of NCs and RCs continue to evolve. The questions below have therefore been structured to start with five key questions which are relevant regardless of the specific governance set up of the organisation, followed by a further five on HC oversight, remuneration and nomination considerations.

3.7.1 Key questions for the committees

1

Do the committee's terms of reference reflect not just the mandatory responsibilities as specified in regulations and Code, but also the de facto ones?

2

Is there a clear framework for interaction between committees on overlapping topics, e.g., where HC metrics impact executive remuneration?

3

Are the number of meetings, time allocated to agenda items and content of the pack sufficient to discharge the committee's responsibilities?

4

Does the committee have adequate, regular support from management committees/internal functions to discharge of its duties? At the same time, does the committee

obtain independent insights on specific topics e.g., from external advisers, to allow for robust challenge of management?

5

Does the committee oversee the transparency of external disclosures regarding the matters in its remit?

3.7.2 Key questions specific to the oversight of HC matters

1

Are directors challenging management on the appropriateness of the HC metrics which are being monitored by reference to the link to business strategy?

2

Are directors overseeing how targets are being set and monitoring progress against them? Is the committee ensuring actions are being taken to address the root cause for unsatisfactory progress?

3

Are directors holding management to account for explaining to the workforce HC targets and progress, including but not limited to planned actions to close any gender, ethnic or other form of pay gaps?

4

Does the board/committee oversee the approach to employee engagement surveys including their frequency, topics addressed and whether they provide insights that differentiate

between engagement and culture? Does the board/committee challenge how surveys complement other forms of engagement?

5

Are the sources of cultural insights used by the board/committee for culture monitoring sufficiently broad? How is the board/committee co-relating the insights from different sources to ensure that they are able to make a holistic assessment of culture, any gaps that need to be addressed and the effectiveness of proposed actions?

3.7.3 Key questions specific to the oversight of remuneration matters

1

Is there an effective induction programme for new members of the RC and ongoing refresher training thereafter?

2

Is the RC able to articulate to the workforce how the approach to executive pay is aligned with stated values and culture and how it promotes the right behaviours at the top?

3

Does the RC factor the stakeholder experience when considering executive pay outcomes and the application of discretion? Does the RC corroborate management's views on the stakeholder experience with those obtained from direct engagement?

4

Is the RC confident that the pay structures do not create undue pressure to prioritise returns in the short term and give adequate weighting to long-term, non-financial value creation? If ESG metrics are included, is their link to strategy clear and transparently explained?

5

Has the RC comprehensively considered the potential consequences of remuneration structures on behaviours and decision making?

3.7.4 Key questions specific to the oversight of nomination matters

1

Has the NC debated the most appropriate allocation of new and evolving responsibilities across the board and its committees and accordingly reassessed the skills, diversity and capacity at both the board and individual committee level? Does the NC have a clear approach for determining how best to address skills gaps (through new appointments, advisors or training)?

2

Has the NC considered how board and senior management composition helps bring the stakeholder voice into the boardroom? Are these considerations reflected in succession plans?

3

Does the NC assess the cognitive diversity and culture of the board? Does it understand how the make-up of the board and its culture impact decision making?

4

Does the NC look sufficiently deep into the organisation to identify future talent? Is it satisfied with the nature and quality of executive and senior management development programmes?

5

Are steady-state succession plans regularly revisited? Is there a contingency plan for dealing with unexpected departures?

3.8 Reporting examples

Figure 3.1

Antofagasta: The role and activities of the Remuneration and Talent Management Committee (2020 ARA, pp118 and 134)

Remuneration and Talent Management Committee report

Ensuring our employee value proposition supports long-term sustainable success



“The Committee ensures that the Group’s remuneration arrangements support our purpose and the effective implementation of strategy.”

Francisca Castro
Chair of the Remuneration and Talent Management Committee

2020 Membership and meeting attendance¹

	Number attended
Francisca Castro (Chair)	5/5
Michael Anglin	5/5
Vivianne Blanlot	5/5
Tim Baker ²	3/3
Tony Jensen ³	1/1

- Other regular attendees include the CEO, the Vice President of Human Resources and the Company Secretary.
- At least one Committee member serves on each of the other Board Committees which allows the Committee to consider strategic priorities and the views of all stakeholders in its deliberations.
- The Committee meets as necessary and at least twice per year.
- All Committee members are independent.

1. The Committee also met with independent remuneration consultants Willis Towers Watson during the year to receive an update on global remuneration and talent management strategies and implementation in response to the COVID-19 pandemic and investor and proxy adviser feedback from the 2020 AGM.
2. Tim Baker did not stand for re-election at the 2020 AGM.
3. Tony Jensen joined the Committee from 18 August 2020.

Key responsibilities

- The Committee ensures that the Group’s remuneration arrangements support the Group’s purpose, the effective implementation of strategy and enable the recruitment, motivation, reward and retention of talent.
- The Committee is responsible for setting the remuneration for the Chairman, Directors and the CEO and for monitoring the compensation strategy, level, structure and outcomes for Executive Committee members.
- The Committee actively participates in the Group’s talent management strategy, including the review, consideration and implementation of succession plans for the Executive Committee (excluding the CEO).
- The Committee also reviews workforce remuneration and related policies, including the diversity and inclusion policy, the alignment of incentives and rewards with the Group’s culture and the implementation of policy changes that affect the workforce as a whole.

Key activities in 2020

Governance

- Reviewed the Directors’ and CEO Remuneration Policy and feedback from shareholders prior to submitting the Policy for approval at the Company’s 2020 AGM.
- Reviewed the 2019 Directors’ and CEO Remuneration Report.
- Reviewed Gender Pay Gap and CEO Pay Ratio figures for the Group (although not mandatory for the Group to disclose due to the Group’s few UK-based employees).
- Reviewed the Committee’s terms of reference.

Directors’ remuneration

- Evaluated Chairman, Director and Committee fees, recommending no changes in 2020.
- Reviewed Ramón Jara’s service contract with Antofagasta Minerals SA, recommending no changes in 2020.

Executive remuneration

- Reviewed Annual Bonus Plan and LTIP KPIs, including the impact of the COVID-19 pandemic.

- Evaluated the CEO’s performance and determined the variable compensation payable under the 2019 Annual Bonus Plan.
- Reviewed LTIP eligibility, participants and criteria and approved the grant of the 2020 awards.
- Reviewed performance for LTIP awards granted in 2017 and approved the vesting level.
- Reviewed Group performance against the 2019 Annual Bonus Plan performance metrics and reviewed the metrics to apply to the 2020 Annual Bonus Plan.
- Reviewed and approved the individual performance of Executive Committee members under the 2019 Annual Bonus Plan.

