QUOTED COMPANIES ALLIANCE

THE QUOTED COMPANIES ALLIANCE'S CORPORATE GOVERNANCE FILES

Companies need to deliver growth in long term shareholder value. This requires an efficient, effective and dynamic management framework and should be accompanied by good communication which helps to promote confidence and trust.

1. CORPORATE GOVERNANCE FUNDAMENTALS

- Good corporate governance is about having the right people in the right roles, working together, and doing the right things to deliver value for shareholders as a whole over the long-term.
- A focus on success over the long-term will protect other stakeholders such as the workforce, local communities and business counterparties from short-term exploitation.
- Companies considering the long-term will also care about, and plan to mitigate, their impact on the environment, and deployment of social and economic resources. Clear and robust plans will be evidence of companies' focus on the long-term.
- Good corporate governance only exists where it can be seen and understood by investors and stakeholders; it needs to be communicated to be complete.
- Good governance requires key shareholders and other stakeholders to give direct and open feedback to help boards continuously improve.
- Good corporate governance inspires trust, creates value by improving performance and reduces risks in the long term.
- Inspiring trust maintains shareholders' appetite to invest and remain shareholders in the future.
- Clear disclosure and communication demonstrate the company's commitment to its shareholders and stakeholders
- The focus should be on the quality of the explanations to describe why practices are appropriate for the company and in the best interest of its shareholders

In essence, a great part of good corporate governance is about having ***the right people, working together, doing the right things***.

The right people

Identifying the right people can only be done in the context of the strategy and business model of each individual company. This will determine the necessary skills and experience required: for the executive directors tasked to develop and deliver the strategy and business model, for the non-executives required to support and challenge the executives in the delivery of strategy and application of the business model, and the chair who can create an organisational structure and culture for the board that harnesses the strengths of the individual directors and balances out any individual weaknesses.

Neither strategy nor business model are cast in stone; they need to be dynamic and will change over time. Consequently, the right people will also need the relevant skills and experience to determine collectively when, and how, the strategy and business model should evolve. As this changes, the skills and experience required to execute it, and evolve it further, will change and so the composition of the 'right people' may also change. As the people change, organisational structures will also need to change to reflect new individual strengths and weaknesses. Good governance is dynamic.

Working together

The individuals involved in governance need to work together effectively as a team. It is the ability to work together collectively to deliver an identified outcome which differentiates a successful team from a group of high performing individuals.

Boards will often include strong personalities; in some cases these are so dominant that the organisation's whole strategy is built around capitalising on the strength of individual characters. There is nothing inherently wrong with this, but it needs to be acknowledged and a collaborative-ethic within the wider governance structure needs to provide support for those individuals and compensate for their shortcomings.

Non-executive directors are sometimes perceived as having a role similar to that of a policeman, but this casts executive directors in the role of suspects, and runs counter to the UK approach of unitary boards. The important factor is that all board members need to bear in mind the objective of creating, and protecting, shareholder value and play their individual part in the team striving to achieve that collective aim.

Good teams always seek to improve. This culture of continuous improvement requires the encouragement of constructive feedback from both within the organisation and from external stakeholders; all effective systems involve feedback and governance systems are no exception. Chairs should regularly request feedback from shareholders about how well the board is perceived to be performing and ask them to suggest possible improvements. Chairs should explain how the board is evaluated and what actions are being taken as a result of the evaluation process.

Doing the right things

Governance guides traditionally focus on this element: doing the right things. This generally equates to encouraging the appropriate organisational structures, and outlining the processes carried out within those structures. Achieving the Ten Principles of the QCA Code is the important objective, not the precise way that this is achieved.

While there are similar structures and processes that will be relevant to many organisations, what is right for any individual organisation at any particular point in time must be judged against whether it is helping the board to create and protect shareholder value over the long-term.

Finally, it is important to emphasise that doing the right things needs to be based upon a foundation of understanding of why they are done; this understanding should assist both in the boardroom and in dealings with stakeholders.

QUOTED COMPANIES ALLIANCE

THE QUOTED COMPANIES ALLIANCE'S CORPORATE GOVERNANCE FILES

Companies need to deliver growth in long term shareholder value. This requires an efficient, effective and dynamic management framework and should be accompanied by good communication which helps to promote confidence and trust.

