



ICGN

International Corporate Governance Network



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The Governance
Institute



**The Rt Hon Theresa May MP
Prime Minister
10 Downing Street
London
SW1A 2AA**

24th January 2017

Dear Prime Minister,

In a series of speeches, you have noted the central importance of corporate governance in creating an economy which delivers prosperity for everyone. We agree, and welcome your focus on this issue. Good governance ensures the proper use of entrusted power, which in turn encourages investment and growth, and a proper regard for shareholders and stakeholders over the long term.

The signatories to this letter will be responding individually to the recent corporate governance Green Paper, setting out their own particular priorities. However, we are united in our recognition of the importance of Section 172 of the Companies Act. This requires directors to promote the success of the company for the benefit of shareholders, and in so doing to have regard for the interests of workers, consumers and other stakeholders. However, there is no effective mechanism for policing this law, which means that if companies – particularly private companies where there is little or no institutional shareholder oversight – do abuse the law, they are not always held to account. This gap in our governance system has allowed the poor practice of some to undermine people’s trust and confidence. Filling that gap need not result in undue constraint, or costly legal action. In other walks of life, a regulator exists to whom the aggrieved can make complaint, and have that complaint adjudicated. Establishing a similar regime for companies would deliver economic benefits, as well as greater fairness¹, and we note the evidence that those companies which do find ways to incorporate stakeholder views also tend to be more successful in terms of their financial performance².

These comments are true for all companies, particularly so for large private ones, which make an important economic and social impact, but may lack external shareholder oversight. Over the past twenty-five years, public companies have reformed their governance, incorporating independent voices in board decision making and reporting on their overall performance. We believe that those benefits should also apply for large private companies and welcome the government’s intention to address the issue³.

One of the most contentious governance issues is that of executive remuneration. It is not likely that one single measure will remedy the problem. But perhaps what is most important is the government’s, in particular, your own voice in demanding that companies, their remuneration committees, advisors and

¹ Such a system would be complimentary to, and not a replacement for shareholder stewardship.

² See for example the literature review in *The Purposeful Company*, Big Innovation Centre, May 2016, pp26-33

³ We note in the Green Paper that large private companies are defined as those with over 1000 employees, or £50 million turnover. We believe this to be a sensible definition.

shareholders, recognise the problem, and resolve a better, and perhaps a simpler regime for corporate pay, which can command broad support.

As bodies representing international investors, professional directors, governance professionals and workers, we will each be making more specific responses to your Green Paper. However, as a united voice at a very minimum, we would urge you to: -

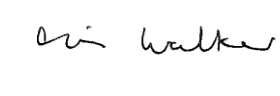
- Create a mechanism which allows those whose interests should supposedly be protected by the law, to make complaint and find an appropriate remedy.
- Ensure investors and stakeholders are involved in the governance of that mechanism.
- Strongly encourage, or mandate larger private companies to apply the principles of independence and transparency which have worked for public companies.
- Help encourage frameworks for executive pay which are more broadly acceptable, and recognise that it, like other aspects of corporate governance will require a long-term focus, by directors, investors, stakeholders and government.

The government on behalf of the people of Britain needs to ensure this debate is never shelved. Good corporate governance is a necessary condition for any economy which both works, and is seen to work for everyone.

Yours sincerely

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