Human resources and policy

- Reviewed and monitored the implementation of the 2020 Human Resources plan.
- Reviewed results from the Group’s workforce surveys including pulse surveys focused on measures implemented to address the workforce challenges arising from the COVID-19 pandemic.

- Reviewed progress with the implementation of the Diversity and Inclusion Strategy.
- Monitored collective bargaining negotiations.
- Reviewed a “New Ways of Working” project to identify on-site, home-based, and hybrid working arrangements applicable to corporate office and operating companies’ employees following the COVID-19 pandemic, in order to generate a more flexible and adaptable organisation.
- Reviewed the Group’s Health and Life insurance policy and approved its renewal.

Talent management and succession planning

- Reviewed the Group’s talent management strategy and succession plans for members of the Executive Committee.
- Approved the implementation of succession plans and revisions to the composition of the Executive Committee and the appointment of new directors at the Group’s operations.

Remuneration and Talent Management Committee

Key responsibilities

- Remuneration governance
- Directors’ remuneration
- Executive remuneration
- Group pay structures
- Talent management and succession planning for the Executive Committee
- Employee engagement
- Talent retention
- Diversity and inclusion

Focus areas for 2020

- Determining the application of the Group’s executive remuneration framework in response to the COVID-19 pandemic.
- Considering feedback from shareholders in relation to the 2020 Directors’ and CEO Remuneration Policy that was approved at the 2020 AGM.
- Monitoring the development and endorsing for Board approval, the New Ways of Working project.

+ See page 134 for more information

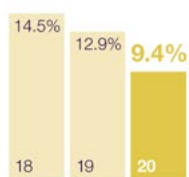
Figure 3.2

Taylor Wimpey: Discloses a strategic objective that explicitly references their workforce and has meaningful KPIs associated with that objective (2020 ARA, pp24 and 25)

Strategic priority	Performance in 2020	Priorities going forward
 <p>Be the employer of choice in our industry</p> <p>Principal Risks D, F, G</p> <p>PR Read more on pages 49 to 53</p> <p>S Read more on pages 34 to 35</p>	<ul style="list-style-type: none"> - We are pleased that our Annual Injury Incidence Rate (AIIR) reduced again to 151 in 2020 (2019: 156). Our AIIR for reportable injuries per 100,000 employees and contractors remains well below both the HBF and Health and Safety Executive Construction Industry averages. - Our dedicated teams have demonstrated the ability to quickly adapt to new working practices through the pandemic. - To gain feedback we ran three 'pulse' surveys in 2020 which were designed to provide a 'temperature check' on employee engagement. These showed our employees to be highly engaged as well as aligned to the Group's actions during the COVID-19 crisis. - We continue to have one of the lowest rates of voluntary employee turnover in the industry. - With a well known shortage of skills, we have taken a proactive approach to our early talent programmes and direct labour model. In 2020, we reviewed the structure of the business and engaged with employees throughout the process. 	<ul style="list-style-type: none"> - We continue to use research and development to test and implement measures on site in order to make our sites as safe as possible. - We continue to value a stable workforce using surveys and feedback to understand our employees' views and continue to develop our employee offering. - In 2021, we plan to run a 'Talkback' survey, as we did in 2019. We undertake an engagement survey periodically and it forms an important part of how we involve, gain feedback from and communicate with our employees. - We continue to improve our recruitment strategy and diversity road map with supportive training and working practices. We aim to reach a wider talent pool through different attraction channels to increase BAME representation in our workforce and establish a more gender balanced workforce which is more representative of the communities we serve.

KPI

Voluntary employee turnover

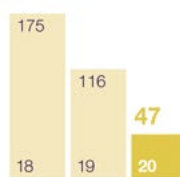


Objective: We aim to attract and retain the best people in the industry and give them opportunities to develop to their full potential. We aim to keep this within a range of 5-15%.

Definition: Voluntary resignations divided by number of total employees.

Why it is key to our strategy: Our employees are one of our greatest competitive advantages and they are crucial to executing our strategy. Low employee turnover supports greater depth of experience, continuity and development of skills within our teams.

Number recruited into early talent programmes

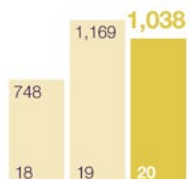


Objective: To reduce the impact of the industry skills shortage and future-proof our business.

Definition: The amount of people recruited onto one of our early talent programmes including graduates, management trainees and site management trainees.

Why it is key to our strategy: Creating a more consistent framework and development path for early and ongoing talent management will underpin our future growth and customer-focused approach. We establish bespoke development programmes to ensure we develop the skills we need when we need them, ensuring we have the experience required to support our strategy.

Directly employed key tradespeople, including trade apprentices

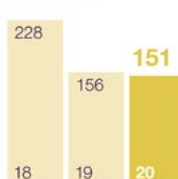


Objective: To improve quality, reduce bottlenecks in key trade supply, reduce the impact of the industry skills shortage and future-proof the business.

Definition: The number of key tradespeople directly employed by Taylor Wimpey including bricklayers, joiners, carpenters, painters, scaffolders and trade apprentices.

Why it is key to our strategy: Against industry-wide skills shortages and uncertainty we aim to future-proof our workforce. We do this by developing skills to build quality homes and behaviours which align our business to our customer-focused approach.

Health and Safety Annual Injury Incidence Rate (per 100,000 employees and contractors)



Objective: We are committed to providing a safe place in which our employees and subcontractors can work and our customers can live.

Definition: Reportable (all reportable) injury frequency rate per 100,000 employees and contractors (Annual Injury Incidence Rate).

Why it is key to our strategy: Health and safety is our non-negotiable top priority. As well as having a moral duty to maintain safety on site, accidents and injuries can have a detrimental impact on the business through additional costs, delays and / or reputational damage.

Figure 3.3

ITV: The ways in which the board and its committees monitored culture and how these contributed to insights (2020 ARA, pp106-108)

The table below sets out key ways in which the Board and/or Committees monitored culture during 2020 and how these contributed to delivering insights into ITV's culture. The matters set out below are regularly considered by the Board at their meetings.