2. BOARD EFFECTIVENESS – CHARACTERISTICS OF AN EFFECTIVE BOARD

- **A CLEAR PURPOSE AND STRONG LEADERSHIP BY THE CHAIR**

The board should determine and agree its own purpose and objectives, which should be reviewed on an annual basis. The chair acts as the leader of the board and should seek to define the board's activities; this will, in turn, help to set the direction of travel and provide a reference point for the whole board and individual directors. The chair is the custodian of the corporate governance approach adopted by the board.

- **BALANCE OF SKILLS, EXPERIENCE AND INDEPENDENCE**

Effective boards have the appropriate mix of skills and experience to deliver the strategy of the company for the benefit of its shareholders. There should be a good level of knowledge and experience of capital market rules and practices to ensure that the obligations of a quoted company are understood and met.

The demonstration of greater board diversity must be seriously considered by public company boards and this should include a focus on areas such as age, skills, background, ethnicity and gender. Greater diversity reflects society, makes good business sense and creates boards which are not composed of like-minded individuals and acts against groupthink. A diverse board will harness a range of attributes, skills and different perspectives which will assist a company in responding to an uncertain business environment.

The board appointment process should be open, formal, with a documented process in writing, which is both rigorous and transparent. No member of the board should be considered indispensable.

Board members should be able to demonstrate independence of character and judgement.

- **DIRECTORS WHO WORK AS A TEAM**

A well-refined corporate strategy is most likely to be developed by a board and delivered by an executive team that encouraged by the chair to work well together. Appropriate behaviour and effective checks and balances are more likely to protect the company from too much or poorly managed risk.

Well-functioning boards are teams that operate in an accountable, open and transparent environment where the views of all directors and the actions of executive directors are expressed and challenged. Effective boards create the right framework to help directors meet their statutory duties under the Companies Act 2006 and/or other relevant statutory and regulatory regimes.

- **UNDERSTANDING THE BUSINESS AND ITS STRATEGY**

Boards need to understand the collective vision of the company's purpose, its culture, its values and the behaviours it wishes to promote in conducting business. Each board director must be able to communicate the company's business model effectively - as well as its governance approach - to shareholders, the market and to other stakeholders.

- **INFORMATION AND ENGAGEMENT WITH SHAREHOLDERS AND OTHER KEY STAKEHOLDERS**

The board must ensure that the company has effective lines of communication with all shareholders, engaging in positive dialogue with both institutional and individual shareholders. Communication must encourage both discussion and feedback, and should be done at all times not only when problems arise. Chairs should meet key investors on at least an annual basis.

Positive communication and healthy discussion represent the most constructive way in which a shareholder will discharge its stewardship responsibilities. As a result a company will receive the benefit of the insight and market expertise of well informed and engaged shareholders. Part of this engagement is for companies to consider and discuss with shareholders whether to offer up directors for annual re-election.

There is a broad requirement for the board to take into account the interests of other stakeholders. Boards need to determine who the key stakeholders are, both internal (workforce) and external (including suppliers, customers, regulators and others), what form of dialogue is required and how communication lines are to remain open both ways. The company's relationship with stakeholders should be communicated so as to be well understood by any interested party.

- **BOARD PERFORMANCE EVALUATION**

The chair should work to optimise the contribution of each board member for the benefit of the company as a whole. An open and honest board effectiveness evaluation is an opportunity for the board to improve its overall performance.

The board performance evaluation covers individual directors, including the chair, the board and committees of the board. The QCA Audit Committee and Remuneration Committee Guides provide summaries of indicators that can assist in the evaluation of the two most common committees. The essential ingredient of any performance evaluation is to establish personal and team objectives. Committee terms of reference help to provide a reference point for committee performance. Effective boards use individually tailored personal objectives defined and agreed at the start of the annual cycle, typically the financial year. Such board evaluations consider personal attributes and capabilities, as well as technical skills.

Effective disclosure about board evaluation focuses on objective and target-setting for improving performance and is not just a description of the process followed. The criteria against which board performance is considered and assessed provides reassurance about the degree of contribution and challenge within the boardroom. It also demonstrates whether there is a culture of continuous improvement to maximise the effectiveness of board practices.

A board which is dedicated to improving its performance has an effective induction process for new directors and regular training in the areas where further development needs are identified. These are important elements, especially for non-executive directors who operate outside of the day-to-day mainstream business activities.

An effective board has a clear policy and a documented plan on succession; both are kept up to date and linked to board performance reviews.

