Kevin Campbell*

The Politics of UK Corporate Governance Reform

Introduction

Since the publication of the landmark Cadbury Report in 1992, reviews of UK corporate governance have been a common occurrence, driven either by external shocks, such as the 2001 Enron scandal and the 2008 financial crisis, or by regular reviews of the *UK corporate Governance Code* by the UK Financial Reporting Council (FRC) which has responsibility for the code. This paper examines the outcome of the most recent re-appraisal of UK corporate governance, which followed the high-profile bankruptcy of the private company BHS and corporate governance failings at the publicly listed company Sports Direct in 2016, alongside frequent press reports of executive pay appearing to be disproportionate to company performance, thereby eroding public trust in business. The immediate trigger, however, was the decision of the UK electorate to exit from the European Union in the referendum on EU membership held in June 2016. Following this unexpected outcome and the resignation of Prime Minister David Cameron, his replacement, Theresa May, proclaimed in October 2016 that she wanted to build "an economy that works for everyone, not just the privileged few" in an attempt to reposition the Conservative party in the political centre ground, and to improve corporate governance as part of this agenda [Parker, O'Connor, 2016].

In November 2016, the UK Government's Business and Energy Secretary Greg Clark launched a new public consultation on measures to strengthen the UK's corporate governance framework. The Government's Green Paper set out a range of options to address concerns around three main issues: levels of executive pay, increasing representation of workers, customers, suppliers and investors in the boardroom, and whether the UK's largest private companies should be subject to more rigorous corporate governance rules. It called on businesses, investors, workers and members of the public to give their views on what should be done to ensure that the UK's corporate governance framework helps to deliver an economy that "works for all" and maintains the UK's reputation as a good place in Europe to do business.

* Professor, Stirling Management School, University of Stirling, Stirling FK9 4LA, kevin.campbell@stirling.ac.uk

This was followed in February 2017 by an announcement by the FRC that it intends to review the *UK Corporate Governance Code* and in April 2017 by the publication of the House of Commons Business, Energy and Industrial Strategy (BEIS) Committee report on its inquiry into corporate governance (the "BEIS Report"). This parliamentary report also separately considered whether the corporate governance framework in the UK is fit for purpose and looked at a range of options regarding the promotion of good governance, remuneration and board composition. In August 2017, the UK Government published its response to its Green Paper consultation on corporate governance reform, which proposed incremental development of existing principles of corporate governance rather than more radical reforms. This retreat reflected in part the weakening of the Government's position politically after it lost its parliamentary majority in June 2017 in an election that it did not need to call and which was ostensibly aimed at strengthening the hand of the Government in Brexit negotiations with the EU.

The rest of the paper is organized as follows. In section 2 the political and economic context for the current corporate governance reform proposals is outlined. The paper then picks out and discusses the key issues that formed the review: executive Pay (section 3) stakeholder voice (section 4) and corporate governance in large privately-owned businesses (section 5). After a review in section 6 of the reforms proposed by the UK Government and a discussion of their ability of to achieve their objectives, the conclusions follow in section 7.

1. The political and economic context for UK corporate governance reform

The soft regulation of corporate governance in the UK dates from the late 1980s and early 1990s when financial reporting irregularities at companies such as Polly Peck and the Maxwell corporation led to the establishment of a Committee to examine the 'Financial Aspects of Corporate Governance' led by Sir Adrian Cadbury. The resulting *Cadbury Report* [Department for Trade and Industry, 1992] outlined a number of recommendations around the separation of the role of CEO and chairman, balanced composition of the board, selection processes for non-executive directors, transparency of financial reporting and the need for good internal controls. The recommendations were framed by a reliance on agency theory [Jensen, Meckling, 1976] with its focus is on shareholders and board members as 'principals' and 'agents', and the presumption that companies are run exclusively for the benefit of shareholders [Veldman, Wilmott, 2016]. The *Cadbury Report* included a Code of Best Practice and its recommendations were incorporated into the Listing Rules of the London Stock Exchange. The Code of Best Practice was renamed as the *Combined Code* and is currently known as the *UK Corporate Governance Code*.

