

Wates corporate governance principles for large private companies

Introduction

The Companies (Miscellaneous Reporting) Regulations 2018 require certain large companies to include a statement as to which corporate governance code has been applied and how during the financial year. ASDA Stores Limited (the “Company”) qualifies for this disclosure and has adopted the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council (FRC) in December 2018 and available on the FRC website), which incorporates 6 key principles: Purpose & Leadership, Board Composition, Director Responsibilities, Opportunity & Risk, Remuneration and Stakeholder Relationships & Engagement.

Role of ASDA Group Limited

ASDA Group Limited, the immediate parent undertaking of the Company, is not required by the regulations to report on which corporate governance code it has applied but it plays an important role in the governance of the operations of the Company. The narrative below therefore discusses the governance arrangements of the Company and how its governance arrangements interact with ASDA Group Limited's governance arrangements, given that a holistic view of the Company's governance arrangements would not be visible if the focus were limited to the Company. The Company is the principal trading entity within the ASDA group of companies (the “Group”). The principal activity of the Company is included in the Strategic Report.

The board of ASDA Group Limited (the “Board”), described in more detail below, meets monthly and includes both directors of the Company. Additionally, a group which comprises the senior leadership of the Company, including all the members of the Board (the “Executive Team”) meets at least weekly to discuss and make operational decisions of the Company and to consider and implement decisions of the Board. Details of the directors of ASDA Group Limited who served during the year are included in the financial statements of ASDA Group Limited which are available at ASDA House, Southbank, Great Wilson Street, Leeds LS11 5AD.

Purpose and Leadership

Mission, Purpose and Strategy

The Company's mission is to be the most trusted retailer and its purpose is to help customers save money and live better. The purpose is continuously communicated to colleagues and features in most internal and external communications.

The mission and purpose have been developed in line with those of Walmart Inc, which was the Company's ultimate parent during the year ("Walmart"), and are at the heart of the Company's strategy which is summarised as follows:

- Win on price;
- Providing a consistent and trusted customer experience; and,
- Providing growth where customers care.

Beliefs, Values and Culture

The Company's strategy has been developed to deliver the purpose. Similarly, the Company has developed and adopted specific values and a culture which also supports delivery of the purpose.

The Company observes four core values:

- Service to customers;
- Respect for the individual;
- Strive for excellence; and,
- Act with integrity.

These values are deeply embedded across the business and are supported by "Being ASDA", a set of behaviours which are expected to be adopted and demonstrated by all colleagues across stores, distribution centres and home offices:

- I have a customer mindset;
- I am results orientated;
- I am a team player;
- I engage people;
- I am innovative; and,
- I do the right thing.

These behaviours are key to the Company's culture and are embedded in the Company's ways of working. These behaviours are exhibited by the Board and the Executive Team and various mechanisms have been adopted to ensure that these behaviours are continually communicated to colleagues, such as through inductions, ongoing training, appraisals and company-wide briefings. The Company also seeks to recruit colleagues who are aligned to these values by assessing a potential candidate's suitability for a particular role based on these behaviours. Importantly, the Company appraisal process measures not only what colleagues have delivered but how they have delivered against these behaviours.

The Board and Executive Team monitor culture through an annual colleague “Your Voice” survey. This provides colleagues with the chance to provide anonymous feedback and helps the Board and Executive Team to take action to address any colleague concerns and feedback, as well as any issues with levels of engagement with the Company, its strategy, its culture and each colleague’s role in that journey. The survey and any resulting action plans have Board and Executive Team input and visibility, which ensures the Board and Executive Team are closely monitoring colleagues’ views and company culture. Details as to how engagement with colleagues impacts decision-making can be found in the Section 172 statement within the Strategic Report. Other key means of maintaining open and constructive communication and engagement between colleagues, the Board and Executive Team include: “write to Roger” (an initiative encouraging colleagues to write to the CEO with new ideas), “colleague voice” (a working group focused on making improvements to the working environment for colleagues), Our Inclusion Network and Inclusion Working Groups (a working group focused on creating an inclusive culture which supports colleagues to thrive and reach their full potential), annual and quarterly company-wide business meetings and interaction with trade unions.

