# Adoption of the Wates Principles among UK Family Businesses

By Martin Kemp, Francesca Cuomo, Silvia Gaia, Diogenis Baboukardos, Giovanna Michelon and Teerooven Soobaroyen

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## A Family Business Research Foundation Report


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# About the Family Business Research Foundation

The Family Business Research Foundation was established as a registered charity (no. 1134085) in 2009 to foster greater knowledge and understanding of family firms and their contribution to the UK economy and society, as well as the key challenges and opportunities that they face.

The Foundation is an organisation uniquely focused on understanding the UK family business sector. The results of our research have become one of the primary sources of evidence on the impact of family companies in the UK and are relied upon by government, family businesses (as well as their advisors), organisations, academics and researchers to help underpin their decision-making and actions.

The Charity aims to help grow a strong and thriving UK family business sector by expanding the knowledge and understanding of the businesses and their needs through research, analysis and evidence-based guidance.

We aim to ensure that the best data possible are available on UK family businesses. We support and engage researchers and academics working in this field and carry out research focused on the areas of greatest impact on UK family businesses.

The Charity is not trying to replicate corporate research done elsewhere but focuses on the effect of family ownership on companies' operations and its impact on the economy and society. This is done for the public benefit and all our findings and publications are shared on an open-source basis, free of charge. The Family Business Research Foundation's publications are designed to create a better understanding of family business, for the benefit of all.

**fbrf.org.uk**

# Foreword

I am pleased to introduce this report, a comprehensive study on the adoption of the Wates Principles by UK family businesses. Sir James Wates CBE, Chairman of the coalition that created the Principles, has stated that they “are a tool to help serve essentially as a mirror for companies to hold up to themselves – to assess their own governance and to make improvements”.

The report reveals that many large family businesses are interested in embracing these Principles. However, it underscores the need for improved disclosures, especially in board composition and director accountability.

In my opinion the number of family companies adopting the Wates Principles in the first year seemed to be a good start and the level of compliance was generally at a high level but only time will tell if this momentum can be maintained.

The research emphasises the significance of cultivating a reporting culture in UK private and family businesses. By aligning more closely with the Wates Principles, these businesses can strengthen stakeholder trust. The report also identifies potential areas for further research on governance practices in large UK family firms.

I highly recommend this report to our stakeholders and the wider family business community.

Yours sincerely,

Sir Michael Bibby, Chairman, Family Business Research Foundation

# Contents

# Executive Summary

This report explores differences in the corporate reporting practices between family vis-a-vis non-family large private firms in the UK. The Wates Principles were introduced in 2018 to provide large private businesses in the UK with a governance framework emphasising company purpose, board roles, risk management and stakeholder engagement. The research used data from 2019/20 annual reports to compare the adoption of the Wates Principles and the extent of governance reporting among large family firms versus non-family firms. Consistent with the European Commission's definition of a family business, family firms are identified by the proportion of shares owned by the family or individual as the global ultimate owner, using the following thresholds: 50 per cent family ownership (ultimate voting rights) in private firms; or 25 per cent family ownership (ultimate voting rights) in listed firms. Key findings from the report include:

- In the financial year-ends between December 2019 and March 2020 (hereafter, in 2019/20), the rates of adoption of a code of any type were similar for family and non- family firms, with 35.6 per cent and 38.2 per cent of firms adopting a code of any kind, respectively.
- The Wates Principles were by far the most commonly adopted code among large private firms. Family-owned firms were slightly more likely to adopt the Wates Principles compared to non-family firms (31.8 versus 28.0 per cent respectively).
- Among those firms who adopted the principles, the overall pattern of disclosure in the areas covered by the Wates Principles was broadly similar among family and non-family businesses. For both family and non-family firms, the extent of disclosure was greatest in those items related to opportunity and risk, and stakeholder relationships. Less frequently disclosed areas included company purpose and leadership, and board composition.
- Non-family firms were found to have disclosed more information relating to the composition, balance, diversity, size, structure and effectiveness of their boards. Non-family firms were also found to provide significantly more extensive disclosures on director accountability compared with family firms.
- Our research underscores the importance of the Wates Principles as a governance framework for private firms in the UK, particularly family businesses.
- Our findings also suggest that more guidance and support is needed to help private firms improve their disclosures. This is especially important given these findings are based on data from the first year of the requirement, when businesses were finding their way. While improvement is needed, this will take time to fully embed.
- The Financial Reporting Council has published its second assessment of the quality of reporting from private companies who have chosen to follow the Wates Principle in August 2024. It shows that the Wates Principles continue to be the most widely adopted corporate governance code among large private companies. While there were some improvements in certain disclosure areas compared to 2019/20, companies continue to struggle with providing meaningful disclosures around key areas (Gaia *et al*, 2024).

The report ends with some pointers for future research to build on the study reported here.

# 1. Introduction

The UK Government's 2016 Green Paper (BEIS, 2016) on corporate governance reform sought to identify what changes might be needed to build on the UK's existing corporate governance regime. Corporate governance in the UK's largest privately held businesses was one of the three main areas considered. Under the UK's current corporate governance arrangements, these businesses are not required to meet the same formal corporate governance and reporting standards as listed companies. As the Green Paper pointed out, many private firms have voluntarily adopted good governance practices and, as this report shows, have adopted sector-specific codes or the Institute of Directors' Corporate Governance Guidance and Principles for Unlisted Companies in the UK (2010). The Green Paper asked whether higher minimum corporate governance and reporting standards should be set for such firms and consulted on ways of achieving this; for example, by extending the scope of the UK Corporate Governance Code from listed companies to encompass privately held businesses or developing a new code tailored to large private firms.

In December 2018, after an extensive process of consultation, the UK's Financial Reporting Council (FRC) published the Wates Principles and accompanying guidance (FRC, 2018). In February 2022, the FRC published its first in-depth assessment of the extent of reporting from private companies that chose to follow the Wates Principles (Gaia et al., 2022). More details about the Wates Principles and the results of this study are included in Section 2.

