Corporate Governance Review 2025

Guardrails to growth: governance framed for momentum

Contents

Foreword

Sarah Bell
Head of Industries

Governance is not a set of rules. It is a system of tensions - between creating value and protecting it, between ambition and accountability. Boards live above and below the line: one side driving innovation and growth, the other safeguarding integrity and trust. The mistake is to see these forces as opposites. They are partners in progress and in realising purpose.

The challenge for modern governance is not compliance, it is relevance. In a world of accelerating complexity, governance must evolve from a brake to a balance, from a constraint to a catalyst. By reframing governance as a strategic engine, you invite boards to embrace their true role: to hold the line and cross it when the organisation's ambition meets the board's true ability, to power growth without abandoning principle.

This is compelling because it speaks to the future of leadership in the boardroom. For productive and adaptive governance, it is not enough to tick boxes; it's about designing and balancing guardrails that enable bold decisions, ethical risk-taking and sustainable success Practised well, governance does not slow the organisation - it provides confidence to move faster, knowing the path is sound. That is the promise of a governance reframe.

This lens shapes how this review, led by Claire Fargeot, the new Head of Governance and Board Advisory, and her team, have interpreted the output of this year's Corporate Governance Review and frames the questions and insights that follow.

For productive and adaptive governance, it is not enough to tick boxes; it's about designing and balancing guardrails that enable bold decisions, ethical risk-taking and sustainable success.

Strong governance creates value

Why we do it

Our research shows that companies with robust governance have:

43% more operational efficiency

3.4× more cash flow

2× more shareholder returns

Strong corporate governance doesn't create value in itself. It does, however, form the basis of the conditions for retaining and creating it. It does this by building a decision-making environment and framework with clear purpose and stronger strategic intent, focusing all the organisation's assets on aligned value-creation. It also ensures that risks are taken and managed appropriately in support of strategy, resulting in more predictable operating performance and long-term value creation.

How we do it

Our research has covered:

24 years of unique insights

267 data points analysed per company

216 company reports analysed*

* 89 FTSE 100, 127 FTSE 250, down from 253 last year following several market de-listings.

Throughout this review, we'll refer to the UK Corporate Governance Code as 'the Code'.

Welcome

Guardrails to growth: governance framed for momentum

Claire Fargeot
Head of Governance and Board Advisory

This review lays the groundwork for advancing the governance agenda. We see effective governance not just as a safeguard, but as a strategic asset, one that drives disciplined execution, sharp oversight, and momentum that counts.

Our findings draw on analysis from UK FTSE listed corporate reporting, enriched by perspectives from academics and market professionals. The priorities, key takeaways, and questions for boards, are crafted to sharpen focus, strengthen decision-making and accountability, and align governance practice with long-term value creation.

OPPORTUNITIES AND CHALLENGES

In today's shifting environment, stakeholders expect governance frameworks that are both rigorous and responsive.

Building on last year's review's emphasis on agility and forward-looking capacity, boards must now create a governance framework that enables their organisation to respond effectively to the opportunities and challenges of a rapidly evolving landscape shaped by:

- Technological disruption reshaping growth and work models
- Economic shifts altering priorities and talent flows
- Geopolitical fluidity and policy uncertainty impacting growth and supply chains
- Environmental and social pressures demanding greater accountability

Governance should no longer be viewed as a compliance exercise; it's a catalyst for resilience, ethical leadership, and bold decision-making. Framed as a forward-looking driver of momentum on board agendas, governance ensures board oversight supports agility whilst safeguarding integrity.

Key takeaways from 2025

Purpose and culture

96%

state a purpose, but only 16% provide metrics on outcomes

Internal controls

1%

provide detailed Provision 29 disclosures ahead of the January 2026 deadline

AI and cyber

Board-level expertise and disclosure remain limited

7%

Succession planning

identified as an improvement area by

40%

(2024: 38%)

Diversity

60%

Gender and ethnic diversity improving, broader diversity underreported

Remuneration

91%

Executive and employee pension alignment now almost universal

Compliance

69%

claim full Code compliance (up from 65% in 2024), but only **3% fully meet revised Code requirements**

Board priorities for 2026

- Position governance as a strategic enabler, not a regulatory obligation, ensuring it drives value creation and resilience.
- Reassess risk frameworks to balance ambition and protection, with risk tone and approach clearly owned at Board level and integrated into core decision-making.
- Clarify enhanced reporting under Provision 29 - operationally and in demonstrating governance effectiveness and its impact on organisational outcomes.
- Embed purpose and culture with measurable outcomes, moving beyond statements to evidence-based reporting.
- Expand diversity reporting beyond gender and ethnicity to include broader dimensions of inclusion.
- Align strategy, purpose, risk, and learning and development plans with the Board skills matrix, ensuring capability in emerging areas such as AI, cyber risk, and ESG.
- Keep governance firmly on the agenda as a lever for innovation, resilience, and measured agility.

We hope this review helps set a clear pathway for enhancing resilience, reinforcing trust and positioning your organisations to deliver consistent and sustained performance in the face of ongoing change.

Governance in motion

2025: A year of evolution

FTSE 350 companies are accelerating with Code compliance, and some are taking bold steps towards greater transparency, sharper, outcomes-focused reporting, and clearer governance disclosures. The leaders are showing what good looks like, embedding purpose and culture into everyday decisions and sharing richer insights on risk, diversity and remuneration. Longer-term thinking is slow in gaining traction, with culture only starting to influence long-term incentive plans. And when it comes to AI, the path ahead feels uncertain, as risk and opportunity are still being mapped.

Progress matters. Year-on-year improvements show that incremental change builds momentum. Regulatory shifts are doing more than driving technical compliance – they're laying the foundations for governance that moves beyond box-ticking. The result? Clearer, more meaningful governance and a narrative that supports long-term value and earns stakeholder trust.

GREEN
Ahead of the curve by…

- Including a statement that the board monitors the groups internal controls and risk management framework (2025: 99%, 2024: 100%)
- Separating the roles of the CEO and Chair - for all companies (2025: 97%, 2024: 100%)
- Disclosing the circumstances where malus and clawback would apply (2025: 85%, 2024: 83%)

AMBER
Closing the gap by…

- Increasing reporting on a direct linkage of culture, purpose and values to the output of employees, remuneration etc (2025: 65%, 2024: 63%)
- Recognising succession planning as a strategic priority (2025: 40%, 2024: 38%)
- Using a 'basket' of metrics to measure culture (2025: 63%, 2024: 50%)

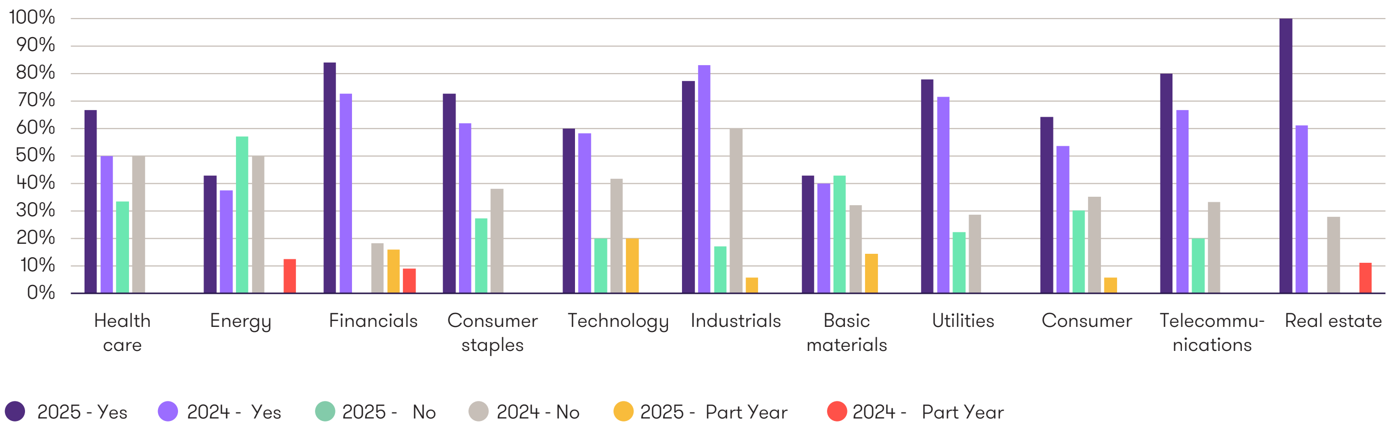
RED
Behind the curve by…

- Recognising only the opportunity of AI as 56% do without recognising a related emerging or principal risk (2024: 44%)
- Allowing CEOs to focus only on the operational, as only 55% of CEOs discuss the culture and values of their company in their 'CEO's letter' (2024: 60%)
- Providing only compliant explanations, instead providing competent, good and strong explanations like 29% of those who don't comply. This hasn't improved since last year (2024: 29%)

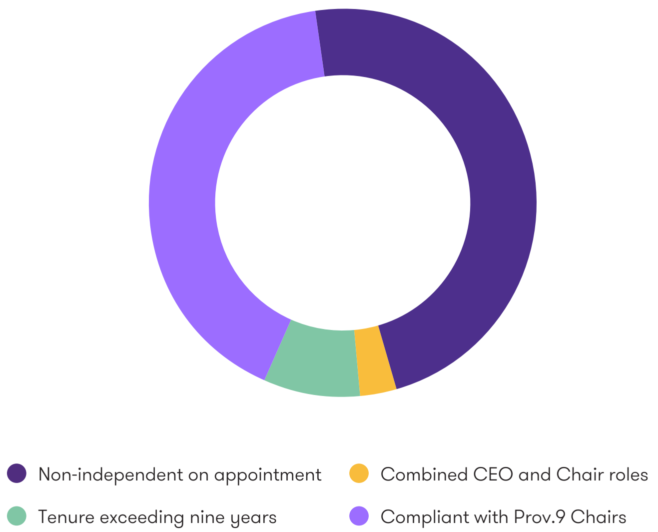
The Code: building true or technical compliance?