How the Board monitors culture	Cultural insight gained
Engagement	
<p>Board culture review The Board reviewed an analysis of the Company's culture through the results from the 'pulse' survey focused on COVID-19 in 2020, and by benchmarking ITV's data against key indicators of organisational culture (gender pay gap, ethnicity pay gap, voluntary employee turnover, wellbeing survey score).</p>	<p>▶ Results from the 'pulse' survey identified high levels of confidence amongst colleagues in ITV's response to COVID-19 and demonstrated that colleagues felt supported during the crisis (88% of colleagues had confidence in ITV's response to COVID-19; 92% of colleagues felt supported during COVID-19; and 89% felt that ITV was making sufficient adjustments to deal with COVID-19).</p>
<p>Chief Executive The Board received a weekly written report from the Chief Executive between March and May (moving to fortnightly until July) commenting on, amongst other things, culture and morale. The Board has access to the regular Chief Executive vodcast and Q&A. Please see pages 102 to 105 for more ways in which the Directors have engaged with the workforce this year.</p>	<p>▶ An understanding of day-to-day operations, the practical execution of strategy and the cultural context in which employees work. During the COVID-19 pandemic, this was fundamental to providing the Board with an understanding of how employees were coping with the changed working environment and their view on management's response to the crisis.</p>
<p>Outcome Insights from the 'pulse' survey enabled us to target our wellbeing, offering to provide focused support for the mental and physical wellbeing of colleagues, which was monitored by the Board through updates from the Chief Executive.</p>	
Compliance	
<p>Board updates The Board and its Committees are updated on a broad range of business integrity matters, including approaches to combating modern slavery, anti-bribery and corruption, and reporting against the Prompt Payment Code in the UK.</p>	<p>▶ A broad understanding of practices and behaviours and how these align with the purpose, values and strategy of the Group, including an understanding of the Group's approach to supply chain partners.</p>
<p>Mandatory training Board members undertook the 2020 mandatory training for colleagues on the Code of Conduct, cyber security, data protection and privacy and climate action, and subsequently reviewed how the Company supports the understanding and embedding of the Code of Conduct and related policies and standards through this training.</p>	<p>▶ A deeper understanding of how ITV's values and standards are imparted and how colleagues are kept safe and secure and act in a compliant way.</p>
<p>Board culture review The Board reviewed ITV's Code of Conduct.</p>	<p>▶ Insight into how the Code of Conduct promotes the highest standards of ethical business underpinning ITV's values and corporate culture.</p>
<p>Outcome The members of the Board will continue to undertake training on an annual basis, to ensure their understanding of how colleagues are kept safe and secure and act in a compliant way remains current.</p>	

How the Board monitors culture

Cultural insight gained

Health and Safety

The Audit and Risk Committee reviews the systems in place to enable all employees, suppliers, programme participants and all others involved in our production business to identify and raise health and safety issues, as well as duty of care concerns. This includes review of metrics on safety observations reported by colleagues.



Further insight into safety behaviours by evidencing the individual responsibility taken by employees with regard to proactively reporting safety concerns. This has included insight into the additional measures put in place to ensure the physical safety of our colleagues, suppliers and production participants during the COVID-19 pandemic.

Outcome

Through regular Board updates from the Chief Executive and from the Audit and Risk Committee, the Board will continue to ensure the right processes and procedures are in place for the safety of our employees, suppliers and programme participants, and that ITV continues to uphold high standards of duty of care.

Wellbeing and Mental Health

'Deep-dive'

The Audit and Risk Committee undertook a 'deep dive' on wellbeing during COVID-19 for our people, talent and programme participants.



Insight into how the business was prioritising the health and wellbeing of our colleagues across five fronts during the COVID-19 pandemic: health, security, environment, relationships and purpose.

Review of mental health in ITV's Social Purpose campaigns

The Board reviews the impact of our Social Purpose campaigns annually.



Insight into how ITV's Social Purpose campaigns promote awareness and acceptance of mental health issues on-screen and off-screen, and the success of these initiatives in influencing culture internally and externally.

Duty of care

The Audit and Risk Committee reviewed ITV's duty of care processes and received updates from the Duty of Care Operating Board (which were reported to the Board), on the processes and standards in place for employee wellbeing and what we expect from our partners producing shows for broadcast on ITV. There was also feedback from the Mental Health Advisory Group (external expert advisers) regarding our programmes and external campaigns, as well as guidance and support on all aspects of ITV's approach to mental health and wellbeing in the areas of workforce, production teams, participants in our programmes and viewers, to ensure ITV remains at the leading edge of best practice. This included feedback regarding ITV's management of the COVID-19 crisis and the Britain Get Talking campaign, one of ITV's mental wellness campaigns to help families get closer.



- Insight into mental wellbeing processes and support for colleagues, to ensure that the acceptance, importance and safeguarding of culture, both organisationally and in what we broadcast, embraces social inclusion. This has enabled the Board, through management, to monitor colleagues' mental and physical wellbeing during the COVID-19 pandemic and ensure the appropriate tools and support are in place.
- Insight into the Mental Health Advisory Group's recommendations and guidance on approaching mental health, both internally and externally, and into the ways in which ITV uses its platform to get messages across to audiences, which during 2020, included key demographics seen to be particularly vulnerable during the COVID-19 crisis.

Outcome

Additional measures were put in place to further support colleagues' health and wellbeing when working remotely during the COVID-19 pandemic (as detailed on page 52). The Duty of Care Board is responsible for monitoring the efficacy of these actions on culture, which is reported to the Board.

Social Purpose, Diversity and Inclusion

The Board annually reviews Social Purpose, Diversity and Inclusion. The appointment of Ade Rawcliffe to the Management Board as the Group Diversity and Inclusion Director in 2020 has added further importance to the topic of diversity and inclusion in the Boardroom. Ade provides updates to the Board on progress on ITV's Diversity and Inclusion strategy (see page 48).



- Insight into key priorities and initiatives in pursuit of the Company's wider strategic vision, and how these translate into shaping society for good both on-screen and off-screen. This includes insight into the pace of delivery of the Diversity Acceleration Plan, the impact this plan is having on colleague sentiment and ITV's reputation as having an inclusive culture, and the latter's appeal to future employees.
- Insight into internal and external engagement with the Company's strategy and how ITV's Social Purpose is perceived amongst stakeholders.