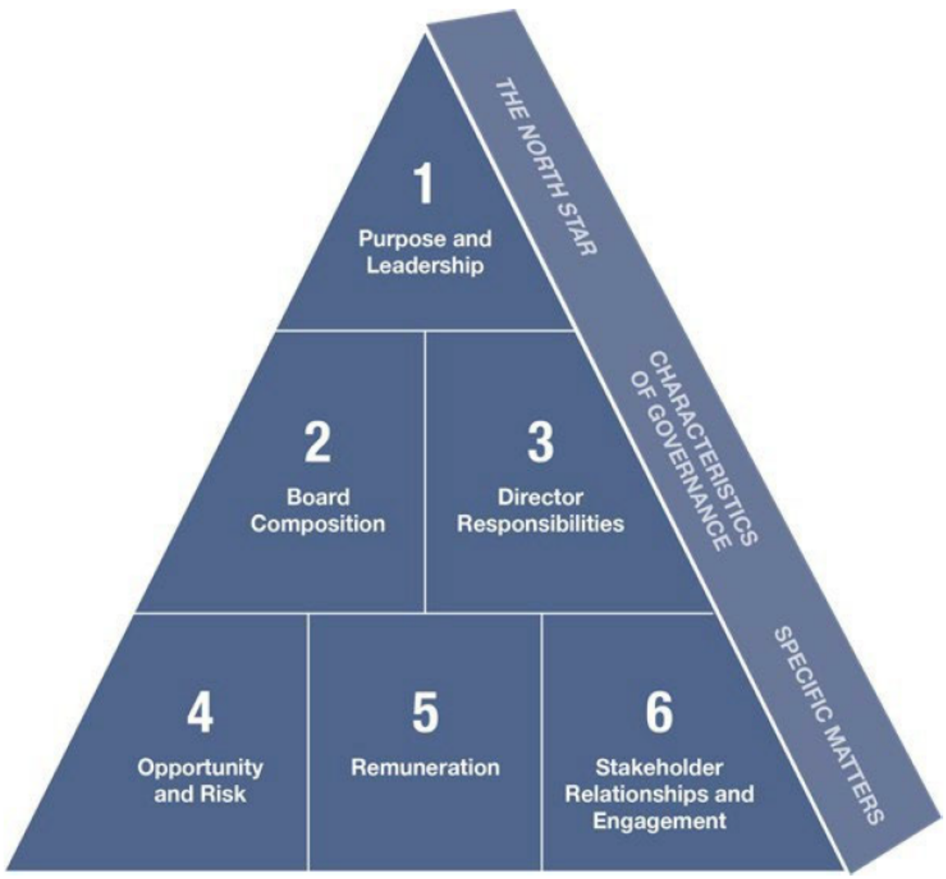
This report presents the findings from a follow-up study using the same reporting data but focusing on and analysing family businesses. The report has five sections. In Section 2, we discuss the background of the research and recent developments in corporate governance in the UK, which include an account of the Wates Principles and the subsequent study by the FRC to evaluate the adoption of the Principles. Section 3 discusses the current research and analysis, the sample of firms included in the study, the key measures used and the approach to data analysis. Section 4 presents the results from the analysis comparing family with non-family firms, in two parts: first, rates of adoption of corporate governance codes among private firms in the UK comparing family with non-family firms; second, the extent of disclosure on the Wates Principles comparing family with non-family firms. The final section discusses the findings and their implications for research, policy and practice.

# 2. Background

This section sets out the background and policy context of the research, summarising recent developments in corporate governance in the UK. The section includes an account of the Wates Principes and a subsequent study by the FRC to assess the adoption of the principles by privately held companies.

In June 2018, the UK Government introduced secondary legislation requiring large registered private firms in the UK to disclose their corporate governance arrangements, including whether they follow a formal code (FRC, 2018; 2023). This may also include companies registered as public, such as unlisted public companies. The legislation applies to all private companies (with a few exemptions) that meet either or both of the following criteria: where they have more than 2,000 employees and/or a turnover exceeding £200 million, with a balance sheet of more than £2 billion.

**Figure 1. The Wates Principles**




Source: FRC (2023)

**Table 1. Summary of the six Wates Principles**

| Principle | Description |
|---|---|
| 1. Purpose and Leadership | An effective board promotes the purpose of the company and ensures that its values, strategy and culture align with that purpose. |
| 2. Board Composition | Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company. |
| 3. Director Responsibilities | A board should have a clear understanding of its accountability and terms of reference. Its policies and procedures should support effective decision-making and independent challenge. |
| 4. Opportunity and Risk | A board should promote the long-term success of the company by identifying opportunities to create and preserve value and establishing oversight for the identification and mitigation of risks. |
| 5. Remuneration | A board should promote executive remuneration structures aligned to the sustainable long-term success of a company, taking into account pay and conditions elsewhere in the company. |
| 6. Stakeholder Relationships and Engagement | A board has a responsibility to oversee meaningful engagement with material stakeholders, including the workforce, and have regard to that discussion when taking decisions. The board has a responsibility to foster good stakeholder relationships based on the company's purpose. |

Source: FRC (2018)

Alongside this statutory requirement, the FRC and a Coalition Group of organisations representing private business led by Sir James Wates CBE developed the Wates Corporate Governance Principles for Large Private Companies (the 'Wates Principles') to provide a specific code of governance applicable to privately owned companies. According to the FRC, they 'provide a framework to help large private companies raise their standards of corporate governance by offering a structure for reporting to fulfil their legal requirements and demonstrate good practice'. The Wates Principles were issued on an 'apply and explain' basis, giving companies the flexibility to adapt their reporting in accordance with their particular circumstances and characteristics. Following this approach, companies are required to explain, in their own words, how each of the applied Principles has been addressed in their governance practices.

