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Corporate Governance in the U.K.

The Business Innovation and Skills Committee of Parliament has begun an [inquiry](#) into corporate governance. It has invited comments on directors duties, executive pay and composition of boards with a list of questions in each category.

In announcing the inquiry, the chairman of the committee stated that principle purposes were to determine whether under existing law, corporate governance encourages companies to achieve long-term prosperity and assures fair treatment of employees. That the inquiry is focused on a stakeholder approach to corporate governance is made clear by the first three questions it poses:

- Is company law sufficiently clear on the roles of directors and non-executive directors, and are those duties the right ones? If not, how should it be amended?
- Is the duty to promote the long-term success of the company clear and enforceable?
- How are the interests of shareholders, current and former employees best balanced?

In addition to combatting short-termism, promoting long-term investment and protecting employees, the inquiry is focusing on executive compensation and its relation to companies long-term performance.

Lastly, the inquiry poses the following questions about the composition of boards:

- How should greater diversity of board membership be achieved? What should diversity include, e.g. gender, ethnicity, age sexuality, disability, experience, socio-economic background?
- Should there be worker representation on boards and/or remuneration committees? If so, what form should this take?

While the outcome of the inquiry is not certain, it is clear that corporate governance in the U.K., in the U.S., and in the EU has again become a serious political issue. If companies and investors do not find a mutual path to governance that promotes long-term investment and accommodates employee, customer, supplier and community interests, legislation will result. That legislation may not be to the liking of either companies or investors.

Martin Lipton

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