

CBI

Governance Review

REPORT

August 2023

CONFIDENTIAL DOCUMENT

FOREWORD

Following the EGM held on 7 June 2023, Ffion Hague at IBE was commissioned to review the governance processes of the CBI. The scope and purpose of the process was to review the effectiveness of the CBI's board structure and composition, its committees, and the governance of the organisation, focusing on its links with the Executive Management Team, and to make recommendations to enhance its performance.

This review is not intended to be a review of the events of the past year. Instead, it is a forward-looking exercise to ensure that the CBI board is as closely in line with its members' governance principles as it can be, and is working as effectively and efficiently as possible as the organisation reforms and rebuilds. The review focuses on the board itself, the Audit Committee, and their links with other parts of the governance structure. Given that the membership of the board is changing fast at this time, we have not been commissioned to review individual director performance and have concentrated instead on the composition of the board and the recruitment process so that our findings can help steer future appointments.

Some of the recommendations in this report may require AGM approval and even revision of the Royal Charter. These will take time to effect but the majority are possible to implement

quickly and in some cases are already in train.

Our thanks go to all participants in the review who contributed their time and candid views on the governance of the CBI during a very difficult period for the organisation, and to the CBI Head of Governance and CFO and COO for their assistance throughout.

Ffion Hague and the Review Team
Independent Board Evaluation
August 2023

1. Process

DESCRIPTION OF PROCESS

This review of the CBI's governance processes was facilitated by Ffion Hague at Independent Board Evaluation.

A comprehensive brief was given to the assessment team by the President, Brian McBride, and the Head of Governance, Chris Kelly in May 2023. The lead evaluator observed board and committee meetings in June and support materials for briefing purposes were provided by the company.

In June, detailed interviews were conducted with every board member. All participants were interviewed by Ffion Hague according to a set agenda, tailored for the CBI board. The interviews were recorded by Kariné Guzelian at Independent Board Evaluation. In addition, the team interviewed members of the senior management team, former board members, committee chairs, advisers, and CBI members.

This report is not intended to be a governance compliance check and it is not retrospective in nature. It has been compiled by the evaluation team based on information and views supplied by the board of CBI and other participants, which have not been independently verified. Any views or comments described in the report were made by participants during interviews and all recommendations are based on good practice as described in the UK Corporate Governance Code and/or other relevant corporate governance guidelines.

Draft conclusions were discussed with the President and Director General and subsequently discussed with the board at its meeting on 29 August 2023 with Ffion Hague present. The conclusions of that discussion are recorded in the minutes of the meeting. Following the meeting, the evaluation team continued to work with the Head of Governance to turn the recommendations into an action plan for the AGM on 20 September.

2. Introduction

CBI Governance Review 2023

The CBI is neither a company, a charity, nor a private partnership. Its status as a Royal Charter membership organisation is not easy to define however many such organisations choose to operate as if they were subject to the Companies Act, as indeed the CBI has historically done. Such organisations may also choose to follow the UK Corporate Governance Code as far as possible.

The governance structures of the CBI are designed to give members confidence in the decision-making of the organisation, much as shareholders of commercial companies rely on the many checks and balances enshrined in listed company regulations to ensure that decisions are fair and impartial. Under the Code, non-executive board members need to take account of the interests of all relevant stakeholder groups when making decisions and maintain an appropriate degree of oversight of the business, which includes remaining independent of the management of the business. Executive directors in turn have a duty to inform the board of any significant issues and to be transparent in their dealings with board and shareholders.

It is felt by a majority of those who participated in this review that following the governance processes of

The **principles of governance** that are enshrined in our UK Corporate Governance Code are as follows: that no person or body should oversee themselves (or 'mark their own homework'), be able to choose their own boss or determine their own remuneration. Every seat of power should have a check and balance mechanism built in and no individual or role should carry a concentration of power that makes it difficult for others to challenge or dissent from their views. Lines of accountability between boards and the owners of the business should be clear, and roles and responsibilities should be known and understood by all.

There is no universal definition of an effective board, but it may be useful to encapsulate it as follows: that an effective board is one that makes the best decisions for the long-term success of the company and gets the best performance out of the executive team. Regulation obliges boards to focus on three areas of work that executive teams cannot tackle alone: agreeing the strategy (the challenge function of the board), overseeing the business (the governance function) and ensuring the best top team for the business today and tomorrow (the people function)

UK listed companies more closely would increase the confidence of members in the governance of this organisation. Indeed, this was the thinking behind the 2004 changes to the Royal Charter that established the board in the first instance. Some of the recognisable attributes of a board, as defined in the UK Corporate Governance Code, were put in place at that time including a composition comprising a majority of non-executive directors. The board subsequently formed two committees to help carry out its duties: the Audit and Remuneration Committees.