The Wates Principles focus on six key areas relating to the role of the board of directors (see Table 1; Figure 1) and are intended to provide a flexible approach to corporate governance for large private firms 'without being unduly prescriptive' (FRC, 2018).

In 2021, the FRC commissioned research to assess the extent, coverage and quality of the corporate governance reporting among companies that fell within the scope of The Companies (Miscellaneous Reporting) Regulations 2018 ('the Regulations') (Gaia et al., 2022). By focusing on the first financial year (i.e., the financial year beginning on or after 1 January 2019) in which the Regulations became mandatory, Gaia et al. (2022)

analysed the corporate governance reporting practice adopted by 1,206 companies, with financial year-ends between December 2019 and March 2020, which fell within the scope of the Regulations. A content analysis of the corporate governance statements of these companies' annual reports was undertaken. The data collected in this first year of reporting have since formed a baseline for monitoring the adoption of the principles.

The analysis methodology had two stages:

First, the analysis sought to identify whether firms had applied or adopted the Wates Principles or an alternative corporate governance code or approach. This involved, for example, reviewing each firm's annual report to identify the presence of a corporate governance statement. Firms who gave information about their corporate governance arrangements were further classified according to whether or not they reported which corporate governance code they followed and, where they did so, which one.

The second stage of the analysis focused on those private companies that had adopted (or mentioned a reliance upon) the Wates Principles in their annual reports. The analysis sought to quantify the extent of disclosure on each of the Wates Principles. To do this, Gaia et al. (2022) developed a disclosure checklist for each of the six Wates Principles aligned with the FRC's supporting guidance. The purpose here was to quantify the presence or absence of disclosures relating to each of the six Principles in published reports, yielding a measure for the extent of disclosure on each Principle and overall. Each Principle was divided into sub-categories and checklist items were developed for each specific sub- category as well as to code for the presence/absence of general information relating to each Principle. An example of the coding scheme (for Principles One and Four) is shown in the Annex. To create an index for each Principle, the scores were added up from all the items related to that Principle and then divided by the maximum possible score across these items.

Of the 1,206 firms that met the above criteria and fell within the scope of the Regulations and for which annual reports were available, two-thirds (66.0 per cent; N=796) provided information about their corporate governance arrangements either in a corporate governance statement or in other sections of their annual report. Around one-third of firms (34.0 per cent; N=410) did not discuss corporate governance in their annual reports.

A content analysis of the annual reports of the 1,206 companies analysed showed that more than one- third (37.6 per cent) had adopted a corporate governance code, with 28.9 per cent adopting the Wates Principles. The analysis also found that most adopters provided disclosed information about how they applied the Wates Principles (Gaia et al., 2022). Information about their governance practices relating to risk (Principle Four) and stakeholder engagement (Principle Six) were most frequently covered in their corporate gores and processes relating to purpose and leadership (Principle One) were the least likely to be mentioned. The analysis also found that adopters tended to provide more general information about their formal policies, but limited information on how these policies were applied in practice.

# 3. About the Current Study

This section sets out the purpose and analytical questions guiding this follow-up investigation, building on and extending the FRC's original 2022 study as detailed above. The section outlines the methods, definitions, and data sources used in this further analysis of the data collected in the original study.

## 3.1 Research questions

The purpose of this study is to identify whether there are any differences in reporting practices between family firms and non-family firms. Among firms that adopted the Wates Principles and applied and explained up to six Principles the analysis sought to assess the extent of reporting among family firms using a methodology developed by Gaia et al. (2022) and compared them with non-family firms.

Specifically, this research set out to address the following three questions:

- How many family firms applied the Wates Principles and other corporate governance codes?
- Was there any difference in the rate of adoption of the Wates Principles between family and non-family firms?
- Were there any differences between those family and non-family companies who adopted the Wates Principles in the extent of the disclosures provided within their corporate governance statements?

## 3.2 Study population

The original FRC study (Gaia *et al.*, 2022) gives a detailed account of the population of large UK firms which we investigate further in this report. The report identified 1,815 large companies that were likely to be in scope of the new corporate governance regulations. This included all UK private firms that met either or both of the following criteria: privately owned firms with more than 2,000 employees; and/or private firms with a turnover of more than £200 million and a balance sheet exceeding £2 billion. After excluding firms with financial year-ends between April and November 2020, this amounted to 1,300 companies. Of these, annual reports were available for 1,206 and which therefore formed the effective study population for both the original study and this follow-up study. Content analysis of the corporate governance statements for these 1,206 firms identified that 348 (or 28.9 per cent) of these firms had adopted the Wates Principles.

## 3.3 Definition of family business used in this study

Consistent with the European Commission's definition of a family business (European Commission Enterprise and Industry Directorate-General, 2009; pp.8–9), family firms were identified by the proportion of shares owned by the family or individual as the global ultimate owner and using the following thresholds: 50 per cent family ownership (ultimate voting rights) in private firms; or 25 per cent family ownership (ultimate voting rights) in listed firms. Following the practice in family business research, family firms were also identified based on the condition that any shareholder had the same family name as the company's founder. While this is a common proxy used in the family business research field, the sample may underestimate the prevalence of family ownership among the private companies that fall in the study's scope, due to the difficulty of identifying family ties among individuals who do not share the same family name. Data were collected about the ownership structure (i.e. global ultimate owner) of these firms from FAME and Orbis databases.

These data were used in conjunction with a study of large family firms in the UK carried out by Repgraph and the IFB Research Foundation (2020). Finally, the Companies House's database of registered firms and individual company websites were used to identify family vs non-family firms when the data about the global ultimate owner of companies were incomplete in FAME and/or if there was the need to conduct a further investigation on the identity of the global ultimate owner. This approach to selecting firms yielded 261 cases of family-owned firms out of 1,206 firms.