Technical compliance with the Code has climbed to 69% of companies claiming they fully comply, (2024: 65%), with FTSE 100 companies accounting for 45%, and FTSE 250 accounting for 55%. The real estate sector leads the way, with everything else in between (financial services, telecoms and industrials) performing well, and energy and basic materials lag behind at 43% each.

Technical compliance: the leading, performing well and lagging sectors



Chair independence non-compliance

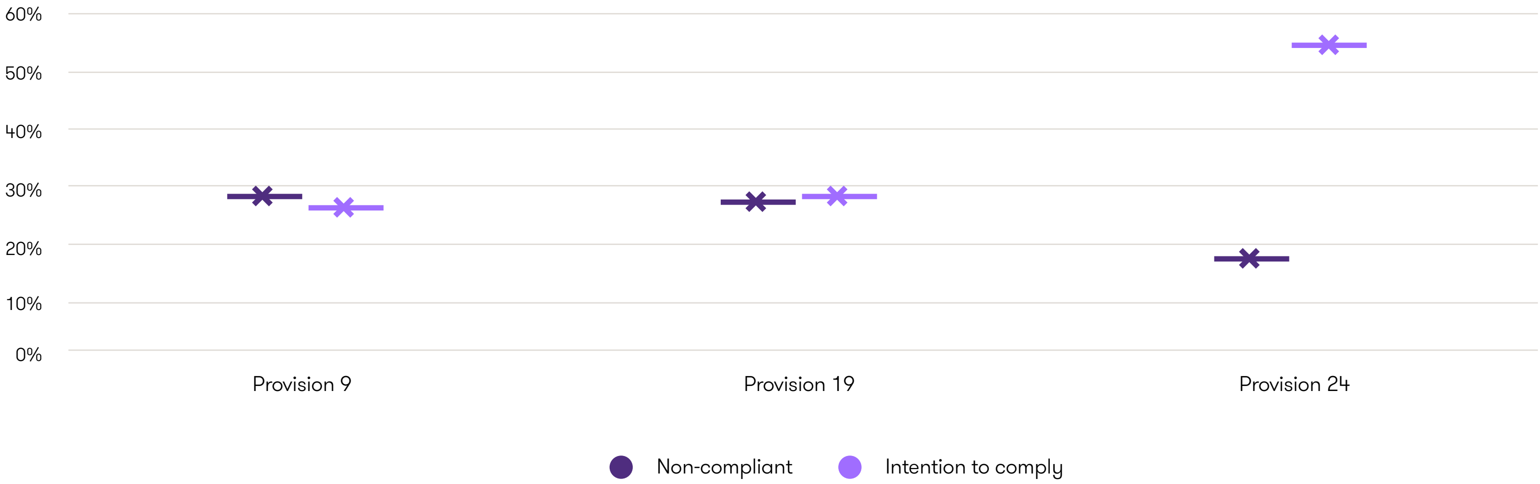


The top three areas of non-compliance - Provisions 9, 19, and 24 - relate to Chair independence, (either being non-independent on appointment, or exceeding the recommended nine-year tenure), and the audit committee construct not meeting requirements. These 31% of companies suggest a shift to the 'spirit of the Code' in place of technical compliance.

Future intentions for technical compliance also aren't particularly high. This suggests that many non-compliant companies are focussing on being true to the Code's intent - in a way that fits their needs to effectively amplify their strategy and delivery without technically complying.

As a distillation of good practice, built on high-level principles and framed by the 'comply or explain' principle, the flexibility of the Code invites 'true to the spirit, not necessarily the letter' with its emphasis on value, outcomes-focus and adaptability. Digging deeper into the reporting, most of those who don't comply provide strong explanations for this, still delivering good governance irrespective of technical non-compliance.

Non-compliance vs intention to comply



The 4% growth in compliance is small, but shows that clear, meaningful, and context-specific explanations are on the rise while non-compliance declines - which aligns with the Financial Reporting Council's (FRC) own findings and approach in its annual review of corporate governance reporting.

Full technical compliance is always championed; however, improvement matters more. Governance that is outcomes-focused and purposeful for the company, is the best way to protect value and add momentum to strategy. The Code is an especially good blueprint for this although, as always, one size doesn't fit all.

Of the 31% of companies (2024: 35%) that didn't comply in full during the year:

6% (2024: 7%)

provide good explanations, detailing which provisions aren't met and how and when they intend to remedy this.

23% (2024: 29%)

offer strong explanations, including alternative arrangements which deliver a more effective outcomes-focused approach for the company.

Momentum matters: what boards should consider in a shifting landscape

With the revised Code now in force for accounting periods starting 1 January 2025, (and Provision 29 following in 2026), boards are being encouraged to go beyond box-ticking and view this as an opportunity to amplify strategy, openness, accountability, and genuine responsibility.

Boards are adapting well to many of the Code changes. Yet Provision 29 is causing concern. These new requirements bring sharper scrutiny to risk management and internal controls, and to the board's assurance that these systems work in practice.

Broader governance reforms are reshaping expectations around accountability and oversight including new regulations linked to economic crime and corporate transparency. Preparing for these changes means proactive engagement with updated guidance and a fresh look at internal frameworks; critical steps to protect value and maintain stakeholder trust.

The Economic Crime and Corporate Transparency Act 2023 (ECCTA) introduced measures to curb corporate abuse and strengthen transparency. Boards now face new responsibilities: verifying directors' identities, taking stronger action to prevent fraud and ensuring accurate reporting to Companies House. Central to this is the new offence of failure to prevent fraud, which holds boards directly accountable for effective anti-fraud controls.

These reforms tie into rising Code expectations, calling for active, purposeful governance. Directors are expected to review risk management frameworks and foster a culture of integrity - key to mitigating legal and reputational risks.

Key takeaway

Compliance is moving forward, however technical compliance gaps remain for Chair independence and audit committee structures. Provision 29 readiness still needs attention. Still, non-compliance does not automatically mean poor governance. Many companies provide clear, thoughtful explanations, showing they can stay true to the **spirit of the Code** even when full technical compliance is not achieved.

Questions for boards

01 Are explanations for non-compliance clear, contextual and outcomes-focused? Do they go beyond boilerplate language to explain the rationale and impact of governance decisions?

02 How is the effectiveness of governance practices evidenced? In what ways does reporting show that governance contributes to long-term sustainable success, as emphasised by the revised Code?

03 Is reporting streamlined, integrated and accessible? Does it avoid duplication, link clearly to strategy and purpose, and provide signposting across the annual report?

04 Is the new internal controls declaration (Provision 29) well prepared for? What systems are in place to monitor, review, and report on all material controls — financial, operational, compliance, and reporting?

05 Do governance arrangements reflect the spirit of the Code — not just the letter?

INSIGHT

Emma Young
Director, Business Risk Services

Q: How can you reassess your governance approach now to enable effective compliance to Provision 29 in 2026?

A: Compliance starts with strong governance foundations and early board engagement. Key actions:

- Clarify accountability at board level and ensure roles across the three lines of defence are well defined.
- Engage boards and audit committees early to align expectations and embed Provision 29 readiness into governance agendas.
- Leverage training to strengthen risk culture and awareness across the organisation.
- Use existing governance processes to confirm material control definitions, agree assurance strategies, and provide insight for decision-making.

Taking these steps early will help future-proof your approach and keep you on track for 2026 reporting.

Building compliance one new provision at a time

Only 1% fully meet the new provision 29 requirements relating to material controls. 45% partially meet these requirements and the energy, consumer discretionary, utilities, telecommunications and technology sectors are making noticeable inroads, with 50% of their constituents meeting the requirements.

Leadership and company purpose: where purpose meets values

In today's rapidly evolving business environment, leadership is no longer defined solely by strategy and execution. It's increasingly measured by purpose, integrity, and impact.