Following the events of early 2023 and the departure of the Director General, the Fox Williams Report included certain recommendations that have already been implemented. A new Board People & Culture Committee has been established and the complaints procedure has been reviewed and strengthened. The Audit Committee has been retitled the Audit & Risk Committee and its remit has been expanded to include people-related risk. A new Chair of the Audit & Risk Committee has joined the board and the departure dates of the NEDs whose terms have expired have been clarified. In addition, the overall number of board meetings has been increased.

This review recommends that the CBI takes the next step towards formalising some of the current board structures and completing the process of putting a proportionate but essentially

corporate governance structure in place.

The direction of travel in governance in the UK (and, indeed across large parts of the world) is towards improving the quality of decision-making by increasing the diversity and range of experience of board members, mainly through setting targets for under-represented groups among NEDs and increasing the stakeholder and staff engagement of boards. There are in addition a number of regulatory-driven developments in corporate governance, such as the introduction of separate Risk Committees (mainly but not solely in financial services) and the 'good practice' establishment of safety or sustainability committees in other sectors. These are not mandated in the Code but are used by companies to signal the importance of certain issues and to allow boards to scrutinise key areas of work in more detail. By convention also, major postholders such as the Chair or CEO do not play a leading role in the appointment of their successors, and it is a priority for boards to arrange their succession in such a way as to minimise disruption to the board and maintain an appropriate level of continuity.

It is not the intention to introduce all of these additional features to the governance of the CBI for the sake of doing so, or to design a governance structure that is overly complex for this size of organisation. Where judgment calls are necessary, for instance in balancing the needs of different

stakeholder groups, the UK Corporate Governance Code and/or corporate 'best practice' thinking will be our guide so that the outcome will be broadly in line with the experience and expectation of the majority of the CBI's members and other stakeholders, including government.

On the question of whether board members should be appointed to represent specific constituencies v as independent directors, as long as the Chairs' Committee truly reflects the make-up of the membership, there is broad consensus that board members should be chosen for their skills alone. This is in order to focus the board on the performance of the business as opposed to policy, while also avoiding discontinuity when board members move between executive jobs. However, most participants agree that the board should also be appropriately diverse to encourage the best possible decision-making. This means that including NEDs from small and large-business backgrounds and individuals from outside London as well as within is deemed essential on top of the need to maintain the gender balance of at least 60/40 and always having one board member from an ethnic minority.

The time commitment of board members may increase as a result of these changes. This may mean that individuals holding very senior roles in business may not necessarily be candidates in future, but the key consideration should in any case be whether candidates have the skills and

time available to make a meaningful contribution to the board.

The review team was asked to look at three topics: the effectiveness of the governance structures and processes; the connection between the board and the business; and future board composition. The recommendations therefore follow that format. They include many processes that feature in the Code but an annual internal review of Code compliance, similar to reports commissioned by the Audit Committee in the past, is necessary to highlight other areas of compliance, particularly at committee level and pertaining to disclosure rules etc, that the board will wish to consider in due course.

Finally, some recommendations may need revision of the Royal Charter or AGM approval to implement, and it is intended that this should be reflected where relevant in the Action Plan which will be put to the board following its meeting on 29th August 2023.

3. Recommendations

GOVERNANCE STRUCTURES AND PROCESSES

1. The Royal Charter should be reviewed and brought in line with current thinking on governance and to reflect the new governance structures of the CBI.
2. The Terms of Reference (ToRs) of the board should be updated to reflect the conclusions of this review. In so doing, the remit of the board should be focused on oversight of the business itself, with policy work being channelled through the Chairs' Committee, with advice from the President's Committee.
3. Confirmation should be made via a statement on the website and in the Annual Report that the organisation follows the UK Corporate Governance Code on a voluntary basis wherever possible. The board (directly or via the Audit & Risk Committee) should review any major deviations from the Code annually and report them to the membership via the Annual Report.
4. The board's accountability to the membership should be reinforced by revisiting the concept of the CBI Council, as enshrined in the Royal Charter, and adding oversight of board and executive team performance to its duties. It is proposed that the Council be re-defined as the whole membership, meeting annually (at the AGM) and that the Chairs' Committee, with a Chair elected from within the committee, be designated as the supervisory body for the board. The 'Chair of Chairs' should agree the agenda for committee meetings with the Director General and the President. The President should be an ex officio member or Vice Chair of the committee, as appropriate. Under the proposed new structure, the President's Committee should remain an advisory group and will continue to have no formal role in the governance of the organisation.
5. A SID role should be established to help the President manage the board; to take responsibility for the longer-term development and skills of the board; and to be available to members should there be any dissatisfaction with the President.
6. The SID should lead a review of the board's performance annually, in consultation with other board members, and should commission an external review at least every three years, as specified in the UK Corporate Governance Code.
7. A Nominations Committee of the board should be established, chaired by the SID, with the President and other NEDs as members. The Terms of