## 3.4 Assessing the extent of corporate governance disclosure

A key purpose of the analysis was to identify whether the extent of disclosure across the six Principles varied by ownership. The methodology used to assess the extent of disclosure was identical to that used in the original FRC study (see Section 2 above). To assess the extent of disclosure, each Principle was broken down into separate items. The checklist and coding scheme developed by Gaia *et al.* (2022) (see Annex 1) were used to identify the presence or absence of information relating to these items. For each item on the checklist, a score of 1 was assigned if the information relating to that element was present, and 0 if it was not. A disclosure score was then calculated for each of the six Principles by dividing the sum of scores by the maximum possible score obtainable.

# 4. Findings

This section discusses the findings from the analysis. Evidence on rates of adoption of corporate governance codes among UK family firms is compared with non-family firms. Among adopters (the firms who adopted the Wates Principles), the extent of disclosure among family firms is compared with that among non-family firms.

## 4.1 Rates of adoption of corporate governance codes among private firms

Panel A of Table 2 compares the adoption of different corporate governance codes among family vs non-family firms that fell within the study's scope. Overall, out of the 1,206 private firms analysed, 454 companies (37.6 per cent) adopted a corporate governance code or set of principles. The rates of adoption of a code of any type were similar for family and non-family firms, with 35.6 per cent and 38.2 per cent of firms adopting a code of any kind, respectively (Table 2 – Panel A). By contrast, almost two-thirds of firms (62.4 per cent) included in the analysis were found to have adopted no code, with family firms slightly more likely than non-family firms to have not adopted any code; 64.4 per cent compared with 61.8 per cent respectively. It should be noted here, however, that businesses do not have to report against a set code to be compliant with the legislation, as long as they are reporting on their corporate governance arrangements.

Figure 2 shows the percentage of private firms, non-family firm and family firms who adopted the Wates Principles, the UK Corporate Governance Code, other Codes and Principles respectively. For example, 83 out of 261 (31.8 per cent) family firms adopted the Wates Principles.

As Figure 2 shows, the Wates Principles were by far the most commonly adopted code or set of corporate governance principles among large private firms. Family-owned firms were found to be slightly more likely to have adopted the Wates Principles compared with non-family firms. Among the 261 firms identified to be family-owned, 83 firms (31.8 per cent) were found to have adopted the Wates Principles, compared with 265 out of 945 non-family firms (28.0 per cent), a difference that is not statistically significant.

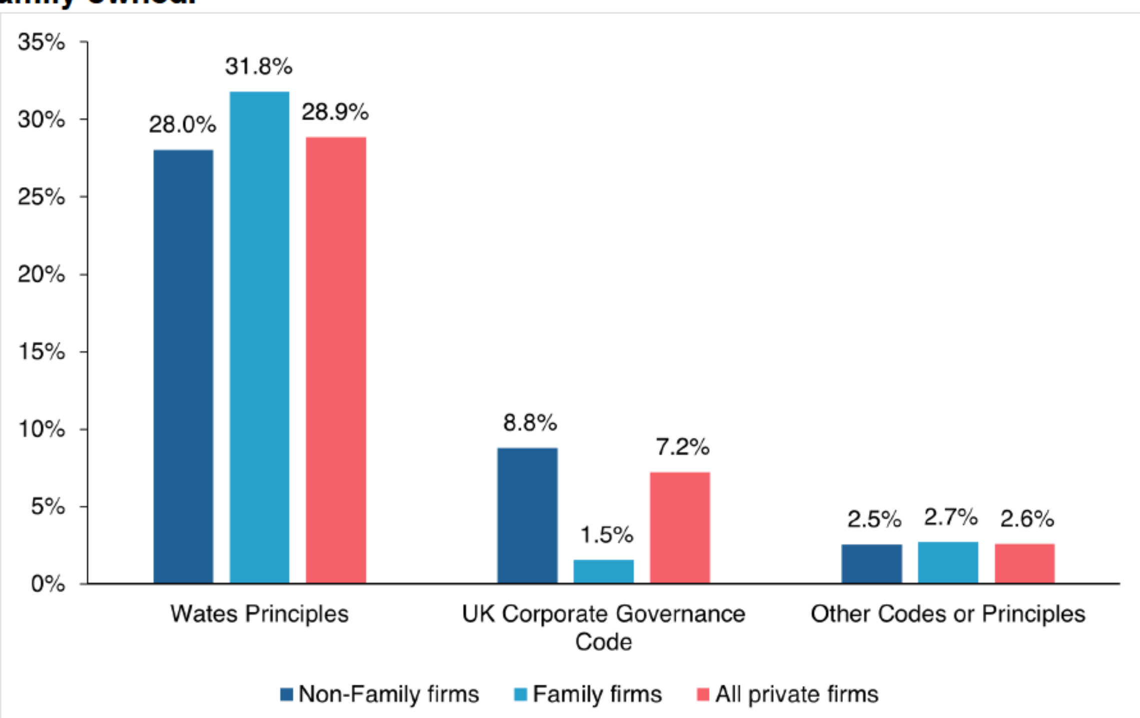
However, when the analysis was restricted to private firms that adopted a corporate governance code of any kind (N=454; see Table 2 – Panel B), family firms were found to be more likely to have adopted the Wates Principles compared with non-family firms; 73.4 per cent of non-family firms (N=361) that had adopted a corporate governance code were found to have adopted the Wates Principles, compared with 89.2 per cent of family firms (N=83),a difference that is statistically significant($p < 0.01$). code for unlisted companies, or some other sector-specific code. As Figure 2 shows, non- family firms 2. Governance codes adopted by large private firms in the UK in the financial year ending between December 2019 and March 2020.