96%
of companies define their purpose, consistent with 2024

91%
report a clear set of values, down from 94% in 2024 but unchanged from 2023

93%
of companies assess alignment of policies and practices with purpose

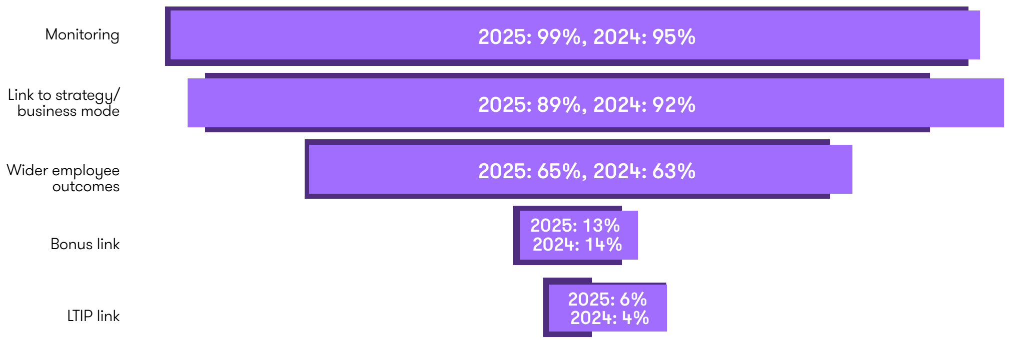
ONLY **16%**
authentically demonstrate purpose with metrics, tracking progress (2024: 17%)

Boards are linking purpose and values directly to strategy and business models, providing more detail on how these principles shape everyday practices. Assessing just how embedded, how 'lived' and delivered upon purpose is, however, continues to prove challenging. Alignment in theory remains strong.

Culture as a strategic asset

UK regulators, including the Financial Conduct Authority (FCA) and FRC, continue to emphasise culture as a cornerstone of good governance. The revised Code asks boards to evaluate whether their company's culture supports effective governance and reflects purpose.

Embedding company culture, from strategy to reward



85%

of Chairs discuss the company's culture and values across the annual report

Measuring culture for authentic leadership

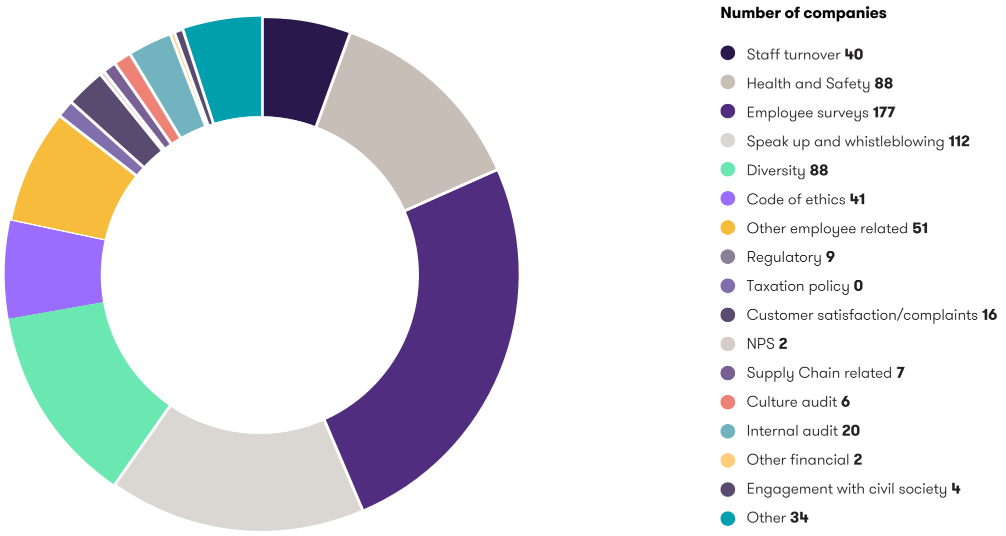
Culture measurement is critical in helping boards identify gaps between target values and culture and actual corporate behaviours. Measuring culture supports more authentic leadership and purposeful decision-making.

63%

of companies use a basket of three or more metrics to measure culture

(2024: 50%, 2023: 40%)

Culture: what's in the basket?



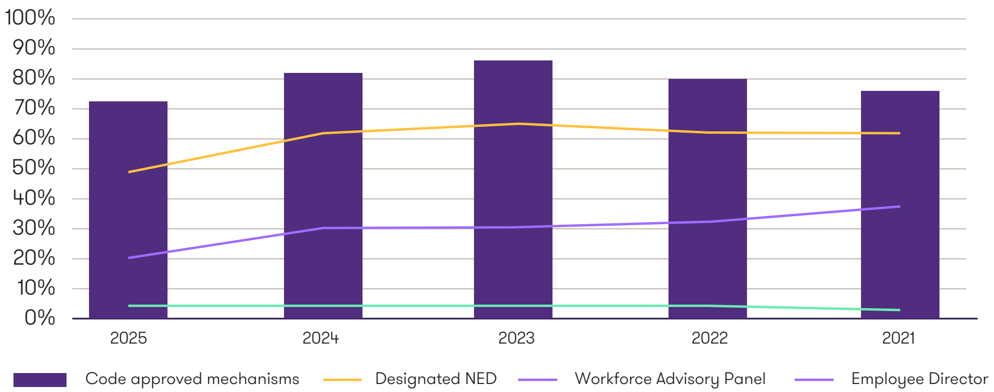
Where boards effectively connect culture, performance, and action, outcomes are more readily evidenced and contextualised, demonstrating impact.

Stakeholder engagement: the workforce, and s.172 reporting

Stakeholder engagement has been part of the Code since 2018, however gaps still remain between compliance and meaningful reporting. While transparency is improving, many disclosures stop short of showing measurable outcomes and actionable insights. The strongest reports go further, focusing on what was achieved, offering clarity on the board's work during the year.

Few companies adopt the Code's formal mechanisms to gather stakeholder input. Instead, many rely on a combination of methods that work for their business structure, complexity and scale. Too often, reports claim engagement without evidencing that they have truly considered their stakeholder's interests.

Engaging with the workforce: less Code, more fragmentation



56%

of companies provide insight into Section 172 considerations.
(2024: 64%, 2023: 40%)

Yet...

many reports still lean on broad statements instead of showing clear, measurable outcomes.

Key takeaway

Boards are defining purpose and culture, but few are showing how it translates into impact. Moving from statements to measurable outcomes remains one of governance reporting's biggest challenges. Workforce engagement is evolving to be more tailored, yet still fragmented, and overall stakeholder engagement reporting has room to go further.

Dr Filipe Morais

Henley Business School

"Boards of Directors must get purpose and culture right or face failure in a not-too-distant future. There's mounting evidence that a well-crafted and embedded purpose brings the required strategic and ethical clarity conducive to corporate growth and prosperity. Relatedly, at a time of political instability, social division and unprecedented technological advancements likely to disrupt practice and values, corporate cultures capable of navigating these turbulent waters - combining strategic agility and ethical conduct - are a significant intangible asset that requires strategic oversight by boards."

Peter Tunjic

Disruptive Governance Thinking, Commercial Lawyer

"If management can't see the forest for the trees, stop to consider the challenge of directorship in 2025. The risk, compliance and regulatory burdens of corporate governance have found directors caught out, peering out from behind the tress rather than focusing on the opportunities for growth and prosperity that lie beyond the forest."

Questions for boards

01 How is the board evidencing the authentic delivery of its stated purpose - and what metrics demonstrate progress?

02 Is culture being monitored and embedded in a way that links directly to strategic priorities and employee outcomes?

03 How does the board ensure that stakeholder engagement mechanisms are effective, inclusive, and regularly reviewed?

04 What steps has the board taken to ensure that workforce concerns are surfaced and addressed meaningfully?

05 Does the board have a clear view of how governance decisions are impacting long-term sustainable success?

Board independence: beyond box ticking

The right board doesn't just oversee; it challenges, safeguards, questions, and directs. There is tension however, in achieving this: balancing experience and oversight with autonomy isn't easy. But done well, it's the difference between governance that works and governance that wins.

Division of responsibilities

The Code sets out a clear division of responsibilities to support effective leadership and accountability. Reporting in this area remains strong.

97%

separate Chair and CEO roles, almost universal

94%

of boards comprise at least half independent NEDs (excluding the Chair), slightly down from 96% in 2024

PERFORMANCE REVIEWS

86%

of boards meet without the Chair to review the Chair's performance **(2024: 89%)**

81%

meet without executives to assess executive performance **(2024: 79%)**

Chair and NED appointments: independence in the widest sense

2025 saw fewer new Chair appointments, alongside a broader decline in other indicators of board independence, such as Chairs being independent on appointment, tenure length and separation of CEO and Chair roles. There are many good reasons why director independence is highly valued, two of them being impartiality and challenge.

The right mindset at the board table is critical for a healthy board culture and dynamics. Even so, board reporting falls short of explaining why Chairs exceed expected tenure limits (2025: 5%, 2024: 2%). Meeting independence requirements in the broadest sense isn't just compliance; it's an opportunity for boards to shine.