The Company also has a well-established process for colleagues to report misconduct and other unethical behaviour. Colleagues can report such matters via email to the ethics team, by telephone using the ethics hotline or through the ethics website. The methods for reporting are well publicised around home offices and colleague areas in stores and depots. Reports can be made anonymously and are confidential. Furthermore, the Company operates a policy of no retaliation to protect colleagues and encourage them to report any unethical behaviours, without the threat of repercussion. The independence of the Company’s ethics team during the year has been achieved by the team reporting directly into the ultimate parent during the year, Walmart. The ethics policy is also aligned with the ASDA behaviours noted above. The Board has also established a committee (further detail of which is included below) which includes responsibility for ethics. The output of this committee is shared with the Board and Executive Team.

Board and Executive Team communications to colleagues of the Company’s performance is delivered regularly through a variety of methods including monthly leadership meetings, annual and quarterly company-wide meetings and company-wide email communications from the Board, Executive Team and colleague communications team. There is an established process for weekly team huddles where key business performance data and key business news is cascaded to all areas of the Company. The Company also engages with employee representatives and trade unions where applicable to ensure that the best interests of the employees are considered. For further detail of the Company’s engagement with trade unions please see Section 172 within the Strategic Report.

The Company is also committed to supporting the wider community and its external stakeholders. For example, the Company donates to several national and local charities to provide a positive contribution to the communities in which the Company operates. Furthermore, the Company is fully aware of its environmental responsibilities and has recently enacted several initiatives to reduce the impact it may have on the environment. For further details please see Section 172 within the Strategic Report.

Board Composition

As noted above, the Board (being the board of directors of the immediate parent ASDA Group Limited) plays a key role in the Company's governance. The below section focuses on the composition of the Board as this is the forum where key decisions affecting the Company (and the Group) are taken. The Board meets monthly and makes key decisions which are then carefully considered and if deemed appropriate, implemented by the Company (by the Company directors and the Executive Team). Both directors of the Company and the majority of the Executive Team are also directors of ASDA Group Limited.

Chair

Board meetings of ASDA Group Limited and the Company are chaired by Roger Burnley (the Company's Chief Executive Officer), who is responsible for the board's overall effectiveness, promoting open debate and facilitating constructive discussion. Whilst Roger acts as both the chair and Chief Executive Officer, during the year he had a direct reporting line into the ultimate parent company, Walmart; this structure provided independent review and scrutiny of the operation of the Board and the Company and individual director effectiveness.

Balance, Diversity, Size & Structure

During the year the Board was comprised of: Chief Executive Officer, Chief Financial Officer, Chief People Officer, Chief Operating Officer, Chief Merchandising Officer, Chief Supply Chain Officer and Company Secretary. The directors of the Company during the year were comprised of the Chief Executive Officer and the Chief Financial Officer.

This size and composition of the Board is appropriate for the size of the business. In particular, each of the Company's key business functions are represented in meetings of the Board and each director is skilled and experienced in the function that they represent. The variety of backgrounds, skills, experience and knowledge ensures decisions relevant to the Company are being made in a diverse forum. The diversity of thought and expertise provided by the respective Board members promotes balanced and holistic decision making which assesses the impacts of decisions on the various stakeholders who have an interest in the business and who are affected by the decisions made. The structure of the Board enables effective long-term decision-making which in turn supports delivery of the Group's (and therefore the Company's) strategic objectives. The Board meets on a monthly basis. In turn, the size and composition of the Company board is appropriate for the consideration and implementation of the decisions made by the Board. It is considered that these two directors have the appropriate balance of background, skills, experience and knowledge to make and execute Company decisions, working closely with the Board and the wider Executive Team.

The scrutiny, review and support provided by the ultimate parent during the year, Walmart, provided an appropriate amount of independent rigour and challenge to the operation and decisions of the Board and the Company. This included participation in appointments to the Board, monitoring the effectiveness of the Board through routine and structured interactions, and detailed corporate governance sign-off procedures. Furthermore, the General Counsel, the Chief Executive Officer, the Chief Financial Officer and the Chief Ethics and Compliance Officer each had individual reporting lines into Walmart during the year which provided an additional degree of independence.

The Board and the Company observe a Diversity and Inclusion policy. The Board and the directors of the Company continuously strive to increase diversity at all levels of the organisation.

There are also several committees which oversee key areas (see further detail provided in the Directors' Responsibilities section).

Effectiveness

Board members have a formal appraisal process twice annually which considers performance and reward. Furthermore, there are periodic evaluations of the constitution and effectiveness of the Board and additional appointments are made where necessary to deliver the appropriate diversity and expertise.

The Company is committed to on-going professional development of its employees, which includes the Board members (who are also employees of the Company). This is delivered through a variety of means such as mentoring programmes, officer development days and various Company and Walmart training courses, which ensure that employees of the Company (including members of the Board and directors of the Company), have the most up to date knowledge and skills to ensure they are effective in their roles.