Since its publication in 1992, the Code of Best Practice advocated by the *Cadbury Report* has been copied, transposed or adapted in every Member State of the European Union and, by 2012, in more than 60 other countries elsewhere in the World, with the notable exception of the United States [Becht, 2012]. The "comply or explain" concept has also been adopted as a pragmatic tool that can improve corporate governance without the need for inflexible and burdensome laws or regulation. Modifications to the Code of Best Practice occurred over time. In 1995 the *Greenbury Report* elaborated the original Cadbury recommendations on executive remuneration. The Hampel committee in 1998 took forward the agenda on shareholder voting. Internal control and risk were highlighted by the *Turnbull Report* in 1999.

In the wake of the financial crisis triggered by the collapse of Lehman Brothers in 2008 and the subsequent economic downturn several reviews were commissioned in the UK into corporate governance and related matters. A Timeline of the key changes in UK corporate governance since the financial crisis is provided in the appendix. The *Turner Review* in March 2009 concluded that the complexity of large banking groups made it difficult for non-executive directors to fully understand the risks taken by the executive directors [Financial Services Authority, 2009]. The *Walker Review* of corporate governance in UK banks and other financial institutions, published in November 2009, suggested that steps be taken to improve the engagement between institutional investors and the boards of their investee companies [Walker, 2009]. The UK corporate governance code is now complemented with a stewardship agenda that addresses the role of shareholders in holding management to account.

Though widely imitated, the Code has not been uniformly successful. Arguably the key failure concerns the workings of the remuneration committee and the recommendations of the *Greenbury Report* on boardroom pay. According to Plender [2012, p. 47] "boardroom pay remains the great uncracked problem of corporate governance". He points out that increased disclosure brought about a ratcheting up of CEO remuneration, with the non-executive directors who sit on remuneration committees typically believing that their CEOs deserved upper quartile rewards. The persistence of governance scandals or failures over time raises questions about the limitations of what a code can be expected to achieve. Many recent corporate governance mishaps have been about qualitative issues. No code can ensure that a board possesses the appropriate leadership qualities or will always act with integrity. Perhaps the biggest failure in corporate governance apart from remuneration concerns is the widespread decline of ethical standards, particularly in banking.

In the face of a rise in anti-globalisation and anti-business sentiment, evidenced by the Brexit vote, the UK Government demonstrated a commitment to address these concerns with the introduction of its Corporate Governance Green Paper in November 2016. The increase in so-called populism was based on the reality of a widening gap between the rich and the poor in the UK. The share of national income going to workers has diminished while executive pay over the past two decades has grown much faster than general pay. This has also coincided with the reduced power of trade unions.

The Green Paper was largely a reaction to areas of contemporary public concern, and in particular the BHS pensions controversy. Despite its title, which suggests a reform of the entire UK corporate governance regime, its scope was actually quite narrow. It did not attempt to engage with some strands of corporate governance – such as brand, trust and reputation and management succession planning – that also contribute to the long-term success of a company.

In addition, the Green Paper only addressed the specific issues of executive pay and stakeholder representation through the prism of shareholder and public reaction, rather than taking the wider brief of identifying those changes that would increase the value of companies. In a similar vein, the BEIS Report, while set in a more general context, focused particularly on pay and board composition. We now consider the key issues that have been at the centre of the recent debate about corporate governance reform.

