

# Commons Select Committee

## Corporate Governance inquiry launched



16 September 2016

The Business, Innovation, and Skills (BIS) Committee has today launched an inquiry on corporate governance, focussing on executive pay, directors duties, and the composition of boardrooms, including worker representation and gender balance in executive positions.

- [Inquiry: Corporate Governance](#)
- [Business, Innovation and Skills Committee](#)

The BIS inquiry follows on from the corporate governance failings highlighted by the Committee's recent inquiries into BHS and Sports Direct, and in the wake of commitments from the Prime Minister to overhaul corporate governance.

## Terms of reference

### Directors Duties

- 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?

- How best should the decisions of Boards be scrutinised and open to challenge?
- Should there be greater alignment between the rules governing public and private companies? What would be the consequences of this?
- Should additional duties be placed on companies to promote greater transparency, e.g. around the roles of advisors. If so, what should be published and why? What would the impact of this be on business behaviour and costs to business?
- How effectively have the provisions of the 1992 Cadbury report been embedded? How best can shareholders have confidence that Executives are subject to independent challenge?
- Should Government regulate or rely on guidance and professional bodies to ensure that Directors fulfil their duties effectively?

### **Executive pay**

- What factors have influenced the steep rise in executive pay over the past 30 years relative to salaries of more junior employees?
- How should executive pay take account of companies' long-term performance?
- Should executive pay reflect the value added by executives to companies relative to more junior employees? If so, how?
- What evidence is there that executive pay is too high? How, if at all, should Government seek to influence or control executive pay?
- Do recent high-profile shareholder actions demonstrate that the current framework for controlling executive pay is bedding in effectively? Should shareholders have a greater role?

### **Composition of Boards**

- What evidence is there that more diverse company boards perform better?
- 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?
- What more should be done to increase the number of women in Executive positions on boards?

### **Send a written submission**

Written evidence should be submitted online via the [Corporate Governance inquiry page](#).

### **Deadline for submissions**

The Committee asks for written submissions by Wednesday 26 October 2016.

### **Chair's comments**

Chair of the BIS Committee, Iain Wright MP, said:

"Private enterprise and a respected business community is vital to the UK's future prosperity and contributes to the funding of our schools, hospitals, and infrastructure. Irresponsible business behaviour and poor corporate governance ill serves workers, but it also tarnishes the reputation of business and undermines public trust in enterprise. We need to look again at the laws that govern business and how they are enforced. Good corporate governance shouldn't be a hindrance to business; it can contribute to companies' long-term prosperity and performance as well as showing to the world that a business is transparent, accountable and responsible.

The Prime Minister has spoken of workers representation on boards. We want to examine what this might look like in practice, how would this work, how would workers be selected? It's all too clear that there is significant under-representation of women in executive levels. We're interested in hearing about the barriers to women achieving senior positions, the measures being taken to remedy the situation, and what action Government might take to improve the gender balance.

Whopping pay awards to senior executives are not only vastly bigger than workers could ever expect to receive but often seem to have very little relationship to company performance. While there has been some recent shareholder actions against these ever larger pay packages, can we have any confidence that the current framework for controlling pay is working? As a Committee, we will want to look at whether executive pay should take account of companies' long-term performance and whether the Government should intervene to control executive pay."

**Simon Walker, Director General of the Institute of Directors, said:**

"The UK has long been a leader in promoting high standards of governance, with our Corporate Governance Code being copied across the world. But the reputation of corporate Britain has not recovered from the financial crisis, and there are important questions that need to be addressed on issues including transparency, executive pay and board diversity. The Prime Minister has made clear that company boards are in her sights, so directors must fully engage in this debate."

**Frances O'Grady, TUC General Secretary, said:**

"Poor corporate governance contributes not only to high profile corporate disasters such as BHS, but also to short-termism and excessive executive pay across much of the private sector. This inquiry is important and timely and the TUC welcomes the opportunity to contribute to the Committee's discussions."

## **Inquiry background**

### **On executive pay**

**The BIS Committee wants to examine whether executive pay should take account of companies' long-term performance. The Committee is also**

keen to explore whether executive pay should reflect the value added by executives relative to junior employees. The inquiry will also look at whether recent high-profile shareholder actions suggest the current framework is working or whether shareholders need a greater role.

## **On director duties**

The inquiry will examine whether company law is sufficiently clear on the role of directors and non-executive directors and look at how the interests of shareholders and employees are best balanced. Is there an effective voice and challenge to boardroom decisions? Should companies face additional duties to promote greater transparency, including the roles of advisors? The 1992 Cadbury Review led to much-needed improvements in corporate governance. Have the provisions of the Cadbury report been embedded in British business practice and culture? What more needs to be done? The Committee will look at how shareholders, and the public, could have more confidence in the independent challenge to which Executives are subject.

## **Composition of boards**

Following the Davies Review, which successfully focussed on increasing the number of non-executive directors, the BIS Committee wants to examine what more should be done to increase the number of women in executive positions. The Committee also wants to explore proposals on worker representation on boards and remuneration committees. How would this work? How many employees would be added to boards or how they would be selected?

The inquiry also wants to consider how greater diversity of board membership could be achieved.

## **Further information**

- [Guidance: written submissions](#)
- [About Parliament: Select committees](#)
- [Visiting Parliament: Watch committees](#)