- Reference for the committee should cover approval of the board skills matrix; drawing up role specifications for vacancies, and approval of a standard recruitment process for board members. The committee should make a recommendation to the board with respect to all board appointments, including that of the President, should plan succession for all board roles and oversee succession-planning for non-board senior management roles. When appointing a new SID, the postholder should recuse themselves from the committee and the President should lead the process.
8. All board committees should be chaired by a NED, and the number of NEDs at any one time should be greater than the number of executives + the President on the board, as is currently specified in the board's ToRs. All board committees should comprise a minimum of Chair plus two NEDs with no executives as members. Relevant executives who need to attend meetings should either be standing invitees or invited by the Chair to be in attendance, as appropriate. Each committee Chair will wish to revise their Terms of Reference to be in compliance with Code provisions, as far as practicable.
 9. While the Director General cannot be a member of the Nominations Committee it is expected that the SID will involve the DG appropriately in all board appointments and in discussing succession at board and executive level.
 10. The board should have regular, scheduled private sessions as part of every board meeting, some with and some without the DG so that the executive team's performance can be discussed openly and any issues of individual or organisational culture raised in a confidential forum.
 11. The President, on behalf of the board, should present a review of the executive team's performance annually to the Chairs' Committee, ahead of the AGM.
 12. Other good practice processes to introduce include agreeing a forward calendar of agenda topics for the board to determine the frequency and length of board meetings and to give the management team time to prepare well; allocating regular slots on the agenda for each committee to report back to the main board; and specifying matters reserved for the board in the revised ToRs.
 13. The organisation should appoint a qualified board secretary, or a General Counsel and Board Secretary (the so-called combined role), with a reporting line to the DG and President.

CONNECTING THE BOARD WITH THE BUSINESS

14. The board should conduct Town Hall 'meet the board' sessions at least annually. At those sessions, the President should introduce the board, explain its remit and describe how the board and executive team are held to account. They should also explain how to access the board and how to use the whistleblowing system.
15. In addition to the Audit & Risk Committee's duty to review the effectiveness of the whistleblowing process, the People & Culture Committee should formally review whistleblowing and grievance complaints at least annually through a culture and behaviour lens and report its conclusions to the board.
16. The board as a whole should agree clear objectives with the Director General annually, linked to Remuneration and monitor the DG's performance against them. These should include people and culture objectives as well as financial and policy goals.
17. The board should establish an internal, rotational mentoring scheme to link individual NEDs with senior managers. Each member of the Executive Committee (ExCo) should also be matched with an appropriately experienced

mentor either from within the board or from a member organisation.

18. Every board meeting should include lunch/drinks with staff, a visit to a team or office, or opportunities to meet key individuals other than ExCo members to expose board members to organisational culture.
19. ExCo members should be invited to present to the board on items within their remit and an 'empty chair' scheme should be considered to increase the contact between the board and key members of staff.
20. ExCo should review the pack of board papers before each meeting and afterwards, review board actions and the forward calendar.
21. ExCo should receive governance training on what to expect of their board and on how to interact effectively with a board.
22. All board members who have not previously served on a board should receive governance training and/or mentoring externally as appropriate.

BOARD COMPOSITION

23. A skills matrix for the board should be agreed (and approved at the AGM as part of the Annual Report) to reflect appropriate

- diversity and skills criteria. In addition to diversity of experience, the board should seek to have sufficient financial and general management experience to effectively oversee and advise the executive team.
24. The board should agree a standard recruitment process for new board members, led by the Nominations Committee. As part of this process, specifications for board vacancies should be circulated to members to canvas suggestions and nominations. This process should take into account whether or not prior or current involvement with the CBI (e.g. as member or Chair of a committee) is a conflict or not and an explanation of the board's view on this should be included in the Annual Report.
25. All directors should be confirmed by a vote at the AGM, alongside the President.
26. The number of board members should be reviewed so that there are enough NEDs to populate 4 committees.
27. Presidents Designate should join the board for up to a year before their term begins, sitting on the board as Vice Chair and joining the Nominations Committee. Former Presidents should not remain on the board but should be invited to be members of the President's Committee for a period of 5 years from the end of their tenure.
28. The Chair of the People and Culture Committee should be designated as the board member responsible for Employee Engagement.