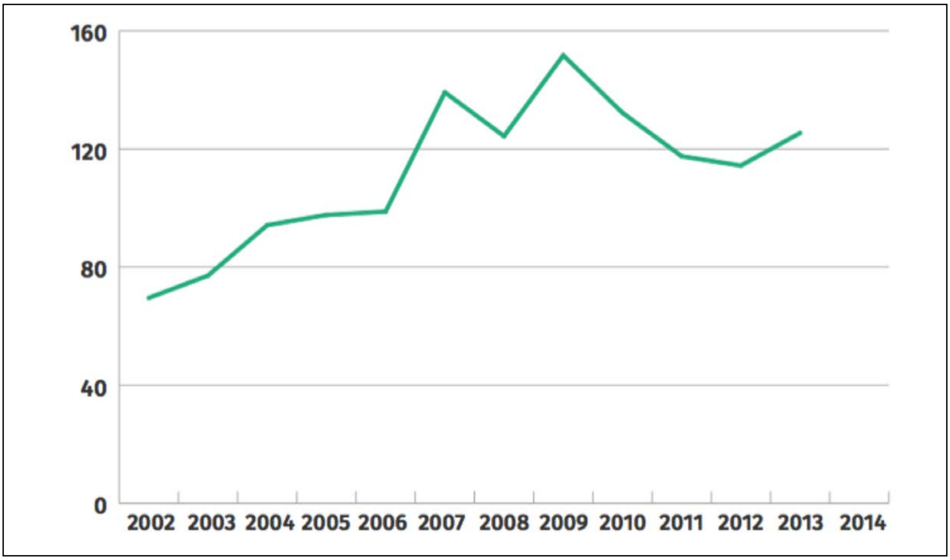
2. Executive Pay and Income Inequality

The focus on executive remuneration and income inequality more generally reflects the fact that the UK is one of Europe's most unequal societies. The incomes of the richest 10 per cent of UK households in 2016 were, on average, 11 times higher than those of the poorest 10 per cent, while in Germany and France the difference was a factor of seven, and in Denmark just five [OECD, 2016]. A number of trends are responsible for increasing inequality over recent decades, including the impact of globalisation and technological change, which have increased the wage premium for workers with higher skill levels, along with rising housing wealth and changes in tax rates. Another key factor is executive pay. In the 1980s a typical top CEO in the UK was paid approximately 20 times as much as the average British worker [BEIS Committee, 2017]. By 2002 this had risen to 70 times the average salary and by 2014 to 149 times, as shown in Figure 1.

The sharp rise in the pay of CEOs and leading executives has not been correlated with improved performance. As Figure 2 shows, the value of the FTSE 100 barely rose between 1998 and 2015, whereas executive pay increased by more than 400 per cent. A study of the performance of FTSE 350 companies between 2003 and 2014 showed that, while median CEO salaries had increased by 82 per cent, the economic return on invested capital for these companies in the same period was only just over 8 per cent [Li, Young, 2016].

Average CEO pay in the FTSE 100 reached a peak reached in 2011 and has risen only modestly since reforms were introduced by the UK Coalition Government in 2013 that required quoted companies to hold a binding vote on pay policy every three years and an advisory vote on executive pay every year. This suggests that a combination of the financial crash of 2008 and the reforms of 2013 have seen some restraint on pay. Nevertheless, instances when high rewards have been accompanied by poor company performance have created a perception that CEOs are too often being "rewarded for failure." For example, the pay of the Chief Executive of Pearson rose 20 per cent in 2016 while the company suffered its biggest ever loss and its shares fell to a seven year low [Financial Times, 2017].

Figure 1. FTSE 100 CEO total remuneration as multiple of average employee earnings in the economy as a whole, 2002–2014

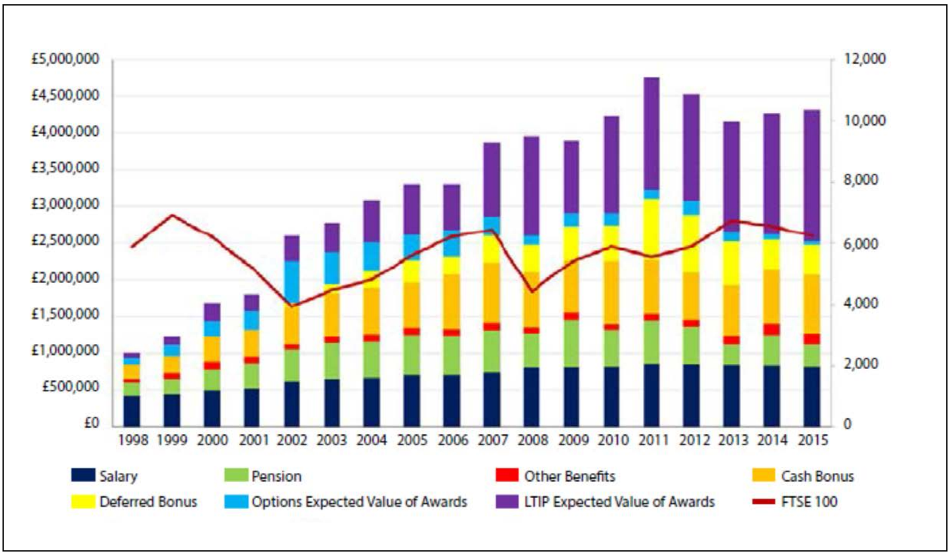


Note: Total remuneration received covers all taxed cash payments in the year, all taxable benefits, cash bonuses paid or received in the year, expected value of deferred bonuses, expected value of incentive awards awarded in the year, and the value of pension accrued or provided in the year.
Source: [Business, Energy, and Industrial Strategy (BEIS) Committee, 2017].