3. BOARD PERFORMANCE EVALUATION INDICATORS

The table below provides indicators that will assist in the evaluation of the performance of the board and identify potential gaps or weaknesses that require attention. It follows the key responsibilities of the board outlined in the QCA Code and outlines scenarios that demonstrate whether the board environment is weak or strong in terms of good corporate governance objectives.

Key responsibilities	Weak environment	Strong environment
1. Clear purpose and strong leadership by the chair	Board purpose and objectives are not documented. The chair only manages the board meeting agenda.	Board purpose and objectives are recorded, shared and used as a benchmark by the board and by individual directors. The chair engages fully with the board before, during and after board meetings. The decision-making process is clear and well communicated. Other board members and the company secretary are able to influence the board agenda.
2. Balance of skills, experience and independence	The board is composed of similar individuals with little evidence of an open and robust appointment process. New appointments are made based on contacts of the chair, with no real adherence to structured interviews.	Succession planning is reviewed and the Nomination Committee (where appropriate) drives the process forward. The board is composed of diverse individuals. Board appointments follow an open process that seeks to find the best candidate with a different skillset and/or background.
3. Directors that work as a team	The executive and NEDs operate under an "us and them" regime. Directors do not receive board packs on time and so go into meetings un-prepared.	The executive and NEDs work well as one team. Directors receive board packs which are well drafted and focused on the decision-making process required.

Key responsibilities	Weak environment	Strong environment
	Board committees do not communicate the work that they do. Strategy is not discussed by the board on a regular basis with too much concentration on short-term financial results.	Board committees report regularly to the board and provide the right balance of insight and support. There is regular review of the company's strategy and its implementation.
4. Understanding of the business and its strategy	Board directors are unable to present and articulate the business strategy.	The board ensures the strategy is well defined, regularly reviewed and well communicated. Individual directors can communicate and promote the company's strategy.
5. Information and engagement with shareholders and other key stakeholders	Board directors have little contact with shareholders and stakeholders.	The board ensures that there is an investor relations programme in place and allocates sufficient time and effort to communicate with shareholders. The chair offers regular meetings with key investors. Stakeholder groups are identified and appropriate levels of communication are established which are reviewed on a regular basis.
6. Board performance evaluation	Board evaluation is unstructured or follows the format of completing the same questionnaire each year.	The chair leads a robust annual board performance assessment which is refreshed based on external advice and uses a third-party facilitator every 3 years. Where necessary directors are moved on and refreshed.

QUOTED COMPANIES ALLIANCE

THE QUOTED COMPANIES ALLIANCE'S CORPORATE GOVERNANCE FILES

Companies need to deliver growth in long term shareholder value. This requires an efficient, effective and dynamic management framework and should be accompanied by good communication which helps to promote confidence and trust.

4. USEFUL SOURCES OF INFORMATION

The Financial Reporting Council (FRC)
www.frc.org.uk
The FRC is responsible for the UK Corporate Governance Code and also provides guidance on its application:

- The UK Corporate Governance Code
- Guidance on Board Effectiveness
- Guidance on the Strategic Report
- Guidance on Audit Committees
- Best Practice guide to Audit Tendering
- Risk Management, Internal Control and Related Financial and Business Reporting
- The UK Stewardship Code

ICSA: The Governance Institute
www.icsa.org.uk
ICSA: The Governance Institute is the chartered membership and qualifying body for people working in governance, risk and compliance, including company secretaries. Its guidance includes:

- Joining the right board: due diligence for prospective directors
- The Stakeholder Voice in Board Decision Making
- Liability of non-executive directors: care, skill and diligence
- Enhancing stewardship dialogue
- Terms of reference for the audit committee
- Terms of reference for the risk committee
- Terms of reference for the remuneration committee
- Terms of reference for the nomination committee

The Investment Association
www.theinvestmentassociation.org
www.ivis.co.uk
The Investment Association represents the UK investment management industry.

- Principles of Remuneration
- Board effectiveness – continuing the journey

Pensions and Lifetime Savings Association (PLSA)
www.plsa.co.uk
The Pensions and Lifetime Savings Association is the national association that helps pension professionals run better pension schemes.

- PLSA Corporate Governance Policy and Voting Guidelines 2018

Department for Business, Energy and Industrial Strategy (BEIS)
www.gov.uk/government/organisations/department-for-business-energy-and-industrial-strategy
BEIS is the UK Government department for economic growth.

