Governance Mechanisms Implementing Governance Principles.

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According to the OECD, good corporate governance helps to build an environment of trust, transparency and accountability which is necessary for fostering long-term investment, financial stability and business integrity. The Corporate Governance Code 2016 sets out five principles that underpins the mechanisms adopted by businesses to enhance their transparency and accountability. The new Corporate Governance Code 2018, effective for accounting periods ending after 1 January 2019, streamlines the number of principles explicitly stated, whilst continuing to advocate strong governance for the long term sustainability of the business.

Accountability is a key principle which permeates through a number of corporate governance practices. The continual existence of the agency problem and the need for information, by not only shareholders but wider stakeholders, has led to demands for clearer dissemination of information and enhanced dialogue with stakeholders. These communiques can take many forms, from the corporate governance section in the annual report, to shareholder meetings with the Senior Non-executive director, or meetings of institutional investors, or debt providers with the Finance Director, to engagement with employees and government bodies. There is an increased need for information to be provided to enable shareholders to evaluate how the governance principles have been applied in an organisation and to evaluate its board's activities and contributions.

A Board of Directors must report in the company's annual report how future opportunities and threats have been addressed, its operational business model and how its governance mechanisms contribute to corporate success. The collective responsibility of a board in decision making ensures an openness and probity in its practices. By ensuring a separation of roles of the Chair and Chief Executive on the Board of Directors the independent Chair will lead a Board and be responsible for promoting a culture of openness and debate. The need for an independent Chair is evidenced by the newly appointed Chair of Tesla, Robyn Denholm, who replaced Elon Musk, as Chair, in November 2018 after investors called for stronger oversight after a number of instances which led to a negative impact on the company's profile and share price. Closer to home, at a meeting in September 2018, almost 30% of shareholders voted against the re-election of the Chairman of Ryanair, Mr. Bonnerman, who has been in post for 22 years. Continued pressure from institutional investors, in Ryanair, may lead to changes in the membership of the Board in 2019.

To ensure a balance on a Board of Directors, it should include a combination of executive and non-executive directors to ensure that no one, or groups of individuals, can dominate the board's decision making. The appointment of a senior independent director can provide a conduit between other directors and stakeholders and provide support for the Chair. The non-executive directors hold a key role in monitoring and evaluating the activities of the Chief Executive and the company's senior management team. The non-executive directors have a prime role in the appointment and removal of directors and in determining their remuneration packages.

The majority of a nomination committee, for the appointment of executives, should be independent non-executive director. A nomination committee is responsible for ensuring that appointments to a board are subject to a formal, rigorous and transparent procedure and the annual report should provide details of the process. An annual review of the effectiveness of each Board of Directors should take place.

A disclosure in the annual report should include how the board evaluation was conducted, the nature and extent of the external evaluator's contact with the board and the individual members, the outcomes of the review, any actions taken and any changes required to the board composition.

In order to support a company's strategy and promote long term sustainable success the company must develop suitable remuneration policies and practices which are aligned to the company's values. A board should consist of independent non-executive directors with a minimum membership of three, two for smaller companies. A remuneration committee is responsible for determining the remuneration for the Chief Executive Director, senior management and for the Chair and it should also review the remuneration of the workforce and related policies. A formal and transparent procedure for developing the remuneration policy must be established and disclosed in the annual report to promote effective engagement with shareholders and the general workforce.

To ensure that a Board of Directors is aware of the opportunities and risks facing the company in the future and any adjustments required to the company's business model a board should establish an audit committee. The audit committee, which will report directly to the Board of Directors, should be populated by independent non-executive directors, with a minimum membership of three, two if a smaller company. An audit committee should have at least one member with recent relevant financial experience. It will monitor the integrity of the financial statements, review the company's internal financial controls and risk management systems, monitor the effectiveness of the company's internal audit function and liaise and monitor the relationship with the external auditor. Disclosure in the annual report which describes the work of the audit committee must be provided to enable shareholders to evaluate its effectiveness and form an opinion on the governance arrangement in place within the company.

The governance arrangements put in place by a Board of Directors are not mandatory prescribed requirements but are arrangements deemed suitable by the Board of Directors and must be fully disclosed in the annual report for shareholders to evaluate their effectiveness. By appointing an independent chair and non-executive directors and being open and transparent in its business operations, a company should develop strong and successful relationships with a wide range of stakeholders and maintain a sustainable and profitable business.