Figure 3.3 continued

ITV: The ways in which the board and its committees monitored culture and how these contributed to insights (2020 ARA, pp106-108)

How the Board monitors culture	Cultural insight gained
Social Purpose, Diversity and Inclusion continued	
<p>The Nominations Committee monitors progress against diversity targets regularly, with diversity on the Board agenda annually.</p>	<p>▶ Insight into management's accountability for improving BAME and disability representation in their functions year-on-year, and also into how change is being accelerated through Group-wide initiatives.</p>
<p>Outcome</p> <p>See pages 42 to 49 for outcomes related to Social Purpose, Diversity and Inclusion.</p>	
Speaking Up	
<p>The Audit and Risk Committee monitors and reviews the effectiveness of the Group's whistleblowing arrangements annually, as well as the wider 'Speaking Up' framework of raising concerns and grievances, and provides feedback to the Board. See page 122 for how the Speaking Up framework is being revised.</p>	<p>▶ A perspective on the nature of employee concerns and trends in the behaviours of the workforce generally, which was also considered in light of the ongoing difficulties created by the COVID-19 pandemic. The Audit and Risk Committee was pleased with the proposed improvements, which will enhance our people's ability to raise concerns and support ITV's open culture, and enable more meaningful reporting on Speaking Up concerns to the Management Board and Audit and Risk Committee.</p>
<p>Outcome</p> <p>The Audit and Risk Committee Report is responsible for tracking progress and monitoring the revised Speaking Up framework, and feeding back to the Board on how this has supported the openness of ITV's culture (refer to page 122).</p>	
Internal Audit	
<p>Internal Audit provides the Audit and Risk Committee with observations and commentary on culture to help the Committee understand why certain behaviours occur and any pressures that might be driving those behaviours. Also, the details of outcomes of internal audit reports judged to be less than satisfactory are available to all Board members.</p>	<p>▶</p> <ul style="list-style-type: none">• Insight from an independent third party, Deloitte, on the culture across the Group and the reflection of the Group's values by management and other employees.• A direct view of areas of practice, policy and behaviours that were not at the desired standard and details of the corrective action being taken.
<p>Outcome</p> <p>The 2021 internal audit plan includes a proposed standalone review of management's approach to monitoring culture and assessment against ITV's values. The findings will be reported back to the Audit and Risk Committee.</p>	
Remuneration	
<p>The Board is conscious of the role that remuneration, and setting performance goals, has on promoting the right behaviours and the need to align incentives and rewards with culture.</p>	
<p>Outcome</p> <p>Please refer to the Remuneration Report on page 130 for specific actions taken, and how the Committee will monitor performance goals and align incentives and rewards with culture (with oversight from the Board).</p>	

Figure 3.4

Synthomer: Cultural identifiers mapped against key aspects of culture considerations (2020 ARA, p87)

Cultural identifier	Promoting integrity and openness	Cultural priorities	Valuing diversity and inclusion	Being responsive to the views of stakeholders	Culture aligned to purpose and values	Culture aligned to strategy
Employee survey data	●	●	●	●	●	●
Code of Conduct compliance	●	●	●		●	●
Compliance training data	●	●			●	●
Use of Ethics Helpline	●	●		●	●	●
Site visits and workforce engagement	●	●		●	●	●
Risk and risk assessment reports	●	●			●	●
Reports on the promotion of diversity and inclusion	●	●	●	●	●	●
Whistleblowing reports	●	●		●		
Gender pay gap progress	●	●	●		●	●
Payment practice reports	●	●		●	●	●
Health and safety performance	●	●			●	●
Environmental targets	●	●		●	●	●

Culture

The Board is conscious of its responsibility for setting the cultural tone and deploys a number of monitoring and assessment tools.

During 2020 significant effort was devoted to extending and embedding our culture within OMNOVA through the roll-out of the following:

- Safety, Health and Environmental practices
- Training workshops on our Code of Conduct
- Town hall meetings and other employee communications including Chief Executive Officer videos
- New values

The work on our diversity and inclusion policies and practices during the year, as described on pages 67 and 68, is fundamental to ensuring our culture respects and values differences which supports business performance and innovation.

Figure 3.5

Glencore: The role of the board’s Ethics, Compliance and Culture Committee and the Health, Safety, Environment & Communities Committee in oversight over culture matters (2020 ARA, pp 92, 95 and 96)

Board Committees

The following permanent Committees are in place to assist the Board in exercising its functions: Audit, Nomination, Remuneration, HSEC and ECC. The Board is provided with technical and commercial updates as appropriate during the year, including as to compliance and our Raising Concerns programme. The Board may also establish temporary committees for specific purposes, such as the Investigations Committee. As each Committee reports to the Board, meetings are held prior to Board meetings, during which the chair of each Committee leads a discussion concerning the Committee’s activities since the previous Board meeting.

Corporate Governance

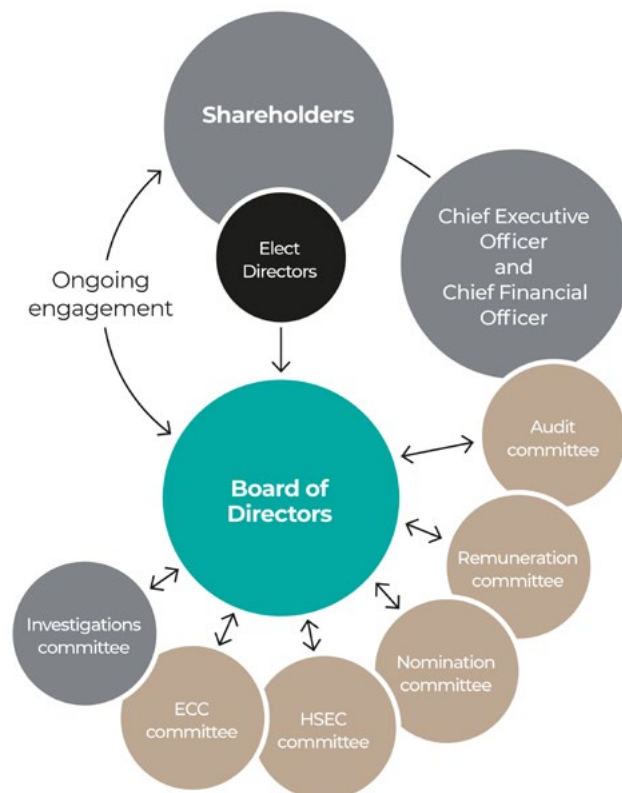


Figure 3.5 continued

Glencore: The role of the board’s Ethics, Compliance and Culture Committee and the Health, Safety, Environment & Communities Committee in oversight over culture matters (2020 ARA, pp92, 95 and 96)

Strategic report | **Governance** | Financial statements | Additional information

ETHICS, COMPLIANCE AND CULTURE (ECC) REPORT

The Committee met five times during the year. Each Committee member served throughout the year and attended all of the meetings. Nicola Leigh is the secretary of this Committee.