Director (lack of) time commitments

33%

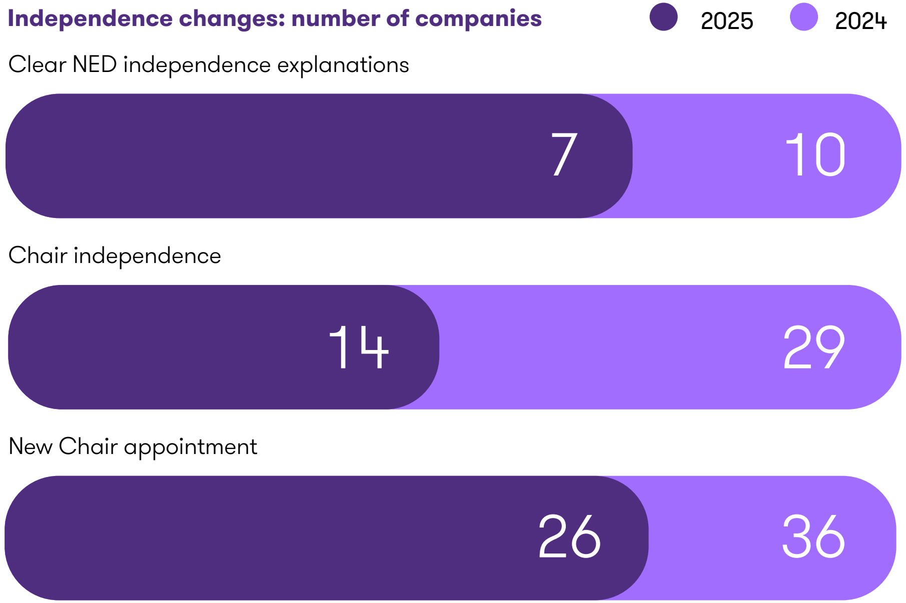
of executive directors hold more than one NED role or significant appointment (up from 31% in 2024).

most companies

disclose external appointments, but few provide detailed rationale for exceptions.

The governance glue: the company secretary

Company secretaries remain pivotal in providing governance advice and ensuring effective board operations and information flow – all critical for maintaining board independence and accountability.



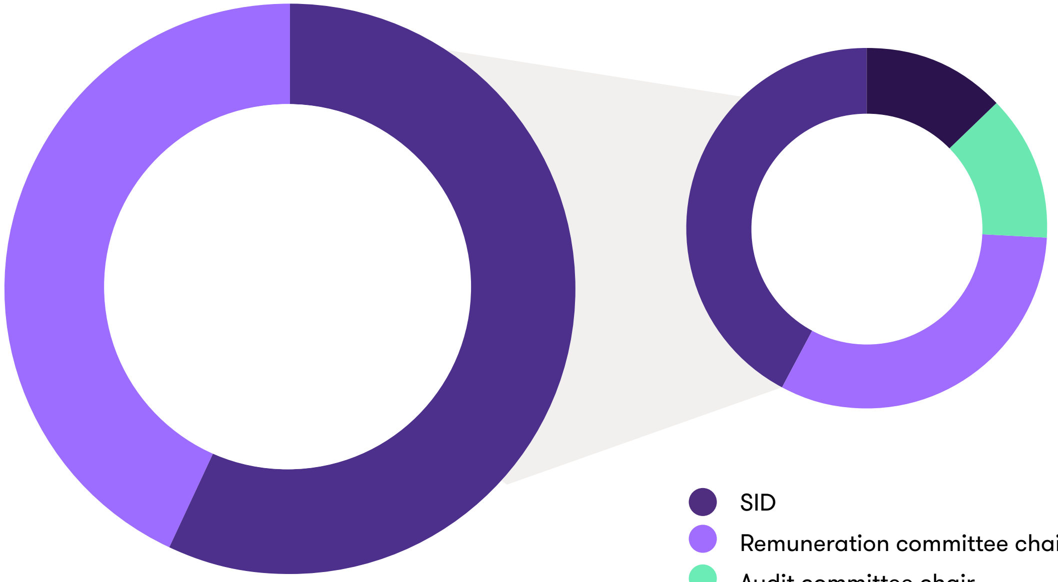
Shareholder and investor engagement: getting the board onboard

Engagement between Chairs, NEDs and investors and shareholders is slipping, with fewer board members meeting capital backers (2025: 57%, 2024: 64%). Understanding the views of shareholders, and turning that insight into clear, measurable and tangible actions and outcomes is essential for directors to fulfil their duties. Now is the moment for boards to consider how they can re-engage more effectively and demonstrate impact.

NED participation: who's in the room?

NEDs engaging with shareholders

NEDs engaged with



CHAIR ENGAGEMENT

49% met shareholders to discuss governance and strategy (2024: 54%)

IMPACT REPORTING

62% of boards disclose actions taken as a direct result of shareholder feedback (2024: 72%)

Voting and proxy trends: influence in transition

Shareholders are encouraged to make their views known (directly or through proxy advisors), via the traditional democratic process of voting. Fewer companies are facing shareholder consultations caused by more than 20% of votes being cast against resolutions, though the issues raised reflect growing regulatory scrutiny and shifts in the governance landscape.

The issues raised are changing; and board follow-through appears weaker, which is concerning. This raises important questions: Are proxy advisors still as influential? And is the board truly valuing shareholder feedback as it should?

7%
of companies faced shareholder consultations due to >20% votes against resolutions **(2024: 9%)**

Votes against related to:

56%
Executive remuneration
(2024: 77%)

25%
Director re-election
(2024: 14%)

13%
Overboarding
(2024: 9%)

6%
ESG Commitments
(2024: 5%)

Final summaries of actions taken fell to
75%
(2024: 91%)

Key takeaway

Compliance is strong, however boards should go further, ensuring independence assessments and role clarity are backed by clear, robust explanations. Independence isn't just about board structure; it's about mindset. Directors need to bring independence of thought, moving beyond independence on paper. Reconnecting with shareholders matters too. Boards should consider how to engage more effectively, listen actively and turn feedback into meaningful action.

Lauren Branston
CEO, Institute of Business Ethics

"Board independence matters when it translates into action. The boards that build trust and performance don't just have independent directors - they create cultures where challenge is normal, not brave. Where directors ask the difficult questions because they have the capability, the information, and the expectation to do so. Independence of role means nothing without independence of thought."

Questions for boards

01 Is the division of responsibilities between the Chair, CEO, and senior independent director clearly defined and publicly disclosed?

02 How does the board assess the independence of NEDs, and are explanations for exceptions robust and transparent?

03 Are board roles and time commitments regularly reviewed to ensure directors can meet their responsibilities effectively?

04 Does the board have sufficient diversity of thought and challenge to avoid groupthink in decision-making?

05 How is the company secretary supporting the board in maintaining governance effectiveness and compliance with the Code?

Board composition: diversity, depth and direction

Navigating today's complex business environment means boards need to strike a careful balance between diversity and deep expertise.

Diversity fuels broader thinking, bringing perspectives and experience that sharpen decision-making and keep boards connected to stakeholders. However, boards also need specialised skills to oversee strategy and operations competently and effectively.

The right mix matters: a board's composition should reflect organisational strategy and align with the evolving risk and business landscape. Transparency around learning and development programmes is essential to ensure boards stay ready for emerging market themes and rising regulatory expectations.

Boards should proactively build a diverse talent pipeline equipped with capabilities in:

- technology, AI, and digital literacy – to navigate digital transformation and cyber risk
- ESG fluency – to meet sustainability and stakeholder expectations
- international markets – to manage global growth and geopolitical complexity.

Embedding these skills into board succession planning and ongoing development doesn't just tick the compliance box, it will strengthen governance and position organisations not only for regulatory compliance, but for innovation, resilience, and long-term success.

Current state of board diversity and succession

Ethnic diversity remains high:

87%

of boards meet FCA targets (up from 83% in 2024)

Gender diversity remains stable:

54%

of boards have more than 40% women (2024: 43%), but progress remains slow

Broader diversity:

60%

of companies underreport on wider diversity, such as age (29%), social background (40%) and cognitive strengths (25%)

Succession planning

Recognised as a strategic priority by

40%

of companies (2024: 38%)

Stronger disclosures around board succession planning rose to

45%

(2024: 43%)

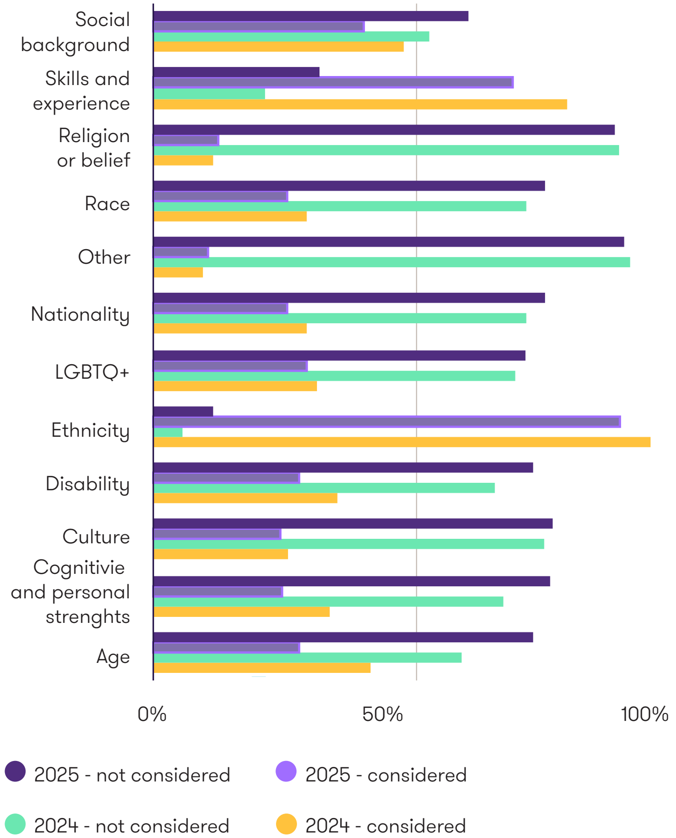
Senior management succession reporting stable at:

30%

Key takeaway

Boards are improving diversity and succession planning, however transparency and breadth of reporting still lag behind. The challenge isn't just hitting diversity targets but ensuring boards have the skills and experience to steer through technology shifts, ESG demands, and global market complexity.