**Table 2. Governance codes adopted by large private firms in the UK in the financial year ending between December 2019 and March 2020.**

| | Non-family firms | | Family firms | | All private firms | |
|---|---|---|---|---|---|---|
| | N | % | N | % | N | % |
| **Panel A - Rate of adoption of corporate governance codes** | | | | | | |
| Corporate governance codes adopted: Yes | 361 | 38.2 | 93 | 35.6 | 454 | 37.6 |
| Corporate governance codes adopted: No | 584 | 61.8 | 168 | 64.4 | 752 | 62.4 |
| | 945 | | 261 | | 1,206 | |
| **Panel B - Corporate governance codes adopted** | | | | | | |
| Wates Principles | 265 | 73.4 | 83 | 89.2 | 348 | 76.7 |
| UK Corporate Governance Code | 83 | 23.0 | 4 | 4.3 | 87 | 19.2 |
| Industry-specific codes | 18 | 5.0 | 2 | 2.2 | 20 | 4.4 |
| Other national corporate governance code | 3 | 0.8 | 3 | 3.2 | 6 | 1.3 |
| Quoted Companies Alliance Code | 3 | 0.8 | 0 | 0.0 | 3 | 0.7 |
| Corporate Governance Guidance and Principles for Unlisted Companies in the UK | 0 | 0.0 | 2 | 2.2 | 2 | 0.4 |
| **Total (*)** | 372 | | 94 | | 466 | |

*While 454 companies were found to have adopted a corporate governance code, 11 companies applied two or three corporate governance codes. Therefore, the total number of codes adopted is 466. Percentages of adoptions for each code are calculated by considering the 454 firms that adopted at least one corporate governance code. Therefore, the total can be higher than 100%.

**Figure 2. Proportion of UK private firms adopting principles and codes, family versus non-family owned. ***




*Base N=1,206 all private firms (945 non-family firms and 261 family firms) whose financial year ended between December 2019 and March 2020.

## 4.2 Extent of disclosure for the six Wates Principles in 2019/20: family vs non-family firms

The corporate governance statements of the 348 firms that adopted the Wates Principles in the financial period 2019/20 were analysed to assess the extent of their disclosures in relation to each of the Principles. This section compares the extent of disclosure provided on the six Principles among family and non-family firms.

Almost all the companies in the scope of the Regulations that had adopted the Wates Principles provided some explanations of how they had applied these Principles in the corporate governance statements. Figure 3 shows the percentage of family and non-family firms that provided some general explanations of how each of the six Principles was applied. Principles Two, Three, Four and Six were the most frequently explained with almost all firms (> 90%) providing an account of these. A higher proportion of non-family firms, in comparison to family firms, were found to provide explanations on Principles One, Two, Three and Five. However, a higher proportion of family firms explained Principles Four and Six.

**Figure 3. Proportion of companies explaining the application of the Wates Principles in 2019/20, family vs non-family firms.**

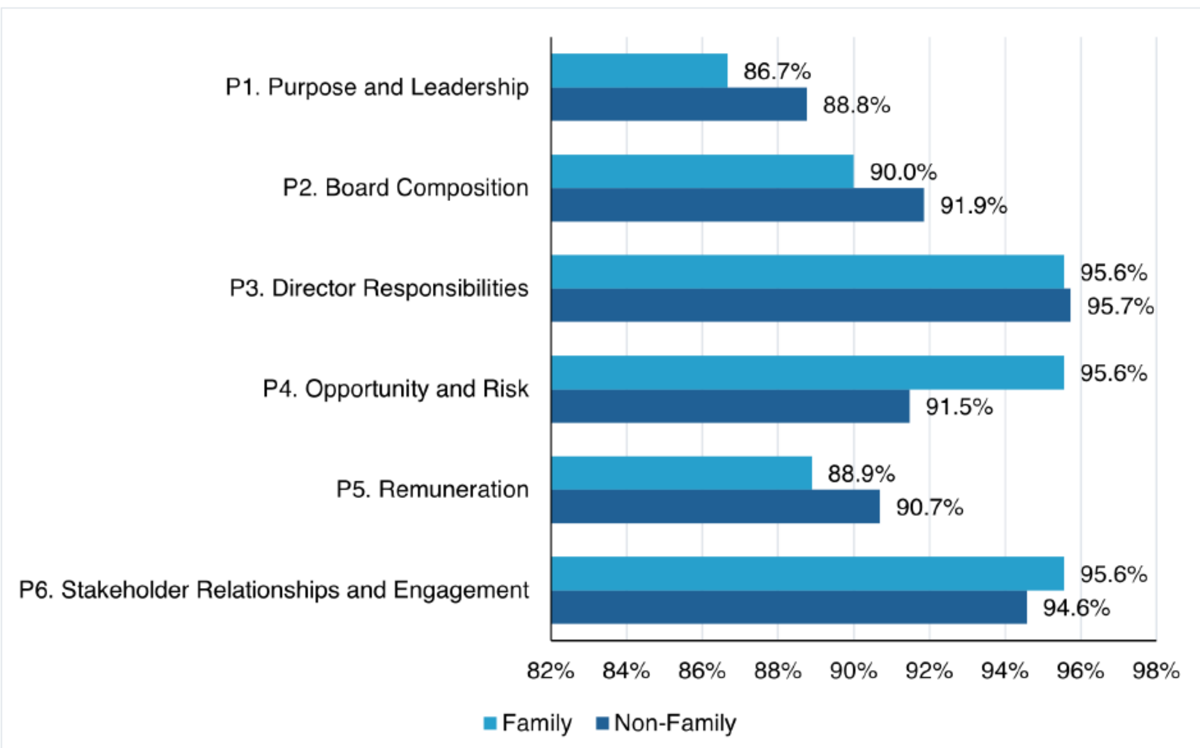
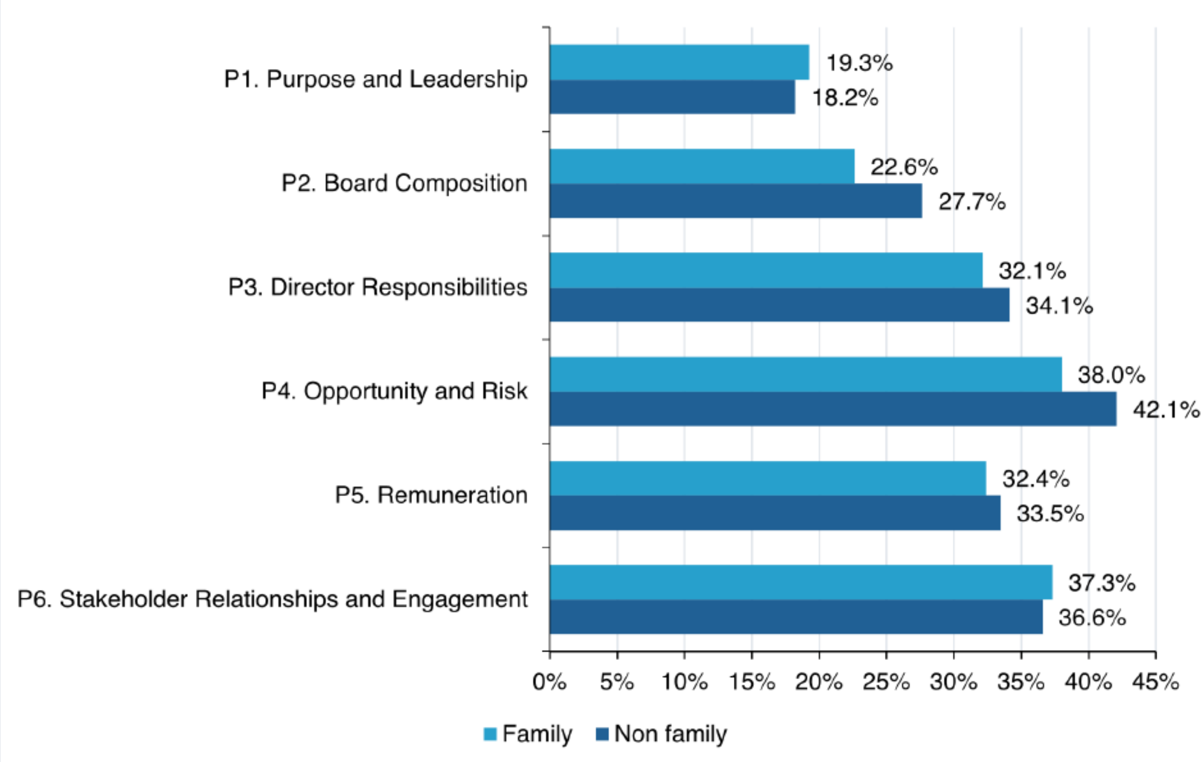