The new regulations that require increased reporting on executive pay and that give shareholders an annual advisory vote on pay awards and a binding vote every three years on remuneration policy, introduced in 2014, do not yet appear to have had significant impact. As of 2016, 93 per cent of votes were in favour of recommended pay awards and policies, with only one example of a binding vote lost, along with six advisory votes [Department for Business, Energy, and Industrial Strategy, 2016]. While this could suggest that the proposals are working, in that the proposals put forward have been acceptable, it could also reflect a culture of inadequate scrutiny.

It is now widely acknowledged that corporate governance rules have done little to align directors' pay with company performance. The *UK Corporate Governance Code* recommends that company remuneration committees should consist exclusively of independent non-executive directors, many of whom, in practice, are executive directors of other companies. Along with the increasing use of remuneration consultants focused on inter-firm comparators, this has led to a self-referential system of pay awards, with very few incentives to align pay to performance and to the increasing and widespread use of 'long-term incentive plans' and annual bonuses, as indicated in Figure 2.

Figure 2. Changing structure and levels of UK executive pay, 1998–2015

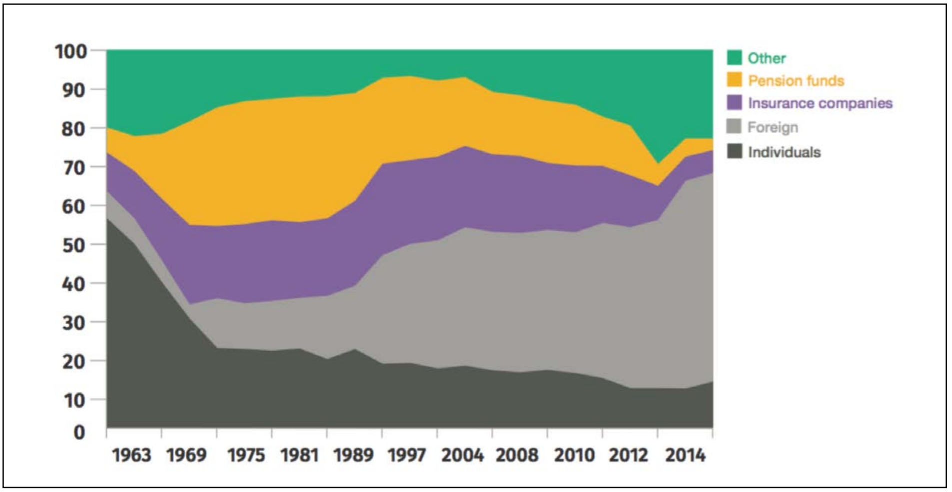


Source: [Department for Business, Energy and Industrial Strategy, 2016].

3. Stakeholder voice

The increased attention paid to stakeholders reflects a transformation in the character of share ownership in recent decades that has greatly weakened the claim that shareholders are best placed to have exclusive oversight of a company and its directors. A large majority of UK shares are now held by investment and hedge funds and overseas investors, as shown in Figure 3. Most shares are held for very short periods of time (some for only milliseconds due to algorithmic trading) with no attached intentions or responsibilities relating to the control or stewardship of the company.

Figure 3. Ownership of share capital in UK quoted companies (%) 1963–2014



Note: 'Other' includes various forms of investment fund, including index funds, exchange traded funds and hedge funds, and market participating holdings such as clearing accounts, market makers, stock lending and collateral accounts.
Source: [ONS, 2015].

An increasing proportion of funds are 'passive' funds that simply track the stock market and involve no active engagement by their 'owners' [Wigglesworth, Foley, 2016]. Such forms of shareholding have given rise to the so-called "ownerless corporation", where few or no shareholders have significant holdings and few, therefore, have either the power or incentive to exercise effective control. The result is that shareholders in practice exercise very little oversight of management.