From diversity of characteristics to diversity of thought:



There's a drop across the board in terms of the quality of diversity reporting against strategy and progress at both board and company-wide levels. While most organisations still set out their diversity policies, fewer provide meaningful updates on progress.

Board level:

63%

report both policy and progress **(2024: 65%)**

Company level:

80%

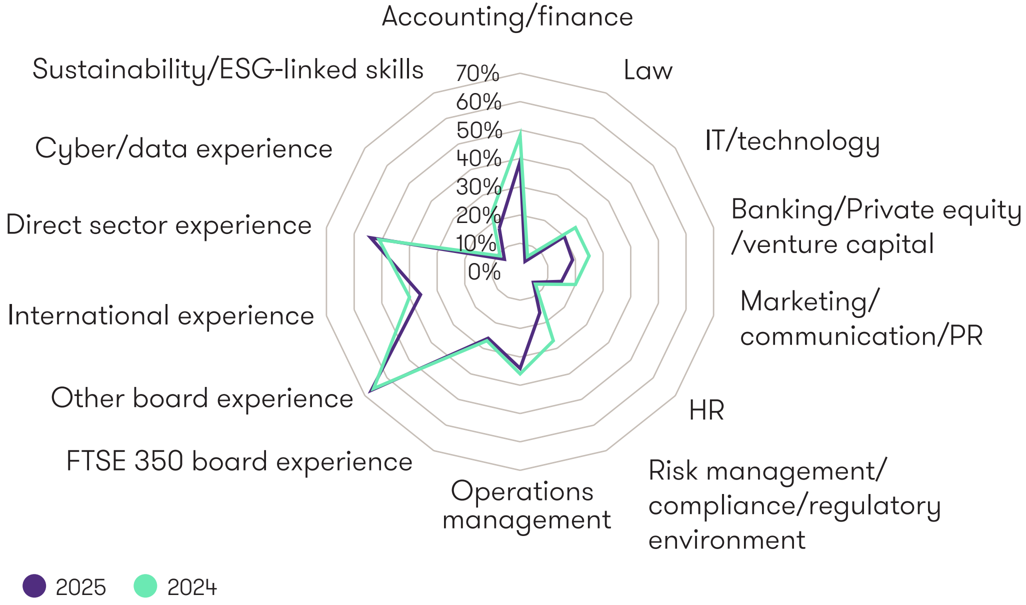
report both policy and progress **(2024: 88%)**

This downward trend, first seen in 2024, runs counter to the FRC's call for outcomes-based reporting, reaffirmed in its latest Annual Review of Corporate Governance Reporting. Reluctance to show progress weakens transparency and accountability, especially as the revised Code champions diversity, inclusion, and equal opportunity, without narrowing focus to specific groups.

Board skills: evolving but missing the mark?

Board skill profiles are shifting away from the traditional, but not always toward what matters most for future resilience and innovation. While direct sector experience is on the rise, critical skills in finance, risk, sustainability, and emerging technologies are slipping, leaving gaps where boards need to strengthen the most.

Skills as a proportion of the board



KEY MOVEMENTS IN 2025

Direct sector experience
up to 54% (2024: 51%)

Accounting/finance skills
down to 39% (2024: 48%)

Sustainability/ESG skills
down to 17% (2024: 23%)

Banking/private equity experience
slipped to 19% (2024: 25%)

Companies with at least one ESG-skilled board member
down 10% (2025: 53%, 2024: 63%)

- FTSE 100: 44% (unchanged from 2024)
- FTSE 250: 56% (unchanged from 2024)

Risk management expertise
drops sharply to 16% (2024: 27%)

This drop in ESG and risk expertise is a concern given regulatory and investor expectations and the growing complexity of technology and sustainability challenges.

Board performance evaluation: progress without purpose?

Performance evaluations remain standard practice under the Code, but authentic follow-through is limited:

ONLY
12%
of companies show clear action on evaluation outcomes (2024: 9%)

Strategic focus and future planning slips to
56%
(2024: 61%)

Areas gaining attention:
- embedding culture: 15% (2024: 11%)
- board succession planning: 40% (2024: 38%)

Losing ground on senior leadership succession:
25%
(2024: 27%)

Key takeaway

Boards are prioritising cultural alignment and succession planning, but critical technical skills - risk, ESG, and digital - are eroding. This gap creates strategic vulnerability as regulatory organisations scrutiny intensifies, sustainability pressures mount and technological disruption accelerates.

AI and cyber: opportunity and risk

In 2025, 62% of benchmarked companies see AI as an opportunity (up from 54% in 2024). Yet, reporting on AI and cyber risks remains limited, particularly in high-exposure sectors such as:

Financial services

72% underreport risks

Healthcare

89% underreport risks

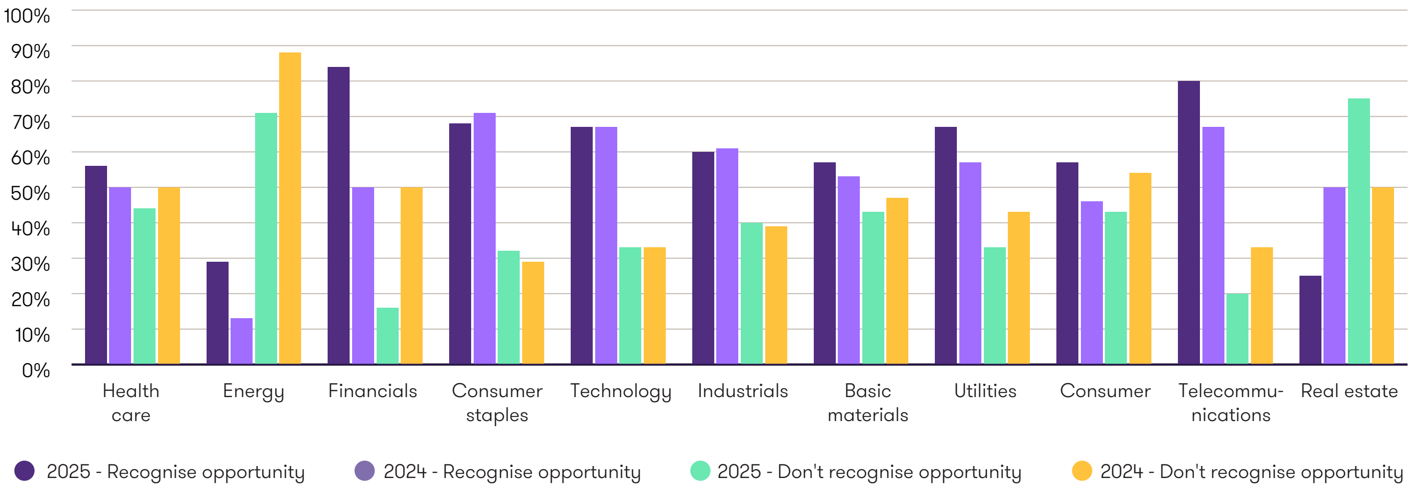
Board-level expertise: a critical gap

Even with growing reliance on technology, only 7% of boards have members with specified cyber or data-related skills (2024: 9%). Among the 62% of companies that see AI as an opportunity:

55% don't spot AI as an emerging or principal risk (2024: 44%)

22% don't have any board members with IT, technology, cyber, or data linked expertise (2024: 15%)

From healthcare to real estate: sectors seeing the AI opportunity



Key takeaway

Boards are making progress on diversity and succession reporting but the breadth of disclosures remains narrow. As a strategic imperative, a wider lens (diversity of thought, experience and perspective), and clearer links between performance reviews and action are needed to turn reporting into real impact. This approach enhances decision making and builds resilience in an increasingly complex business environment. Looking ahead, boards must sharpen their focus on AI, data and cyber related skills. These capabilities are critical to provide the oversight and support organisations need in an era of accelerating technological risk.

Questions for boards

01 Is succession planning treated as a strategic priority, with clear accountability and a diverse pipeline in place?

02 How is the board evaluating its own effectiveness and are external reviews being used to drive meaningful change? Do they recognise AI not just as an operational tool, but as a strategic opportunity and threat?

03 Does the board composition reflect the skills needed to address emerging risks such as AI, ESG, and cyber? Are boards equipped with the knowledge and expertise to oversee AI adoption responsibly and mitigate associated risks?

04 How is diversity being considered beyond gender and ethnicity, eg, age, social background, cognitive strengths?

05 Are board performance reviews leading to tangible actions and improvements in board dynamics and performance?

INSIGHT

Alex Hunt
Data Services leader,
Business Risk Services

Q: How can boards gain assurance on reports being prepared with AI? How can that impact them when not done right?