For further details on how the Board and Executive Team engage with the Company's stakeholders and promote the success of the Company, please refer to the Section 172 Statement.

Director Responsibilities

Accountability

The Board, including the directors of the Company, receive a detailed on-boarding pack detailing their accountabilities and obligations as directors (including conflict management). Individual responsibilities are clearly defined by the People team and any changes to a director's areas of responsibility and/or reporting lines are briefed to the whole business via colleague email communications. The business as a whole therefore has a clear understanding of each director's responsibilities and remit. Where individuals are directors of separate legal entities within the Group, they are aware of their responsibilities regarding each of these legal entities.

Furthermore, the directors and the Board observe detailed corporate governance procedures and policies. This sets out clear guidelines as to which internal stakeholders within the Company and ownership structure need to be informed, consulted with or be the approver of, certain matters, which ensure that there are appropriate checks and balances before making decisions. The Company's implementation of decisions is reviewed by the Board when the Board assesses Company performance. The corporate governance framework also allowed the ultimate parent company during the year, Walmart, to provide independent challenge to the Board and Executive Team during its review and consideration of any matter that required Walmart approval pursuant to the Walmart governance policies and procedures in place during the year. As discussed elsewhere within this section and in the section 172 statement (included in the Strategic Report), Walmart had policies in place which for example covered financial controls, capital expenditure, director remuneration, ethics, approval of strategic and financial plans and a number of other areas. The policies that were in place were reviewed periodically.

Conflicts were carefully managed and monitored by the ultimate parent during the year, Walmart. An annual process was completed to identify any conflicts. Additionally, on an on-going basis the Board, including the directors of the Company, were asked to consider and report on any conflicts. Appropriate measures would be implemented in the event of any conflict.

Committees

Members of the Board chair the following committees: the (i) Compliance, Ethics, Risk & Audit Committee (CERA); (ii) Giving Committee; (iii) Real Estate and Investment Committee; and (iv) Pension Investment & Funding Committee and the Board remains responsible for all decisions taken by the respective committees. The CERA committee reviews and monitors the Company's system of internal controls and risk management, internal audit process and compliance with laws, regulations and ethical codes of practice. The Giving Committee is responsible for the development and execution of the Company's donations and corporate sponsorship strategy and ensuring that all donations and sponsorships are executed in accordance with the Walmart procedures. The Real Estate and Investment Committee oversees the Group's (including the Company) capital expenditure programme and certain real estate matters. The Pension Investment & Funding Committee is the vehicle for direct consultation between the Company (as scheme employer) and the trustees of the ASDA Group Pension Scheme and the ASDA Pension Plan.

These committees operate under clearly documented terms of reference which clearly define the scope of authority of such committees. Save for the Pension Investment & Funding Committee (which meets as and when the trustees of the pension scheme wish to consult with the Company), each of these committees has a formal schedule of meetings, which works in sequence with the meetings of the Board. The remit of the committees is regularly reviewed, and the terms of reference are updated as and when required. The committees are also attended by senior leaders and subject matter experts of the relevant business area.

The Board, including directors of the Company, are actively engaged in the decisions of these committees as various members of the Board chair and attend these committee meetings. In addition, the output of all committee meetings is reported to the Board monthly and there is a standing agenda item at each monthly Board meeting for the Board to review and consider those papers and decisions made.

Certain key business matters relevant to the Company are documented as being reserved for a decision by the Board, such as approval of the overall commercial and operating strategy and approval of the annual financial plans. The directors of the Company observe this and ensure that any matters falling within that remit, are considered in the forum of a Board meeting of ASDA Group Limited. The Company, through its directors, would then be responsible for considering and implementing the output of such a Board decision.

Integrity of information

Board members are provided with pre-read materials (all the materials to be presented during the meeting) via an electronic portal in advance of Board meetings to ensure optimal use of Board meeting time. This includes a view of all key aspects of the Company and its performance and includes a review of performance against agreed key performance indicators across the core areas of the Company, some of which are referred to within the Strategic Report. The same information is available to the directors of the Company in their consideration of decisions to be implemented by the Company.

The Board has established formal and robust internal processes which ensure that the systems and controls in place are operating effectively. This ensures the quality and integrity of information provided to the Board and the directors of the Company is reliable, which allows for better and more informed decision making. As a wholly owned subsidiary of a publicly listed US-based company during the year, the Company applied the financial control framework set out in Section 404 of the Sarbanes-Oxley Act, which mandated robust internal controls designed to prevent or detect material errors in the financial statements and ensured they were documented and certified to Walmart. Key controls within this framework were tested during the year by the Company's and Walmart's internal audit functions, which acted independently to monitor the Company's systems and controls and reported any deficiencies in design or operation of controls to management such that appropriate and timely resolution actions were taken.