- BEIS Select Committee Report on Corporate Governance
- Response to the Corporate Governance Reform Green Paper

The Non-Executive Directors Association (NEDA)

www.nedaglobal.com
NEDA represents non-executive directors and ensures that they are properly trained and developed.

- The Non-Executive Directors Handbook

Institute of Business Ethics (IBE)
www.ibe.org.uk
The IBE works to promote high standards of business practice based on ethical values. Its publications include:

- Culture by committee: the pros and cons
- Culture Indicators: understanding corporate behavior
- Communicating Ethical Values Internally

ShareSoc – UK Individual Shareholders Society
www.sharesoc.org
ShareSoc is a body which supports individuals who invest directly in the stock market.

Investor Relations Society (IRS)
www.irs.org.uk
The IRS offers training, guidance and information on all aspects of relationship development and communications between public companies, their shareholders and the wider investment community.

- IR Best Practice – Websites, annual reports printed and online, and online presentations

London Stock Exchange
www.londonstockexchange.com

- The AIM Rules for Companies

NEX Exchange
www.nexexchange.com

- The NEX Exchange Growth Market - Rules for Issuers

The Financial Conduct Authority (FCA)
www.fca.org.uk
The FCA is one of UK regulators of the financial services industry, responsible for regulated markets.

- FCA Handbook - Listing Rules

Organisation for Economic Co-operation and Development (OECD)
http://www.oecd.org/
The OECD seeks to promote policies to the economic and social well-being of people around the world.

- G20/OECD Principles of Corporate Governance

Quoted Companies Alliance
www.theqca.com
The Quoted Companies Alliance is the independent membership organisation that champions the interests of small and mid-size quoted companies.

- The QCA Corporate Governance Code
- Remuneration Committee Guide for Small and Mid-Size Quoted Companies
- Audit Committee Guide for Small and Mid-Size Quoted Companies

5. WHAT HAS CHANGED SINCE THE LAST CODE

The previous version of the QCA Code was issued in 2013. Since that time, much has developed in respect of corporate governance. The new edition of the QCA Code builds on concepts already present before, as well as introduces new structures and tools to provide a more user-friendly approach to applying our principles. Below is a summary of the key changes that we have made.

Overarching scope of application	While keeping small and mid-size quoted companies in mind, we also continue to have in mind that this code might and could be applied by growing companies that are privately owned, particularly those considering an IPO.
Lighter content	The contents of the QCA Code have been revisited, condensed and streamlined to avoid repetition, facilitate readability, allow flexibility and to focus on: - the correct application of the ten principles, - their interaction with the disclosures, and - how each company can apply the QCA Code bearing in mind its specific circumstances. Sections on the effectiveness of the board and appendices have been removed so that they can be provided separately to members and updated on a rolling basis.
Ten Principles	Ten Principles have emerged after revisiting the 12 Principles of the QCA Code and considering their application in practice. The wording of the principles have been adapted where evidence has demonstrated that companies had previously struggled to understand how to apply them effectively.
Disclosures	The Principles and the necessary disclosures sections have been merged to facilitate a more straightforward, clear and user-friendly approach to the correct application of the QCA Code.

The effective application of the QCA Code	In line with the changes above, this one-page section has been fully revised and brought forward within the text to help users to have a clear understanding of the necessary steps for the correct application of the QCA Code (and necessary to claim its adoption by a company).
Roles and Responsibilities	Contents in this section have been revised and expanded to include important aspects from other sections from the previous edition of the QCA Code that have now been removed. An entirely new description of how the board is typically composed, how it works and what key challenges it faces regarding its directors' independence is now included.

THE QUOTED COMPANIES ALLIANCE'S CORPORATE GOVERNANCE FILES

Companies need to deliver growth in long term shareholder value. This requires an efficient, effective and dynamic management framework and should be accompanied by good communication which helps to promote confidence and trust.

6. DIRECTORS' INDEPENDENCE

HOW IS A DIRECTOR'S INDEPENDENCE DETERMINED?

Being an independent director means adopting the role of an independently minded board member working in the best interests of the company as a whole, able to confidently and firmly challenge the executive members of the board, bearing in mind the interests of external shareholders and other relevant stakeholders.

Being able to demonstrate independence of character and judgement to shareholders in an objective manner relies on the quality of the individual; this cannot be determined by a checklist. Independence is a state of mind and can only be determined by those present in meetings of the directors, who can observe how an individual interacts with other members of the board. A check list of factors which might impair independence, while useful as an aide memoir, cannot provide the answer to the question of whether a director is independent. Companies should explain both in their annual report and in discussions with shareholders the reasons why they consider directors to be independent. Shareholders are unlikely to be convinced by superficial narrative or 'boilerplate' disclosure.