A: Boards can gain assurance on AI-generated reports by embedding clear governance and validation processes into reporting frameworks. This means requiring transparency on when and how AI is used, implementing independent checks on data integrity, and ensuring outputs are explainable and auditable. Human oversight remains essential—AI should support decision making, not replace accountability.

Inaccurate or biased reports may lead to flawed strategic decisions, regulatory non-compliance, and reputational damage. Boards could face scrutiny from investors and regulators for failing to exercise due care. Poorly managed AI reporting also increases exposure to litigation and operational risks, undermining trust in corporate disclosures.

In short, boards must treat AI assurance as a core governance responsibility, integrating it into risk management and reporting protocols to safeguard transparency, compliance, and stakeholder confidence.

Q: We see that the boards are lacking skills and expertise in AI, so how can boards demonstrate they understand what they're discussing and considering and that they're acknowledging and addressing the strategic nature of AI as a threat?

A: Boards can show they understand and address AI's strategic nature by moving beyond surface-level discussions and embedding structured oversight and capability-building. Our report identified that 22% of boards lack technology or cyber expertise and this gap creates a perception risk: stakeholders expect boards to show informed judgment on AI's opportunities and threats. Boards should also appoint or engage specialist advisors to provide depth where internal expertise is lacking. To demonstrate informed consideration boards should:

- require management to deliver AI risk assessments and strategic impact analyses, linking AI to long-term objectives and principal risks
- integrate AI into risk registers and board agendas, signalling its importance as a strategic—not just operational—issue
- establish governance frameworks for responsible AI, including explainability, bias mitigation, and compliance monitoring.

By taking these steps, boards demonstrate they understand what they're considering and acknowledge AI's strategic implications.

INSIGHT

Q:

How can boards understand if their organisation is innovating fast enough and what should they do if they aren't?

A:

62% of companies see AI as an opportunity, but success depends on balancing innovation with governance. Boards can gauge AI innovation speed by benchmarking against industry peers and monitoring key indicators such as AI-driven revenue growth, operational efficiency gains, and time-to-market for AI-enabled products. Regularly reviewing external trends, competitor adoption rates, and emerging technologies helps identify gaps. Internal signals — like the percentage of budget allocated to AI R&D, talent acquisition in data science, and integration of AI into core processes — also reveal progress.

If they aren't innovating fast enough, boards should act decisively:

- Set clear AI objectives aligned with business strategy
- Invest in talent and partnerships to accelerate capability building
- Establish governance frameworks for responsible AI use
- Create an innovation culture by incentivising experimentation and rapid prototyping
- Monitor progress quarterly with measurable KPIs

These steps will ensure there's balance between AI driving sustainable growth and protecting trust and long-term enterprise value.

Q:

It's clear AI is seen as an opportunity but sometimes the associated risk isn't recognised, however we know the potential issues that AI brings, so how should boards forward-look on AI associated risks?

A:

AI is often seen as a growth enabler, but its risks—bias, data misuse, regulatory non-compliance, and operational disruption—can undermine trust and shareholder value if ignored. Of those companies that recognise AI as an opportunity, 55% fail to identify associated risks. Boards must adopt a proactive stance on AI risks by embedding them into strategic risk frameworks and governance processes. To prepare, boards should:

- develop AI-specific risk registers aligned with emerging UK and EU regulations
- require scenario planning and stress testing for AI-driven decisions to anticipate failures or bias
- implement explainability and auditability standards for AI outputs, ensuring transparency in reporting
- address capability gaps by appointing directors with technology/cyber skills or investing in targeted training, as only 7% of boards currently have such expertise.

Failure to act could result in regulatory breaches, reputational damage, and strategic missteps—particularly in high-risk sectors like financial services and healthcare, where AI and cyber risks remain under-reported (72% and 89% respectively). Treating AI risk oversight as a strategic priority ensures resilience and positions an organisation to innovate responsibly.

Key performance indicators: measuring what matters or missing the mark?

When KPIs are clear and aligned with business objectives they serve as a compass, pointing the way forward. They can, however, be seen as a double-edged sword, mis-used, overlooked, and gathering dust.

The fix? Regularly reviewing and revisiting KPIs to stay relevant.

Transparency in transition: KPI transparency and strategic relevance is in flux

68% provide meaningful insight, down from 2024 (73%)

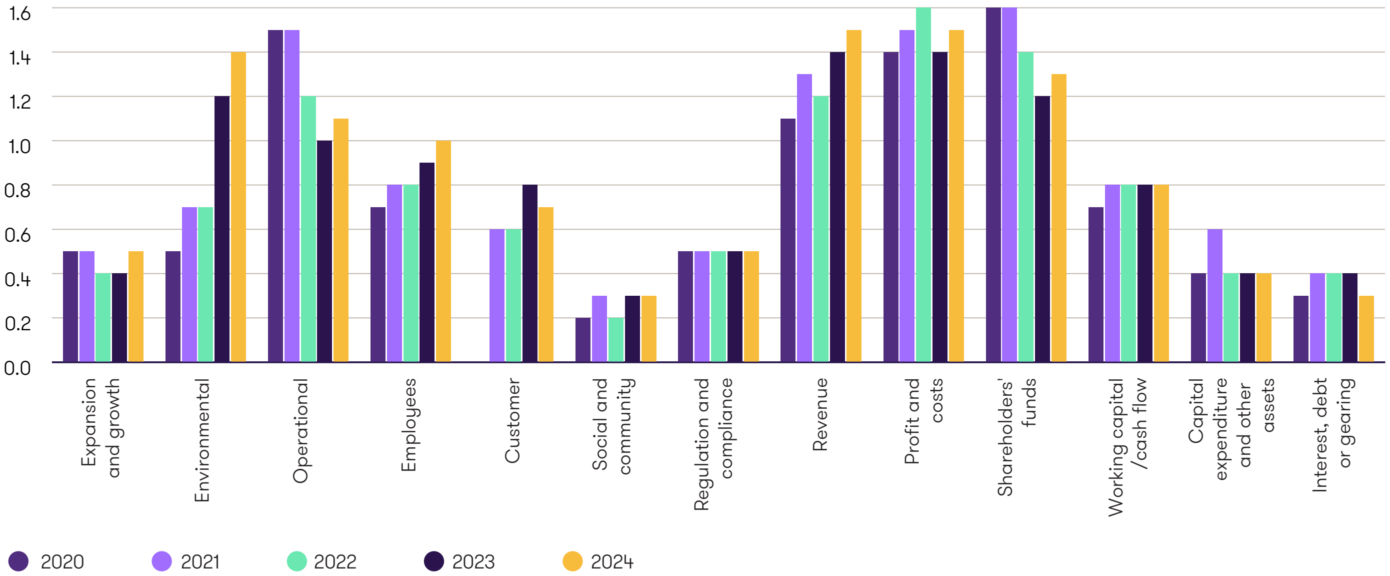
84% explaining or signposting strategic relevance (2024: 84%)

This raises questions as to whether current measures and disclosures are strategically relevant.

The majority of financial and non-financial KPIs remain in regular use, although social and community measures, regulation and compliance, and interest, debt or gearing metrics, continue to lag behind, signalling where boards potentially need to shift focus. On the upside, KPIs tied to operations, employees, customers and environmental impact, show steady progress, reflecting broader stakeholder considerations.

The current suite of actively used KPIs clearly show that healthy short term profitability remains the priority, with rising working capital pointing to a cautious approach to long-term growth.

Five years of KPIs: a long and short-term view



Use of financial KPIs is

25%

higher

than non-financial KPIs

Key takeaway

Companies maintain a solid suite of core financial KPIs while use of non-financial KPIs show moderate improvement, with some areas still trailing behind. Despite progress, transparency and strategic relevance in KPI reporting has declined, raising questions about whether current metrics truly capture the impact of forward-looking strategic priorities.

Questions for boards

01 Are boards measuring what matters most for long-term strategy?

02 Do the company's KPIs align with the board's growth, sustainability, and stakeholder objectives?

03 How can the board improve clarity and linkage between KPIs and strategic outcomes?

04 Is the company and board over-relying on financial KPIs and should the company and board consider rebalancing toward forward-looking measures that capture innovation, resilience, and ESG performance?

05 Is a cautious approach to expansion and growth intentional risk management or a missed opportunity for strategic investment?

Audit, risk and internal controls: the resilience blueprint, turning challenges into strategic advantage

Regardless of the updated Code (2024) putting focus on internal controls and risk management effectiveness by both the Audit Minimum Standard and Provision 29, companies' reporting in this area has taken a noticeable dip.

Risk management reporting

Drops to
88%
(2024: 92%)

Controls systems reporting

Slips 10% to
60%
(2024: 70%)

Principal risk disclosures

Dips to
87%
(2024: 91%)

Board monitoring statements

Declines slightly to
99%
(2024: 100%)

Even with Provision 29 under the spotlight, only 1% of companies disclose all key elements - down from 2% in 2024. This indicates that reporting on controls is still evolving, with programmes underway to drive slow but steady progress.

Aligning with the FRC's focus on outcomes-based reporting, it would be beneficial ahead of Provision 29 coming into effect to give insight into these adaptation 'journeys' and reflecting the shifts in disclosures around controls and risk management, even though systems aren't fully aligned yet.

Internal audit functions are now almost universal, and weakness disclosures are harder to find. The quality of statements is improving, with boards leaning towards more open discussions of risk, internal controls, and oversight processes.