Opportunity and Risk

In order to promote the long-term sustainable success of the Company, the Board and Executive Team identify both risks and opportunities to achieving this. Further detail on how the Board and Executive Team achieve this is included below.

Risk

The Company has a risk management programme which facilitates identification, mitigation and ongoing monitoring of significant risks. The policies that facilitate delivery of the risk management programme are developed and overseen by the CERA committee. Please see the strategic report for full details of the risks identified and assessed. The Company's enterprise risk management process is comprised of 12 functional risk groups spanning the Company's key operational functions, each with an individual risk register and an overarching enterprise wide risk register. Each key business function has a nominated risk manager who is responsible for updating their respective registers managed through the functional boards. The risk managers also meet on a quarterly basis at the risk manager working group to report information on common risks, share learning and the latest developments in risk management. The CERA committee, which is made up of members of the senior leadership of the Company and members of the Board, monitors the management of the enterprise risks through risk deep dives each month. On a bi-annual basis the enterprise risk register is reviewed by the Board and new and emerging risks are added to the register as they arise.

The Board, which includes Company directors, monitors progress against enterprise risk actions and targets and each risk is owned by a member of the Board.

Opportunity

The Strategy Delivery Forum, a cross functional team made up of senior leadership of the Company, meets monthly to assess progress against key strategic initiatives and opportunities. This allows the Company to create and preserve value in the long-term and engage other stakeholders where opportunities are identified. The Strategy Delivery Forum also reports to the Board on the key value opportunities, which allows further visibility and review at Board level.

Remuneration

The ultimate parent company during the year, Walmart, was heavily involved in the setting of remuneration and policies that affected the directors of the Company and the members of the Board.

Setting remuneration

When setting director remuneration for the Board and the directors of the Company there is a key focus on the performance of the Company, both in terms of annual results and the long-term sustainable success of the Group. Bonuses are set on annual metrics including profit and sales to ensure a balanced focus on creating value for the Company's investors whilst improving the shopping experience for the Company's customers and ensuring the Company culture is reflected in the customer experience. Furthermore, Board members, including the directors of the Company, also had a long-term incentive plan which was linked to the Walmart share price together with the Group's sales, profit and cashflow management. This promoted a balanced focus on all key financial metrics that the Board, including the directors of the Company, are responsible for, which in turn helped the ultimate parent during the year, Walmart, to deliver their financial objectives and promoted the long-term sustainable success of the Company.

Additionally, pay of the Board, including the directors of the Company, is regularly benchmarked against competitors and remuneration and reward packages are revisited annually in light of this to ensure the appropriate individuals, who have the ability to deliver the Company's strategic objectives, are secured and retained.

Policies

Walmart, as the sole shareholder during the year, had full transparency and visibility of executive remuneration policies and Walmart approval was required for any changes made. Furthermore, as set out above, a significant proportion of executive pay was based on the performance of the Company against targets that had been signed off by Walmart.

Stakeholder Relationships and Engagement

The Company primarily engages its customers through surveys, via both in-store and online engagement and satisfaction surveys. This is overlaid with market wide data insight which is reported monthly to the Board and enables them to collate customers' views and opinions and make any necessary changes to improve the shopping experience with the Company. Engagement with the Company's customers is a key method in achieving the Company's purpose and ensuring that the Company delivers a consistent and trusted experience and creates growth where customers care.

Whilst suppliers have direct relationships with buyers within the Company, they are also engaged on a macro level through various methods. This allows the Board and Executive Team to understand suppliers' needs and work in a way that mutually benefits both parties.

The Company engages with its colleagues through a variety of methods. Please see earlier sections of this report and Section 172 of the strategic report for more details.

The Company's ultimate parent company during the year, Walmart, was engaged through a variety of means. As described above, there were multiple reporting lines directly into Walmart to ensure that certain areas of the Company operated with a degree of independence and had the benefit of additional checks and balances from Walmart. This objective was also achieved through the Walmart corporate governance policies and procedures which ensured engagement with Walmart prior to proceeding with certain types of business.

For more information regarding how the Company considers its key stakeholders in the decision-making process and the effect of its key decisions on these stakeholders, please refer to the detail set out in the Company's Strategic report.