RESPONSIBILITIES

The main responsibilities of the Committee are:

- Overseeing the implementation of the Group Ethics and Compliance Programme including Group policies, standards, procedures, systems and controls for the prevention of unethical business practices and misconduct
- Reviewing reports and the activities of the following management committees: ESG Committee (formerly business ethics committee) and business approval committee (see page 39 for further information)
- Assessing and monitoring culture to ensure alignment with the Company’s purpose and values
- Monitoring the Group’s stakeholder engagement

MAIN ACTIVITIES

During the year, the Committee’s activities included the following:

Ethics and Compliance

- Provided oversight of the key elements of the Ethics and Compliance programme, including risk assessments, internal monitoring, training and awareness, and reviews conducted by third party specialists
- Reviewed the implementation and effectiveness of the Ethics and Compliance Programme
- Reviewed the compliance structure and resourcing to assess whether it is sufficient for the Group
- Considered a variety of other material ethics and compliance issues.
- Reviewed the Whistleblowing, Raising Concerns and Investigations framework and reviewed and recommended to the Board revised policies for Anti-Corruption, Whistleblowing and Competition Law
- Considered the effect of Covid-19 on the efficacy of the Group Ethics and Compliance programme

Stakeholder engagement

- Reviewed our ESG engagement, including with NGOs and multi-stakeholder organisations that invest or engage on ESG issues, and track the development of reporting on ESG related topics.
- Considered the conduct and positions of our member organisations during 2020 on material issues in accordance with our Political Engagement Policy. This included a detailed analysis of activities across the main countries in which the Group operates and the organisations either of the globally ambit or in those countries to which Group companies are current members.



Anthony Hayward
Chair

Other members

Patrice Merrin
Gill Marcus
Peter Coates

Workforce Engagement

- Management of health related concerns, policies and communications was considered both before and after the effects of Covid-19.
- Consideration of HR Group policies, standards, legislative compliance around the globe and greater use of technology.
- Consideration of the employee campaign in respect of the Group’s purpose and values.
- Reporting on culture surveys: (1) the marketing business and (2) the Group as a whole. Employee attitudes to the Group’s values, its commitment to ethical behaviour and scores covering the compliance programme were considered in particular.
- As part of the Committee’s role in assessing and monitoring Group culture, it was expected that members of the Committee would hold a series of meetings that would take place with members of our workforce in various locations across the Group. Initially these plans were put on hold due to Covid-19, but once it became clear in the second half of the year that in-person meetings would be impractical, a series of virtual engagements was established.

Engagement by the Board and senior management is included in Our people section, on page 27.

Tony Hayward
Chair of the ECC Committee
10 March 2021

HEALTH, SAFETY, ENVIRONMENT & COMMUNITIES (HSEC) REPORT

The Committee met five times during the year. Each Committee member served throughout the year and attended all of the meetings. Every scheduled meeting had a substantial agenda, reflecting the Committee's objective of monitoring the achievement by management of ongoing improvements in HSEC performance.

John Burton is the Secretary of this Committee.

RESPONSIBILITIES

The main responsibilities of the Committee are:

- Ensuring that appropriate Group policies are developed in line with our Values and Code of Conduct for the identification and management of current and emerging health, safety, environmental, community and human rights risks
- Ensuring that the policies are effectively communicated throughout the Company and that appropriate processes and procedures are developed at an operational level to comply and evaluate the effectiveness of these policies through:
 - assessment of operational performance
 - review of updated internal and external reports
 - independent audits and reviews of performance with regard to HSEC matters, and action plans developed by management in response to issues raised
- Evaluating and overseeing the quality and integrity of any reporting to external stakeholders concerning HSEC matters
- Reporting to the Board

MAIN ACTIVITIES

During the year, the Committee engaged in:

- **HSEC Strategy:** reviewing the Group's annual HSEC strategy and its implementation
- **Governance:** approved new and revised key HSEC and human rights policies
- **Health and Safety:** overseeing the Group's fatality reduction programme including:
 - eight deep dive SafeWork (including fatal hazard) assessments;
 - commencement of the project SafeWork 2.0;
 - implementation of the zinc and copper departments' safety cases (including presentations at every meeting through the year); and
 - progress against the corporate led-Kazinc safety intervention
 - strengthening of investigation process, including targeted training



Peter Coates

Chair

Other members

Ivan Glasenberg
Anthony Hayward
Patrice Merrin

- **Health and Safety:** review of each fatality occurring with emphasis on lessons to be learned across the Group; oversight of a revamping of leadership of fatality investigations including a training programme; reviews of critical incidents and trends in TRIFR, LTIFR, HPRIs and other relevant statistics
- **Environment:** assessing the Group's strategy concerning GHG emissions, energy, water and stewardship and other impacts
- **Communities:** reviewing material issues, investigations and complaints
- **Social and human rights:** monitoring the Group's strategy and reviewing serious incidents
- **Assurance:** reviewing work of the HSEC Audit function including its training activities
- **Enterprise Risk Management:** overseeing the development of a new ERM standard for the industrial business
- **Tailings storage facilities:** overseeing the work on the Global Tailings Review Standard and the internal work on the Group's facilities, particularly those designated as high risk
- **External affairs:** monitoring the Group's external HSEC reporting, continuing engagement on material issues and stakeholder and investor engagement
- **Other matters:** Considering a variety of other material HSEC issues

Peter Coates

Chair of the HSEC Committee
10 March 2021

Figure 3.6

AstraZeneca: Sources of culture insight brought together in a workforce culture report, which includes a metrics dashboard and through the use of a board portal (2020 ARA, p113)

Workforce culture

During 2020, the Board reviewed the workforce culture report, which demonstrates how our Values and behaviours are embedded throughout all levels of the workforce. Within the report, there is a summary metrics dashboard, which is divided into five categories reflecting various key aspects of AstraZeneca's culture (Performance and Development, Integrity, Engagement, Reputation and Sustainability). The dashboard is compiled from data across the global workforce including scores from the Pulse surveys and promotion and resignation rates. Additionally, Directors receive information on compliance issues and grievance cases, and a workforce trends report which covers broader metrics around workforce structure, composition, hiring and retention. The Board monitors the data for trends and to ensure that a culture consistent with our Values is being fostered. The report also contains a list of approximately 10 further analyses that reference culture and workforce engagement and help the Board to judge our culture and whether it reflects our Values. This information is made available to Directors via the Board portal.