In these circumstances, it can be argued that shareholders are not best placed to decide on a company's overall direction. As of 2015, the average length of time a UK-listed share was held was under six months, in contrast to the average length of five years and four months that a UK employee stays with their company [ONS, 2015]. Granting all control rights over a company to its temporary shareholders, while having little regard to its considerably more committed employees, is arguably far less justifiable than it was a generation ago.

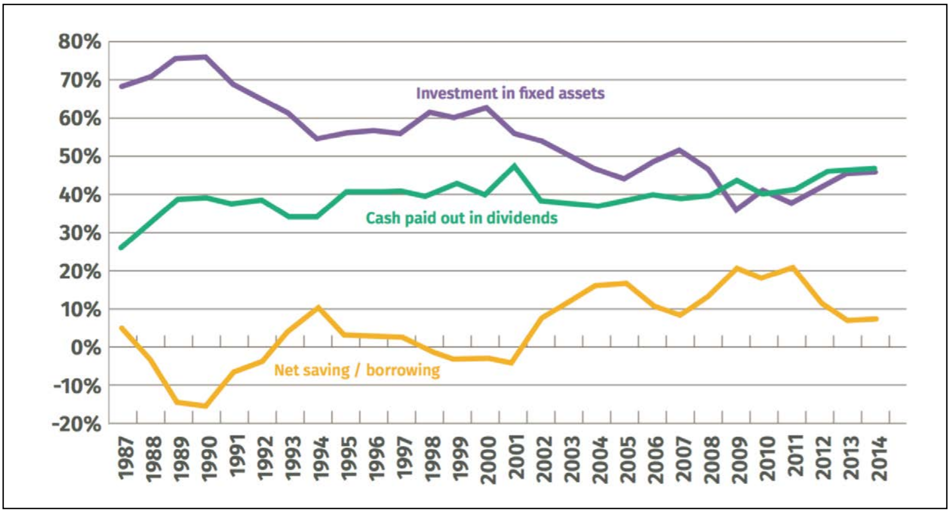
Although shareholders have some risk tied up in their shares, limited liability means that they are protected from personal bankruptcy in the event of the company going bankrupt. By contrast, employees are much more invested in the success of the firm. As the Financial Times commentator Martin Wolf has pointed out, the argument that shareholders should have control rights because they have the most risk confuses diversifiable and undiversifiable risk [Wolf, 2014]. Shareholders can (and do) diversify their risk by having a broad portfolio of assets. They are therefore in practice likely to be rather risk-insensitive, effectively lacking the motivation to discipline risk-taking by management. Employees, on the other hand, bear risk that is significantly harder to diversify; they therefore have a much stronger incentive to oversee management and (if they have them) to exercise control rights. Privileging the position of shareholders in corporate governance while excluding employees on the basis of who bears the most risk is therefore not justified.

The overwhelming primacy of shareholders' rights in the UK model of corporate governance contrasts with governance systems common in the rest of Europe, which enshrine the rights of other stakeholders (notably employees) alongside shareholders. According to Lawrence [2017] the UK model of corporate governance contributes to its economic problems. One of these is a lack of investment, which is partly due to the fact that UK companies have in aggregate been distributing more of their earnings to their shareholders [Tomorrow's Company, 2016].

As shown in Figure 4, between 1990 and 2014 the proportion of discretionary cash flow returned to shareholders from UK non-financial corporations increased from 39 per cent to 46 per cent. The inevitable result of this has been a reduction in the funds available for reinvestment, with investment declining significantly over the same period.