**Table 3. Average extent of disclosure on each of the Wates Principles in 2019/20: family-owned vs non-family-owned firms.**

| Index categories | Family firms | | Non-family firms | | |
|---|---|---|---|---|---|
| | N | Av. % of disclosure | N | Av. % of disclosure | Difference |
| **P1. Purpose and Leadership** | **83** | **19.3** | **265** | **18.2** | **+1.1** |
| Purpose | 83 | 10.0 | 265 | 9.4 | +0.6 |
| Values and culture | 83 | 24.9 | 265 | 22.3 | +2.6 |
| Strategy | 83 | 20.5 | 265 | 22.2 | -1.7 |
| **P2. Board Composition** | **83** | **22.6** | **265** | **27.7** | **-5.1**** |
| Chair of the board | 83 | 38.6 | 265 | 36.4 | +2.2 |
| Balance and diversity of the board | 83 | 18.1 | 265 | 25.8 | -7.7*** |
| Size and structure of the board | 83 | 26.1 | 265 | 32.5 | -6.4* |
| Effectiveness of the board | 83 | 14.7 | 265 | 19.9 | -5.2** |
| **P3. Director Responsibilities** | **83** | **32.1** | **265** | **34.1** | **-2.0** |
| Accountability | 83 | 24.2 | 265 | 29.1 | -4.9** |
| Committees | 83 | 32.3 | 265 | 36.8 | -4.5 |
| Integrity | 83 | 42.9 | 265 | 37.3 | +5.6 |
| **P4. Opportunity and Risk** | **83** | **38.0** | **265** | **42.1** | **-4.1** |
| Opportunities | 83 | 41.9 | 265 | 44.7 | -2.8 |
| Risks | 83 | 36.3 | 265 | 40.9 | -4.6* |
| **P5. Remuneration** | **83** | **32.4** | **265** | **33.5** | **-1.1** |
| Remuneration policies | 83 | 24.5 | 265 | 25.3 | -0.8 |
| Delegating remuneration decisions | 83 | 63.1 | 265 | 61.0 | +2.1 |
| Subsidiary companies | 60(~) | 32.5 | 233(~) | 41.6 | -9.1* |
| **P6. Stakeholder Relationships and Engagement** | **83** | **37.3** | **265** | **36.6** | **+0.7** |
| Stakeholders | 83 | 37.0 | 265 | 34.9 | +2.1 |
| Employees | 81(~) | 37.7 | 245(~) | 39.7 | -2.0 |

(~) Disclosure for items in these areas applied to fewer companies. This is because some companies were not subsidiaries (32 non-family and 23 family firms) or did not have any employees (20 non-family and 2 family firms).
Base: All private firms adopting the Wates Principles N=348
Key: Significance – two-tailed test: *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$

**Figure 4. Average disclosure scores for each Wates Principle: family vs non-family firms.**




While the general picture is that the average extent of disclosure across the Principles was similar for family and non-family firms, a deeper analysis of sub- categories showed that there were some significant differences.

The extent of overall disclosure on items relating to Principle One on purpose and leadership was higher for family versus non-family firms (a difference of +1.1 per cent that is not statistically significant).