The workforce culture report is reviewed by the Board twice per annum. Where the Board has concerns that the culture does not reflect our Values, the Board seeks assurances from management that remedial action has been taken, and where necessary, requests senior management's attendance at Board meetings to discuss corrective actions.

Workforce trends report and Annual Global Remuneration Overview

The Board was provided with information outlining progress against a range of metrics related to workforce culture and engagement. This information is provided biannually to enable Directors to monitor trends and, if required, take action. The Remuneration Overview provides evidence of how the workforce is rewarded in line with our principles.

92%

of employees stated they believe strongly in AstraZeneca's future direction and key priorities in the November 2020 Pulse survey

Employee opinion surveys (Pulse)

Twice a year the workforce are invited to take part in an employee opinion survey, which seeks employees' views of the business. The results are reviewed by management and trends are monitored. The results are shared with the Board, which enables it to understand the views and sentiments of the workforce.

91%

of employees took part in the November 2020 Pulse survey

Actions and outcomes

The Board considered the workforce throughout its Principal Decisions in 2020. Directors ensured that, where required, queries raised during engagements were fed back to management or discussed by the wider Board. In 2020, the Board discussed the impact of the COVID-19 pandemic on employees. The Board received regular updates on the steps taken by management to create safe working environments, support the mental and physical wellbeing of the workforce and access to testing for employees. The Remuneration Committee also discussed and reported back to the full Board the Group's decision to remove performance ratings and the shift our focus to coaching, development and contribution to the organisation.

Figure 3.7

John Wood Group: Example of a discretionary matrix designed by the RC to determine remuneration outcomes (2020 ARA, p104)

Discretionary matrix

The Committee exercises discretion when determining the outcomes of short and long-term variable reward in addition to the formulaic outcomes considering any year-on-year changes, market conditions and relevant environmental, social and governance (ESG) matters. Such factors may include (but are not limited to); workplace fatalities and injuries, significant environmental incidents, large or serial fines or sanctions from regulatory bodies and/or significant legal judgements or settlements.

The summarised discretionary decision matrix acts as a framework for the Committee to consider other factors which drive the overall performance of the business and the impact across stakeholders, ensuring that we avoid reward for failure in our variable reward outcomes.

This framework can be found at: woodplc.com/discretionarymatrix

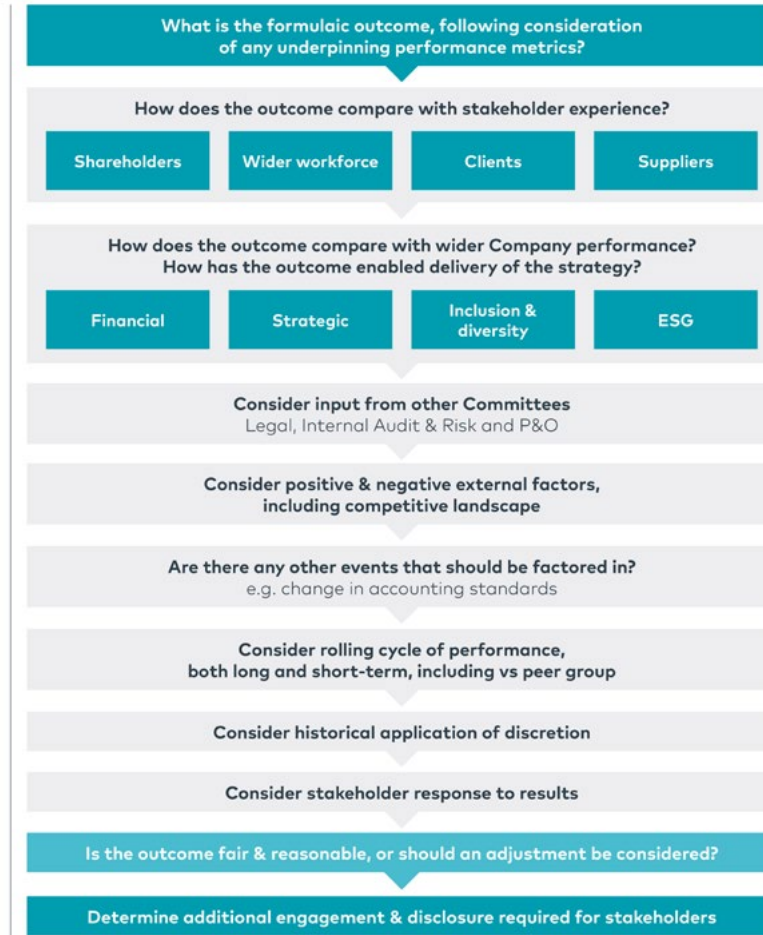


Figure 3.8

DS Smith: RC chair discusses DS Smith's approach to obtaining reward-related feedback from employees (2021 ARA, pp86 and 89)

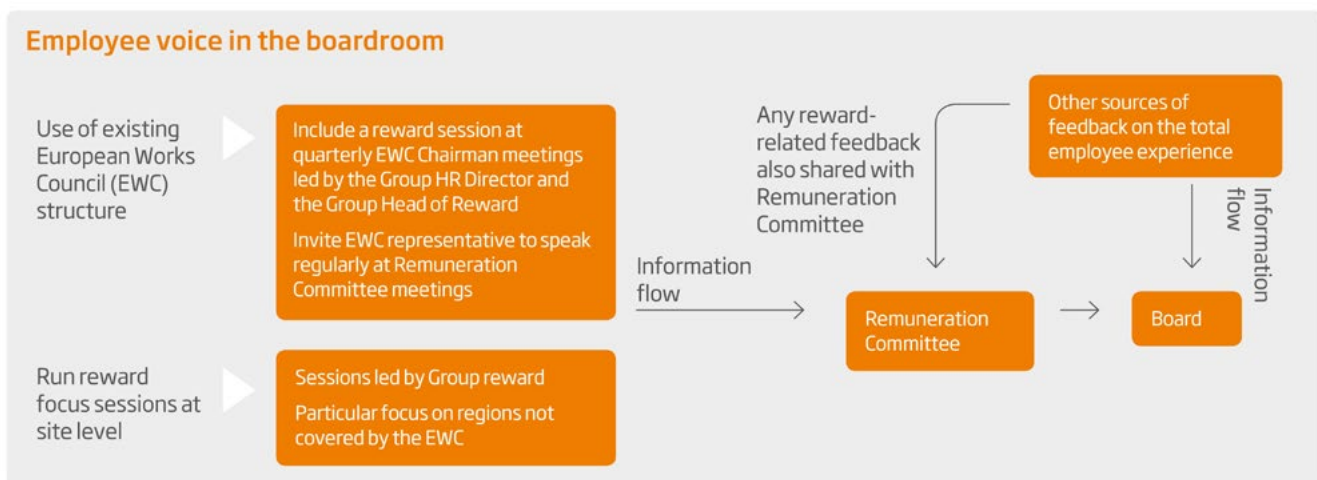


Figure 3.9

Pearson: Reports against SASB standards and provides an index of metrics (2020 ARA, p54)

Sustainability Accounting Standards Board (SASB) Index



For the first time, we are providing an index of the metrics we are reporting in response to the SASB standards. Because of the nature of our business, we are reporting metrics from the Media & Entertainment, Internet & Media Services, and Education

standards. In some cases, we have omitted metrics, and we will undertake work in 2021 and plan to report additional metrics in our next annual report.