The presence of an internal audit function

99%
(2024: 97%)

Companies disclosing specific control weaknesses

4%
(2024: 11%)

The quality of viability statements (satisfactory)

IMPROVES TO
16%
(2024: 12%)

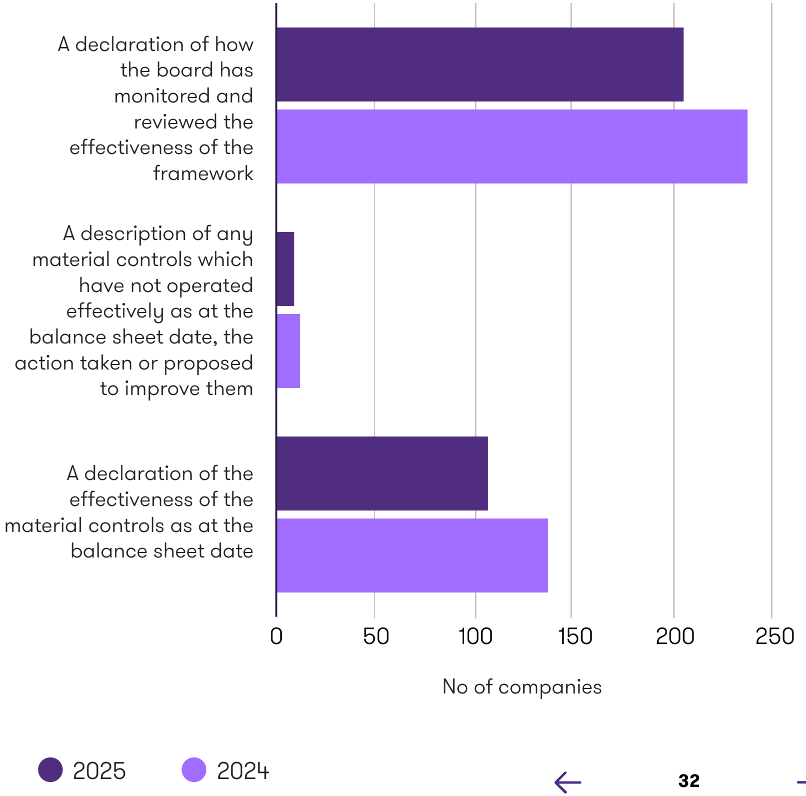
Detailed statements

UP TO
26%
(2024: 23%)

Emerging risk assessments

96%
(2024: no change)

Internal controls: a journey for many companies



While
98%
of companies provide a viability statement,

only
25%
explain how the board reached its conclusions.

This lack of transparency raises concerns, especially amid heightened regulatory focus on risk and resilience.

The viability statement is a company and board's opportunity to show how it's thinking more longer-term, so the outcomes and conclusions drawn from this work are important.

In 2025 we've seen:

Technology and cyber risks on the rise

Macroeconomic and strategy-related risks declining

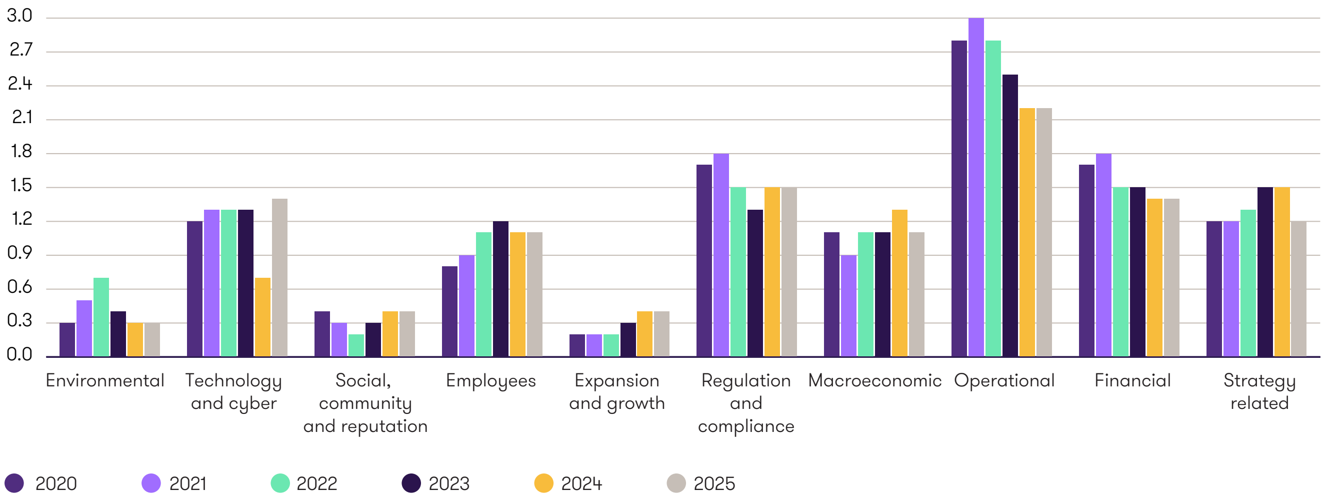
Risk stability across:
environmental social
community and reputation employees
expansion and growth
regulation and compliance
operational and financial risks

Risk decline and stability doesn't mean these should fall out of the board's sphere of consideration. In fact, they should be scrutinised more closely than those that are on the rise and obvious on the horizon.

Claire Fargeot
Head of Governance and Board Advisory

Since the FRC's introduction of the viability statement, board level consideration of long-term sustainability and resilience to risk has improved. During times of uncertainty, these disclosures enable investors to gain confidence in management's abilities in managing business model risks, year on year changes and risk impacts and mitigations. However, these broader aspects aren't always reflected in the disclosed viability statements. It's important to bear in mind that investors gain the most confidence when these wider reporting disclosures include the conclusions of the board's works on these matters.

Five years of risk trends: what boards can't ignore



ONLY

21%

set out the upside and opportunities of principal risks.

Key takeaway

Transparency in audit and risk is improving, but most boards still fall short on fully disclosing control effectiveness and linking risks, like cyber and AI, to board expertise.

Questions for boards

01 How is the board preparing for the new internal control declaration requirements under Provision 29?

02 Does the board have a clear understanding of how material controls are monitored, reviewed, and reported?

03 Is risk oversight providing sufficient attention to emerging risks such as AI, data ethics, and geopolitical shifts?

04 How is the board ensuring that internal audit functions are independent, effective, and appropriately resourced?

05 Are viability statements supported by transparent disclosures on how conclusions were reached and what assumptions were made?

INSIGHT

Emma Young
Director,
Business Risk Services

Q: What assurance does your board want on effectiveness of material controls?

A: Boards need clarity on how material controls are tested and assured to support the annual declaration. In 2025, organisations have focused on defining and rationalising material control sets; attention now turns to testing effectiveness and agreeing assurance approaches.

Material controls often aggregate frameworks and key controls, making "effectiveness" harder to define. Assurance mapping helps identify existing coverage and gaps. There is no one-solution and, approaches range from control self-assessment to targeted testing, sometimes by new internal control resources, alongside existing assurance activities.

Q: What practical steps should boards take to comply with the 'failure to prevent fraud' (FTPF) offence under ECCTA, and how can they demonstrate these 'reasonable procedures' to regulators?

A: ECCTA shifts focus from being a victim of fraud to preventing fraud that benefits your organisation or its clients. Boards should:

- Clarify governance and accountability for oversight of the FTPF compliance programme
- Conduct and maintain a dynamic fraud risk assessment under ECCTA
- Document prevention procedures and key controls, evidencing how they mitigate identified risks
- Demonstrate 'reasonable procedures' through clear proof of:
  - Anti-fraud culture and tone from the top
  - Staff engagement and completion of fraud training
  - Ongoing monitoring and assurance of control effectiveness.

Guidance published in late 2024 by the Home Office outlines what regulators expect—embedding these principles is critical to compliance.

Remuneration: transforming metrics into motivation

Remuneration remains an evergreen topic, and the latest Code drives a growing emphasis on the board's ability to reduce, withhold or claw back executive pay in more circumstances.

Boards have embraced this added transparency, but making sure incentive schemes truly drive the right behaviours, through the right metrics remains a challenge.

With regulators spotlighting cultural and behavioural change - and creating the right culture being a long-game – boards face the task of incentivising executives to embed culture. Without relevant metrics, this is harder to achieve. Where boards link culture and performance effectively, reporting and outcomes gain context and meaning.

Committee performance: high in independence and transparency

Remuneration committee independence

98%
(2024: no change)

Executive pensions aligned with the workforce

91%
(2024: 89%)

Transparency on:

rationale
90%

shareholder engagement
96%

external consultants
94%

Strategy and pay metrics

There's an **8% dip** (2024: 90%) in companies explaining how pay supports long-term strategy and purpose meaningfully.