Among adopters of the Wates Principles, non-family firms were found to have disclosed, on average, 5.1 per cent more information on board composition (Principle Two) than family firms, a difference that is statistically significant at $p < 0.05$. A more detailed analysis of the items relating to Principle Two showed that, by comparison with non-family firms, family firms were, on average, less likely to disclose information relating to the balance and diversity of their boards (-7.7 per cent, $p < 0.01$), the size and structure of their boards (-6.4 per cent, $p < 0.1$) and board effectiveness (-5.2 per cent, $p < 0.05$).

Family firms were slightly less likely than non-family firms to disclose information relating to Principle Three on director responsibilities (-2 per cent), although this difference is not statistically significant. This Principle is composed of three sub-categories: director accountability, board committees and integrity (see Table 3). While there are no significant differences between family and non-family firms for disclosures relating to Principle Three overall, family firms were found to provide significantly less extensive disclosures on director accountability compared with non-family firms (-4.9 per cent, $p < 0.05$).

On average, family firms were found to provide less disclosures than non-family firms for the items relating to opportunity and risks (Principle Four) with a difference of -4.1 per cent. The difference between family and non-family firms in disclosures on Principle Four is mainly due to family firms being less likely to disclose information about risks, though this difference (-4.6 per cent) was found to be only marginally significant at $p < 0.10$.

The average extent of disclosure on Principle Five (remuneration) was also similar for non-family and family firms (33.5 per cent and 32.4 per cent respectively) (Figure 4). However, on one of the items included in Principle Five relating to subsidiaries' remuneration policies, family firms were 9.1 per cent less likely than non-family firms to make disclosures in this area on average. This difference was found to be only marginally statistically significant at $p < 0.10$.

Finally, the extent of overall disclosure on items relating to Principle Six on stakeholders' relationships and engagement was higher for family versus non-family firms. However, this difference (+0.7 per cent) was not found to be statistically significant.

# 5. Conclusion

This report underscores the importance of corporate governance in private firms and the role of family ownership in influencing governance practices and reporting. It shows that, in 2019/20, family firms were slightly more likely than non- family firms to adopt the Wates Principles. Among those family and non-family firms that adopted the principles, the pattern of disclosure on each of the six Principles was broadly similar. However, non-family firms tended to provide more detailed disclosures on average, in some areas, particularly in relation to board composition and director accountability.

These findings highlight the importance of the Wates Principles as a governance framework for private firms, particularly family businesses. However, our findings also suggest that more guidance and support are needed to help private firms to improve their disclosures. This is especially important given the findings in this report are based on data from the first year of the requirement, when businesses were finding their way. While improvement is needed, this is something that will take time to fully embed.

For future research, it would be beneficial to examine changes in the rate of adoption of the Wates Principles and the extent of disclosure over time among family and non- family firms using more recent data. Another promising avenue for future research might be more explanatory – to explore the reasons for adopting the code and any challenges in doing so, and the factors behind observed differences in disclosure. Additionally, research looking at the impact of these disclosure practices on firm performance and stakeholder relationships could provide valuable insights. Lastly, longitudinal studies tracking changes in adoption rates and the extent of disclosure on the Wates Principles over time could shed light on the long-term effects of their impact on corporate governance in the UK.

# Annex

**Principle ONE**

### A. Purpose

Q1. Does the company disclose its purpose within the corporate governance section of its AR? (0/1)
Q2. Does the company discuss:

a. the link between behaviours and purpose? (0/1)

b. if its purpose is aligned with business practices/business model? (0/1)

c. the processes that are in place for the board to obtain a clear understanding of shareholder views on the company's purpose? (0/1)

d. the processes that are in place for the board to build positive relationships with stakeholders by engaging in dialogue with them in relation to the company's purpose? (0/1)

e. the processes that are in place for the board to incorporate shareholders'/stakeholders' views into its decision-making process in relation to the company's purpose? (0/1)

### B. Culture

Q1. Does the company disclose its culture?
Q2. Does the company:

a. identify its values (i.e. a list of values)? (0/1)

b. explain what their values mean? (0/1)

c. how values guide decision making at Board level (0/1)

d. discuss about its attitudes and/or behaviours? (0/1)

e. discuss the process in place to ensure that behaviours are aligned with culture? (0/1)

f. discuss who is involved in the management of culture? (0/1)

g. discuss how information relating to culture is passed to the board? (0/1)

h. discuss how the board monitors the company's culture? (0/1)

### C. Strategy

Q1. Does the company disclose its strategy?
Q2. Does the company discuss:

a. how it implements its strategy throughout the organisation? (0/1)

b. the connection between its strategy and its purpose? (0/1)

c. the connection between its strategy and its culture? (0/1)

## Principle TWO

### A. Chair

Q1. Does the company disclose information about the Chair? (0/1)
Q2. Does the company discuss:

a. What the role and responsibilities of the Chair are? (0/1)

b. How the Chair promotes open debate and facilitate constructive discussion? (0/1? NA)

c. Whether the Chair is also the CEO? (0/1? NA)

### B. Balance and diversity

Q1. Does the company disclose information about its board's diversity?
Q2. Does the company discuss:

a. the set of characteristics that allow the board to achieve effective decision- making? (0/1)

b. how the board understands the company's business needs and stakeholder interests? (0/1)

c. the efforts to promote diversity in the board? (0/1)

d. broad company diversity and inclusion policy? (0/1)

e. specific targets as for example, those of Hampton-Alexander review (gender diversity) and McGregor-Smith review (ethnic diversity)? (0/1)

f. any examples of initiatives started/groups created to promote D&I? (0/1)

### C. Size and structure

Q1. Does the company disclose information about its board's size/structure? (0/1)
Q2. Does the company discuss:

a. considerations made to evaluate the suitability of board's size and structure? (0/1)

b. how the size and structure of the board facilitate constructive challenge and effective decision-making? (0/1)

c. the presence of independent non-executive directors? (0/1)

d. the procedure to appoint non-executive directors? (0/1)

e. the role of non-executive directors? (0/1)

### D. Effectiveness

Q1. Does the company disclose information about its board effectiveness?