Sustainability disclosure topic	Accounting metric	Code	Response
Media & Entertainment Industry Standards			
Media Pluralism	Percentage of gender and racial/ethnic group representation for (1) management, (2) professionals, and (3) all other employees	V-ME-260a.1	See table on p5 and p50
	Description of policies and procedures to ensuring pluralism in news media content	SV-ME-260a.2	While our content is for learning rather than news media, our approach to pluralism is reflected in our work on representation in content on p44
Journalistic Integrity & Sponsorship Identification	Description of approach for ensuring journalistic integrity of news programming related to: (1) truthfulness, accuracy, objectivity, fairness, and accountability, (2) independence of content and/or transparency of potential bias, and (3) protection of privacy and limitation of harm	SV-ME-270a.3	We have an Editorial Policy that applies these standards to our educational content. See p44
Intellectual Property Protection & Media Piracy	Description of approach to ensuring intellectual property (IP) protection	SV-ME-520a.1	See p62 in the principal risks section
Internet Media & Services Industry Standards			
Environmental Footprint of Hardware Infrastructure	(1) Total energy consumed, (2) percentage grid electricity, (3) percentage renewable	TC-IM-130a.1	See our Sustainability & ESG supplement: plc.pearson.com/en-GB/purpose/esg-reporting
	(1) Total water withdrawn, (2) total water consumed, percentage of each in regions with high or extremely high baseline water stress	TC-IM-130a.2	See our Sustainability & ESG supplement for (2): plc.pearson.com/en-GB/purpose/esg-reporting
Data Privacy, Advertising Standards & Freedom of Expression	Description of policies and practices relating to behavioural advertising and user privacy	TC-IM-220a.1	See p62 for in the principal risks section for a description of privacy
Data Security	Description of approach to identifying and addressing data security risks, including use of third-party cybersecurity standards	TC-IM-230a.2	See p62 in the principal risks section
Employee Recruitment, Inclusion & Performance	Employee engagement as a percentage	TC-IM-330a.2	See KPIs on p5 and p49
	Percentage of gender and racial/ethnic group representation for (1) management, (2) technical staff, and (3) all other employees	TC-IM-330a.3	See KPIs on p5 and p50
Education Industry Standards			
Data Security	Description of approach to identifying and addressing data security risks	SV-ED-230a.1	See p62 in the principal risks section
	Description of policies and practices relating to collection, usage, and retention of student information	SV-ED-230a.2	See p61 in the principal risks section

Figure 3.10

IAG: Table showing alignment with external frameworks and GRI standards at the end of the sustainability section of its annual report (2020 ARA, p76)

Summary of alignment with external frameworks

Key: **Green** is GRI CORE

Sustainability section	Sustainability subsection	GRI Standard	Other frameworks
Governance	Sustainability strategy, governance	102-43, -44, -46, -47, -48	
Governance	Supply chain governance and management	308-2, 414-2	
Governance	Ethics and integrity	102-16 , 102-17, 205-1, -2, -3	
Governance	Sustainability risks & opportunities	102-11 , 102-15	
Governance	Stakeholder engagement	102-13, 102-43, -44	
Planet	Climate change impacts, commitments, roadmap	305-1, -2, -3, -4, -5 See next table	UK SECR TR-AL-110a1, -a2
Planet	Noise and air quality	305-7	
People and Prosperity	Workforce overview	403-4, 408-1, 409-1	
People and Prosperity	Inclusion and diversity	406-1	
People and Prosperity	Community engagement and support	102-13 , 201-1	
Relevant Planet metrics	Partial/full alignment with GRI standard		SASB
Scope 1	305-1		TR-AL-110a1
Scope 2	305-2		
Scope 3	305-3		
Emissions intensity	305-4		
Electricity, energy	302-1		
Jet fuel use	301-1		
GHG reduction initiatives	305-5		
Waste	306-1 (2020), 306-2 (2020), 306-3 (2020)		
Relevant People metrics	Partial/full alignment with GRI standard		
Employment	102-7		
Headcount	102-7		
Employment composition	102-8		
Employees by country	102-8		
Gender diversity	405-1		
Age diversity	405-1		
Workforce turnover	401-1		
Social dialogue and trade unions	102-41		TR-AL-310a1
Hours of training	404-1		
Lost Time Injury (LTI) frequency rate	403-9		
Fatalities	403-9		

Figure 3.11

Direct Line: Completed an analysis of ethnicity data, discusses the key findings and discloses the actions taken in response and the progress made during the year (2020 ARA, p50)

We aspire to create an environment where everyone feels free to be themselves and succeed in their careers. Our culture is one where we strive to care about our customers and one another. That's what our values are designed to achieve, and they underpin who we are and what we stand for.

Diversity and inclusion strategy

One of our values is "bring all of yourself to work" because as well as simply being the right thing to do, focusing on diversity and inclusion makes good business sense and delivers better outcomes.

This year we completed a comprehensive diversity and inclusion survey – to which nearly 6,500 of our people responded. It's shown us what we do well and where we need to improve, highlighting a gap between the experiences of different communities.

These findings have helped to inform a refreshed diversity and inclusion strategy, with greater ambition and reach.

Supporting race equality

Alongside our survey, we completed an in-depth analysis of our ethnicity data.

What we found:

- One in six or 17% of our colleagues is Black, Asian or Minority Ethnic ("BAME"); Black colleagues make up 3% of the total.
- BAME representation is concentrated in our lower and middle grades and reduces with seniority.
- If you are Black, mixed ethnicity, or from one of the smaller ethnic groups, it doesn't feel as positive to work for the Group as it does for other colleagues.