Financial metrics dominate:

profit-related
73%

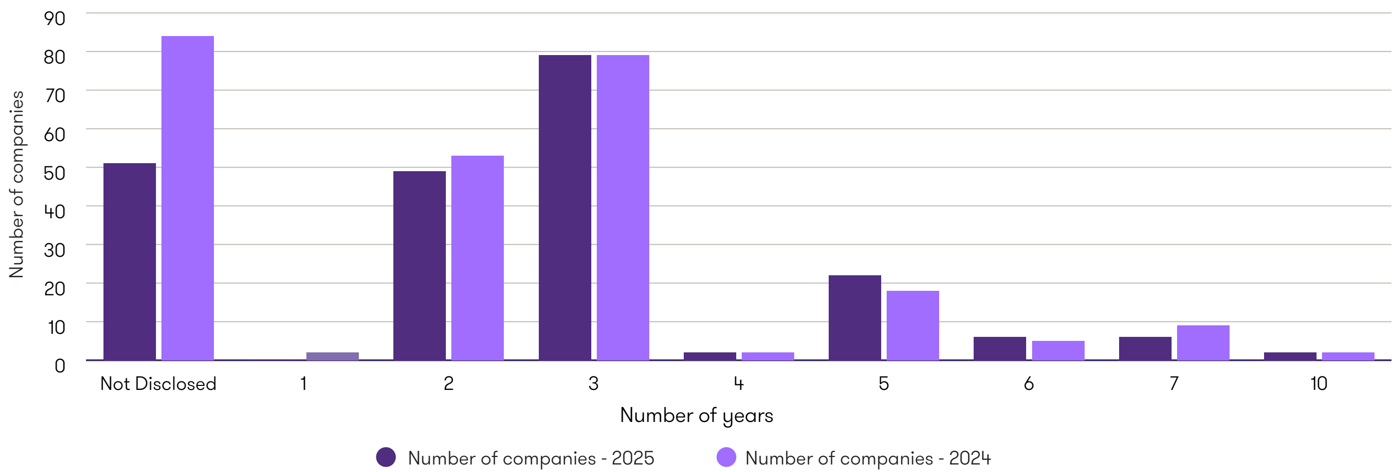
total shareholder return
69%

Culture underrepresented:

only
13%
(2024: 14%)
include it in annual bonuses

only
6%
(2024: 4%)
in LTIPs.

Malus and clawback terms



Remuneration: changes for better alignment

NED pay evolution

Updated FRC guidance gives boards flexibility to pay NEDs partly in shares, if the rationale is clear. Historically, NEDs were paid in fees only to avoid independence concerns (Provision 34). Today, just 5% (2024: 3%) receive shares alongside fees. Done well, this evolution strengthens alignment with strategy without compromising independence.

Malus and clawback: on the up

Malus and clawback provisions aren't always the easiest to enforce but are widely adopted across both bonus and LTIPs at 89% (2024: 87%). Detail is improving, with 85% (2024: 83%) clearly outlining circumstances in which malus or clawback would be used by the board. The deterrent is working – boards are increasingly willing to enforce these provisions, discouraging poor behaviour and reinforcing strategic focus. A clear sign of the times.

only
10%
(2024: 11%)
don't disclose detail in relation to malus and clawback provisions in place.

only
5%
(2024: 6%)
disclose whether malus and clawback provisions were used in the year.

Key takeaway

Technical compliance is strong, but boards should go further, linking executive pay to strategic outcomes and integrating culture into reward frameworks, while maintaining transparency on NED pay. Clear triggers for when pay will be adjusted or recalled are essential to reinforce accountability.

Peter Swabey
Policy & Research Director, FCG

"It is a concern that there is a dip in companies explaining how remuneration supports long-term strategy and purpose in a meaningful way. This is, or at least should be, the basic purpose of a remuneration policy. If it does not support the strategy of the organisation, then there is a risk that the wrong outcomes are being rewarded."

Questions for boards

01 Is executive remuneration aligned with long-term strategy, purpose, and culture and how is this evidenced?

02 How is the board using discretion to override formulaic outcomes and ensure fairness in remuneration decisions?

03 Are pension contributions for executive directors aligned with those of the wider workforce and are any exceptions explained?

04 Does the remuneration committee have sufficient independence, experience, and diversity to challenge effectively?

05 Is culture reflected in remuneration metrics, including long-term incentive plans and what does this signal to stakeholders?

Five priorities for boards in 2026

As we look ahead to 2026, the governance landscape continues to evolve, shaped by regulatory reforms, stakeholder scrutiny and expectations, as well as emerging risks.

The 2025 data set reveals that while FTSE 350 boards have made progress in areas such as compliance, diversity, and remuneration alignment, work remains to be done regarding internal controls, culture measurement, and future-readiness. The following priorities are suggested to help boards continue to adapt, moving from a compliance lens to clear directorship.

1.

Internal controls and risk ownership

With Provision 29 of the Code becoming effective for accounting periods beginning on or after 1 January 2026, boards must prioritise readiness for the new internal control declaration. This includes strengthening oversight of material controls across financial, operational, reporting and compliance domains, ensuring robust documentation and evidence of control effectiveness and embedding risk ownership across the organisation, with clear accountability and escalation pathways.

Directors should ask: 'Are we confident in our control environment and can we demonstrate it?'

2.

Purpose, culture and long-term value

While nearly all enterprises articulated a purpose, few provided meaningful metrics to demonstrate its impact. Culture remains under-measured and under-leveraged as a strategic asset. Looking ahead, boards should consider moving beyond statements to measurable outcomes linked to purpose and values, integrating culture into executive remuneration frameworks and long-term incentive plans as well as using culture metrics as leading indicators of performance, risk, and resilience.

Directors should ask: 'How are we evidencing the alignment between our purpose, culture and strategic outcomes?'

3.

Diversity, succession, and board composition

Progress on gender and ethnic diversity is encouraging but more remains to be done. Succession planning also tends to be reactive rather than strategic. In 2026, boards should take a broader view of diversity and inclusion, making sure reporting reflects the full spectrum. Succession planning should become a continuous, strategic process, not just a compliance task. And board composition should be aligned with the skills needed to navigate emerging risks and opportunities.

Directors should ask: 'Does our board composition reflect the future we're planning for?'

Five priorities for boards in 2026

4.

Technology, AI and cyber governance

Despite the growing impact of AI and cyber threats, board-level expertise and disclosures remain limited. In 2026, boards should consider continuing to build digital fluency and ensure representation of technology and data expertise; view AI as both a strategic opportunity and a governance risk; and strengthen cyber resilience and ensure oversight of data ethics and algorithmic accountability.

Directors should ask: 'Are we equipped to govern in a digital-first, AI-enabled world?'

5.

Stakeholder engagement and transparency

Boards are improving their engagement with shareholders and employees, but transparency and depth of reporting vary. In 2026, boards should consider enhancing Section 172 disclosures with clear evidence of stakeholder impact, using KPIs that reflect stakeholder priorities and long-term licence to operate. Boards should also ensure designated NEDs and workforce panels are empowered and supported.

Directors should ask: 'Are we listening to — and learning from — our stakeholders in a meaningful way?'

Regulatory reporting timeline snapshot

Recent and upcoming regulatory reporting developments are outlined below:

Past 18 months

UK listing rules update

New equity shares listing category replaces premium/standard categories; key Code principles and provisions now effective.

Statutory reporting changes

- Companies (Accounts and Reports) Regulations 2024: size thresholds increased by 50%, altering company classifications
- Directors' Remuneration and Audit Regulations 2025: removed overlapping EU disclosures, clarified auditor powers, introduced discretionary exemption for PIE non-audit services cap

Economic Crime and Corporate Transparency Act (ECCTA)

Failure to Prevent Fraud offence now in effect; firms must implement Home Office-compliant procedures - FRC confirms Code compliance alone is insufficient

Climate and sustainability disclosures

- TCFD mandatory for largest firms; transition toward ISSB-aligned disclosures underway
- TNFD remains voluntary but relevant for ISSB alignment

2026–2027 outlook

FCA regulatory initiatives grid

144 items listed; 25 high-impact (eg, short-selling rules, Consumer Duty, T+1 settlement); continuous horizon scanning essential

Companies (Directors' report) – payment reporting regulations 2025

New supplier payment reporting requirements effective Jan 2026

UK Sustainability Reporting Standards (UK SRS S1 and S2)

Expected voluntary adoption from early 2026; FRC considering mandatory adoption

Digital tax reporting

Phased implementation from Apr 2026–Apr 2027: income tax, NI simplification, penalties for late digital filings

Corporate Sustainability Reporting Directive (CSRD)

Narrowed scope (thresholds raised); limited assurance required; reparation in 2025–2026 for reporting by 2027; full implementation by 2029

Draft Audit Reform & Corporate Governance Bill

Consultation ongoing; potential legislative agenda placement in 2026, enactment by 2027

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Methodology

Our Corporate Governance Review has analysed, tracked, and captured best practices and emerging governance trends for more than two decades.

We use data from the front sections of 216 annual reports from FTSE 350 companies, which follow the UK Corporate Governance Code (2024) and this data reflects key governance reporting best practices. Investment trust data sets aren't included this year, however they have been benchmarked for the first time. Going forwards we'll be including their data set as part of our universe.

Market context and research

- **Scope:** 216 commercial companies reviewed
  (down from 253 last year due to several market de-listings)
  - FTSE 100: 89 companies
  - FTSE 250: 127 companies

The collated data on the applied governance practices of the FTSE 350, is collected across 267 data points.

Thank you to

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