Q2. Does the company discuss:

a. how it evaluates its board's effectiveness? (0/1)

b. how the board acts on the evaluation? (0/1)

c. the procedures in place to guarantee its directors' objectivity? (0/1)

d. the procedures in place for its board's professional development? (0/1)

e. how directors embrace professional development opportunities? (0/1)

## <u>Principle THREE</u>

### A. Accountability

Q1. Does the company disclose information about accountability? (0/1)

Q2. Does the company discuss:

a. The lines of accountability for the board as whole? (0/1)

b. The lines of accountability for the directors? (0/1)

c. How the board establishes and maintains corporate governance practices that provide clear lines of accountability and responsibility? (0/1)

d. The policies in place to identify and manage conflicts of interest? (0/1)

e. The process in place to periodically review the governance processes? (0/1)

f. any outcomes of its review process looking back? (0/1)

g. any outcomes of its review process looking forward? (0/1)

h. the corporate governance policies and practices in place to clarify the relationship between the company and its owners? (0/1)

### B. Committees

Q1. Does the company disclose the delegation of some board functions to committees?

Q2. Does the company discuss

a. the functions and authorities delegated to the committees? (0/1/NA)

b. the means adopted to ensure independence of the committees? (0/1/NA)

c. how these means have improved decision-making? (0/1/NA)

d. if members have relevant experience/skills? (0/1/NA)

### C. Integrity of information

Q1. Does the company disclose the sources of information its board relies on?
Q2. Does the company discuss:

a. its information systems in place? (0/1) (see note below)

b. how these systems ensure the quality and integrity of information provided? (0/1)

c. if the internal audit support integrity of information? (0/1)

d. who assures the company control systems/policies (internally or externally)? (0/1)

### D. Cross-reference

Q1. Are there any cross-references to other parts of the report where elements of Principle 3 are discussed?

## Principle FOUR

### A. Opportunity

Q1. Does the company disclose information about its opportunities? (0/1)
Q2. Does the company discuss:

a. what processes the company has to identify future opportunities? (0/1)

b. how the board is involved in considering and assessing how the company creates value over the long-term? (0/1)
c. examples of opportunities discussed at Board level? (0/1)

### B. Risk and responsibilities

Q1. Does the company disclose information about its risk management?

Q2. Does the company discuss:

a. its material/principal risks? (0/1)

b. the use of a scenario analysis in its risk assessment? (0/1)

c. the role and responsibility in relation to developing company's risk management systems? (0/1)

d. the role and responsibility in relation to determining the nature and extent of company's principal risks? (0/1)
e. the role and responsibility in relation to determining its 'risk appetite'? (0/1)

f. the internal communication channels on risk information? (0/1)

g. the external communication channels on risk information? (0/1)

h. the role and responsibility in relation to agreeing a monitoring and review process? (0/1)

**Principle FIVE**

### A. Remuneration policies

Q1. Does the company disclose information about its remuneration policies? (0/1)

Q2. Does the company discuss:

a. how the remuneration structures for directors and senior managers are aligned with the company's performance? (0/1)

b. how the remuneration structures for directors and senior managers are aligned with the company purpose/values/strategy? (0/1)

c. a rationale or explanation of its remuneration structures? (0/1)

d. if the policies on remuneration structures and practices take account of the broader operating context within the company's wider workforce pay and conditions? (0/1)

e. if the policies on remuneration structures and practices take account of the broader operating context and company's response to matters such as any gender pay gap? (0/1)

f. how company's remuneration policies take account of practices in the sector? (0/1)

g. pay ratios on a voluntary basis (e.g. gender pay ratio/ managers employee ration)? (0/1)

h. if remuneration levels take into account risks? (0/1)

i. examples of the remuneration decision-making process? (0/1)

### B. Delegating remuneration decisions

Q1. Does the company disclose information about remuneration decisions? (0/1)

Q2. Does the company discuss:

a. whether there is a remuneration committee? (0/1)

b. if the company has a remuneration committee, does it discuss about the independence of its members? (0/1/NA)

### C. Subsidiary companies

Q1a If the company is a subsidiary, does it rely on parents' remuneration policy? (0/1/NA)

Q1b If yes… is there any cross-reference in the corporate governance statement to the parent company remuneration policy in relation to the subsidiary? (0/1/NA)

## Principle SIX

### A. Stakeholder engagement

Q1. Does the company disclose information about its relationship and engagement with its stakeholders? (0/1)
Q2. Does the company discuss:

- a. who its stakeholders are? (0/1)
- b. what dialogue the board has with stakeholders (excluding workforce) to understand the effects of company policies and practices? (0/1)
- c. what dialogue the board has with stakeholders (excluding workforce) to predict future developments and trends, and re-align strategy? (0/1)
- d. how has this dialogue with stakeholders (excluding workforce) impacted board decision-making? (0/1)
- e. what formal and informal channels are there to receive appropriate feedback from stakeholder discussions (excluding workforce)? (0/1)
- f. if they follow international standards or frameworks to tackle their environmental, social and/or community impact? (0/1)
- g. examples of how engagement has helped inform decisions at board level? (0/1)

### B. Workforce

Q1. Does the company disclose information about its relationship and engagement with its workforce? (0/1/NA)
Q2. Does the company discuss:

- a. what dialogue the board has with workforce to understand the effects of company policies and practices? (0/1)
- b. what dialogue the board has with workforce to predict future developments and trends, and re-align strategy (0/1)
- c. how has this dialogue impacted board decision-making? (0/1) (doesn't need specific example. Just take account is ok) (consider is not strong enough to get 1)
- d. what formal and informal channels are used to engage in meaningful two-way dialogue with the workforce to share ideas and concerns with senior management? (0/1)
- e. what procedures for raising concerns (for example, speak up and whistleblowing policies)? (0/1)

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