Our response:

We have signed Business in the Community's Race at Work charter and introduced new targets to hold ourselves to account for improving Black, Asian and Minority Ethnic representation in leadership roles by the end of 2022.

13%

Increasing BAME representation in leadership roles from 10% to 13%

1.5%

Increasing Black representation in leadership roles from 0.5% to 1.5%

Making progress

Supported by our employee networks, we have launched an awareness and education programme to build empathy and a greater understanding of issues. This includes a reverse mentoring scheme to help our senior leaders better appreciate the barriers and challenges faced by certain communities.

We have introduced new principles for senior-level recruitment to help protect from bias – including anonymised CVs and diverse shortlisting, as well as enhancing the mandatory training completed by recruiting managers.

All our leaders are completing inclusive leadership training and in 2021 we're launching a diversity and inclusion fluency programme to ensure all people managers are equipped to have better conversations and support their teams.

Figure 3.12

Experian: Remuneration approach incorporating ESG and having regard for the stakeholder experience (2021 ARA, pp112 and 113)

Q&A

Q: Can you provide some insight on any additional factors that shaped the Committee's thinking in setting FY21 incentive plan targets?

From the beginning of the pandemic, the Committee's strong preference was to allow the Remuneration Policy to apply unadjusted, and not to apply discretion to any outstanding LTI awards.

When 2020 LTI plan targets were set the vesting levels of the outstanding (2018 and 2019) LTI awards were – understandably – not anticipated to hit the projected pre-COVID-19 levels. While the Committee were not intending to apply any discretion to those outstanding awards – in that their formulaic vesting levels would simply prevail – it was felt inappropriate not to reflect the known impact of the global pandemic when setting targets for the awards granted in 2020.

Therefore, the agreed 2020 LTI targets reflect the uncertainty and challenges of FY21 but, importantly, also our unchanged ambitions for the remainder of the three-year performance period. The strength of our conviction is demonstrated by the decision to retain our existing performance target ranges for three of the four metrics (Operating Cash Flow, Return on Capital Employed and Total Shareholder Return (TSR)) for the 2020 LTI plan awards.

In order to set a motivational but stretching target range for the Benchmark Earnings Per Share (EPS) metric, we blended the anticipated impact on earnings in FY21 with a return to previous target ranges for the remaining two years of the three-year performance period. This resulted in an EPS performance range of 3% – 7% per year, over the three-year performance period, which is lower than our more recent performance ranges, but is still very stretching over the three-year period of the awards.

Q: Has Experian considered incorporating Environmental, Social and Governance (ESG) metrics into the executive incentive plans?

In recent months a clear 'direction of travel' has emerged, with more investors raising this particular query. To date, we have felt that we have always taken our ESG agenda seriously and with appropriate focus such that there has not been a perceived necessity to include an ESG metric in our incentive framework. In recent years, we have consulted quite extensively on our performance metrics and the feedback from those engagements has shaped our current framework. As with any metric to be considered for inclusion in our incentive framework, we look for a strong strategic alignment and something that resonates with the Company's purpose.

We will begin to discuss this topic in more depth in the coming year and consider how the important aspects of ESG should shape our remuneration arrangements.

Q: Have you made any redundancies as a result of COVID-19?

No. In line with our normal practice we made changes to our business portfolio during the year and continued with organisation and technology transformation activities planned or announced in advance of FY21, and the onset of COVID-19.

Overall we maintained the same total number of employees for this financial year as the previous one. As part of the implementation of any transformational activities, and as is our normal practice, we sought opportunities to redeploy employees wherever possible, and where this wasn't feasible employees were provided with additional support, including enhanced severance terms, adjustment periods recognising local pandemic-related restrictions and outplacement resources.

Q: What is Experian's plan for aligning UK-based executive director pension provisions with the majority of the UK workforce?

In line with our 2020 Remuneration Policy, any new UK-based executive director appointments would receive a cash pension allowance or pension contribution that is aligned with the majority of the wider UK employee workforce (currently an employer contribution of 10% of base salary).

From 1 January 2023, the cash pension allowance of our incumbent UK-based executive directors (currently 20% of base salary) will be reduced to a cash pension allowance of 10% of base salary to align to the employer pension contribution of the majority of the wider UK employee workforce.

Stakeholder experience in FY21

Employees

- No furloughing of staff
- Global employment maintained at 17,800
- Pay freeze but no reductions to employee salary in FY21
- No forced annual leave or reduced working hours
- Normal bonus entitlement for FY20 and FY21
- Enhanced flexible working from home, to better support personal circumstances
- 97% employees globally working from home in FY21
- 3.2% global pay increase budget for FY22
- US\$700 Thank You Share Award with a further 2-for-1 matching opportunity

Investors

- Dividends of US\$32.5 and US\$14.5 per share paid in July 2020 and February 2021, respectively
- Share price stability, 11% increase¹ in FY21
- No shareholder capital raising

Executives

- Pay freeze applied for FY21
- Executive directors voluntarily waived 25% of their base salaries for six months in FY21
- No adjustments to in-flight LTI awards

Experian Group

- No financial government support taken in any of our operating regions
- Protected strategic investments and executed all planned acquisitions to support future growth
- Experian is proud to have been in a position to provide pro bono support to national governments to enable COVID-19 relief to be directed to those most in need

Figure 3.13



Rotork: Good explanation of how non-financial metrics are calculated and their linkage to strategy (2020 ARA, p48)



Figure 3.14

SEGRO: Demonstrates alignment between the remuneration of employees and executive directors (2020 ARA, p136)

WORKFORCE REMUNERATION

ALL EMPLOYEES 	 EXECUTIVE DIRECTORS
Increases approved by the Remuneration Committee	← SALARY → Pay rise in line with employee pay
All employees are eligible for a bonus Targets: TPR, RRG, Profit, Personal performance	← BONUS → Maximum 150% Targets: TPR, RRG, Profit
Leadership team 25% Deferred for 3 years	← DEFERRED SHARE BONUS PLAN → 50% Deferred for 3 years
Leadership team and senior managers 3-year performance period, No holding period Targets: TSR, TPR, TAR	← LONG TERM INCENTIVE PLAN → Maximum 250% 3-year performance period, 2-year holding period Targets: TSR, TPR, TAR
(UK) 12% matched contribution	← PENSION BENEFIT → 20% cash, reducing to 12% by 31 December 2022
Maximum £3,600 Minimum 3-year hold	← SHARE INCENTIVE PLAN → Maximum £3,600 Minimum 3-year hold
(UK) £500/month 3-year savings period	← SHARESAVE → £500/month 3-year savings period

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