The fact that a director has served for more than nine years does not automatically taint independence, albeit it does present a presumption to be rebutted. The board should make a decision about such a director's independence and ensure that this is discussed with key investors well before the next AGM. It is good practice for any such director to be re-elected on an annual basis, if this is not already a board policy for all directors.

We consider it important to note that circumstances which might, or might appear, to affect a director's judgement may well include financial dependence on his relationships with the company and whether the director is, or represents, a major stakeholder whose interest diverge from those of shareholders as a whole.

HOW IS INDEPENDENCE DISCLOSED?

Companies should set out in the annual report considered explanations of the qualities of each director, including an assessment of independence and a statement of the relevant skills and experience that each director brings to the board. This is designed to secure the understanding and support of shareholders. A list of current and past roles is insufficient.

Chairmen, as part of their description of the board, need to provide an explanation of why certain non-executives are considered to be independent. Factors such as financial independence, and wider personal reputational risk issues, will support the independence of certain directors. Depending on the circumstances, the chair of a company may be considered to be independent.

HOW DO REMUNERATION ISSUES AFFECT NEDS' INDEPENDENCE?

The fact that a NED is or has been paid by the company wholly or partly in shares does not, of itself, impair independence. This is likely to be supported by institutional shareholders provided that there are restrictions on how quickly those shares can be disposed of. Shareholders, particularly in smaller growth companies, often view directors holding shares as a positive sign.

Since independence can be easily compromised, NEDs should not normally participate in performance related remuneration or have a significant participation in a company share option scheme. On occasions where performance related remuneration is under consideration it should be proportionate and shareholders should be consulted and their support obtained.

Remuneration plans that may lead to significant dilution of holdings of investors should be pre-brokered and agreed with investors.

DOES BEING A MAJOR SHAREHOLDER OR CONNECTED WITH A MAJOR SHAREHOLDER CAUSE CONCERN?

The situation where a director is, or is connected with, a major shareholder is typically viewed as a significant issue. However, there may be an alignment of interests between long term institutional shareholders and significant and stable holdings. Boards, including directors associated with major shareholders, should clearly and regularly explain to shareholders the reasons for those individuals sitting on their board, the details of any relationship agreements in place and the particular skills and experience those individuals bring to the board.

DOES MEMBERSHIP OF STAKEHOLDER GROUPS AFFECT A DIRECTOR'S INDEPENDENCE?

Being a member of a stakeholder group (e.g. an employee or shareholder) does not preclude being independent. Nor does financial dependence on the company or any particular stakeholder, or stakeholder group, preclude independence. But an independent director must not only be willing, and able, to act independently of the interests of a particular stakeholder group (including management, and shareholders), or any sub-set of any stakeholder group, but must also be able to convince shareholders of their independence.

THE QUOTED COMPANIES ALLIANCE'S CORPORATE GOVERNANCE FILES

Companies need to deliver growth in long term shareholder value. This requires an efficient, effective and dynamic management framework and should be accompanied by good communication which helps to promote confidence and trust.

7. DRAFT BOARD RESOLUTION ADOPTING THE QCA CODE

MINUTES OF THE BOARD OF DIRECTORS' MEETING

MINUTES OF A BOARD OF DIRECTORS MEETING of [Name of Company] ("the Company") held at [address] on [date].

1. The following members were present, constituting the entire board:

[Name of Director]
[…]
[Name of Director]; and
[Name of Director]

2. Minutes of the last meeting were read and, upon motion duly made, seconded and carried, were adopted as read.

3. The Chair presented to the meeting and thereupon the following resolutions were offered, seconded and unanimously adopted.

IT WAS RESOLVED THAT:

1. The Quoted Companies Alliance Corporate Governance Code (the "QCA Code"), submitted to and discussed at this meeting of the Board of Directors of the Company, is declared to specify adequate corporate governance arrangements for the stage of development of the Company, and is hereby adopted by [Name of Company] in accordance with the requirements of AIM Rule 26 and subject to the application of the Principles and disclosures defined in the QCA Code.

2. There being no further business to come before the meeting, the meeting was adjourned.

3. Dated in [England] on [date].

-------------------------- (Signature)

(Chair name) -------------------------