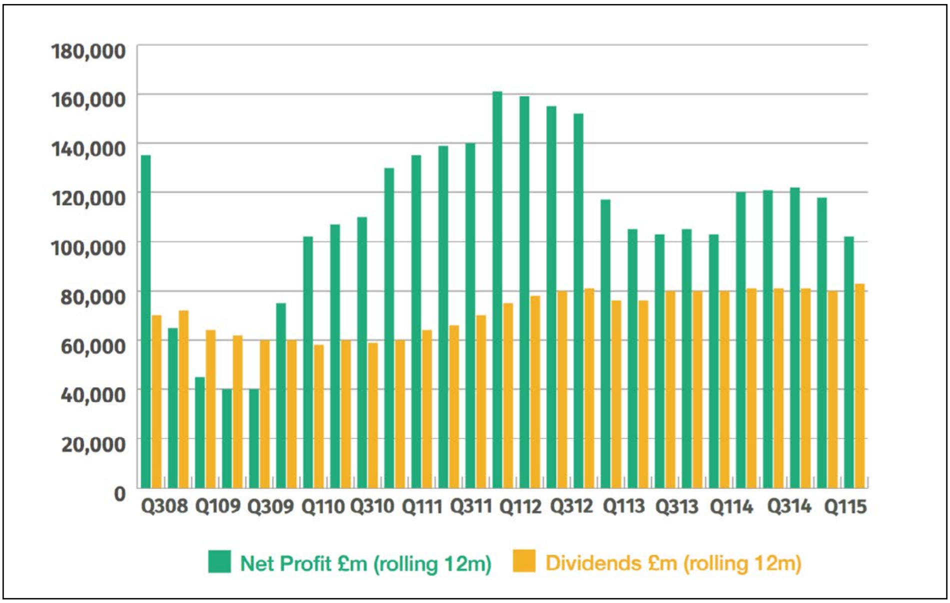
As Figure 5 shows, since the financial crisis dividend payments have remained relatively constant even as profits have fluctuated. The result is that the average 'dividend cover' (the multiple by which post-tax company earnings exceed shareholder pay-outs) has fallen by a quarter in the last decade, and is now (at 1.8) at a 20-year low [Lawrence, 2017]. It appears that the short-term desire to guarantee and 'smooth' shareholder returns has come to dominate dividend pay-out behaviour, almost irrespective of profitability.

Figure 4. Proportion (%) of UK non-financial corporation cash flow allocated to investment, dividends and saving, 1987–2014



Source: [*Tomorrow's Company*, 2016].

Figure 5. Dividends and profits for FTSE 350 firms, Q3 2008 to 2015



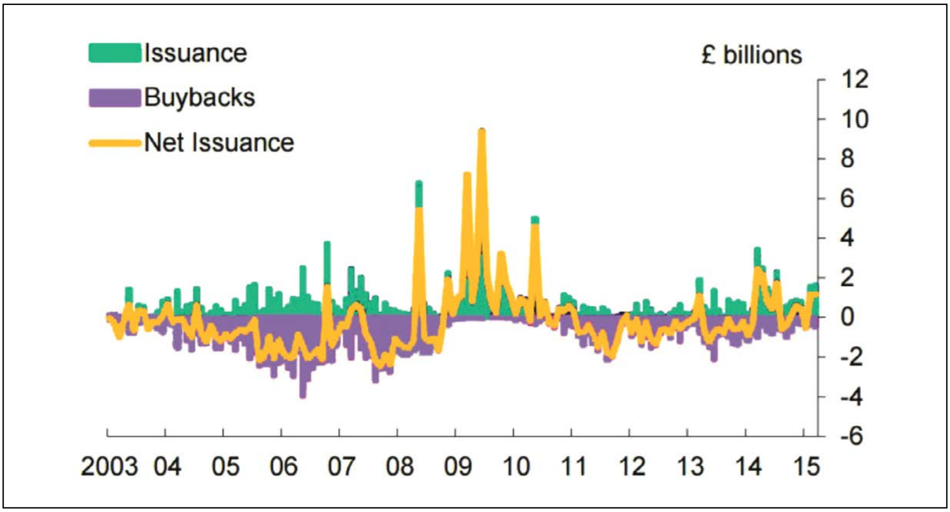
Source: [Big Innovation Centre, 2016].

Share buybacks, another means of distributing earnings to shareholders, have also increased markedly over the last quarter of a century [Lazonick, 2014]. As Figure 6 shows, in the last decade the value of share buybacks among UK companies has consistently exceeded the values of shares issued.

This has had the surprising effect of making the equity market less a source of net new financing for UK firms than a means of extracting value from them [Lawrence, 2017].

As a result of these trends the UK corporate sector has gone from being a net borrower in the economy, reflecting the traditional role of companies as vehicles for channelling others' savings into investment, to being a net saver.

Figure 6. Share buybacks by UK companies on FTSE All-Share, 2003–2015



Source: [Haldane, 2015].

4. Corporate governance in large privately-owned businesses

With the advent of new sources of finance, the number of UK listed companies has declined [BEIS Committee, 2017]. There are now some 2,600 private companies in the UK with more than 1,000 employees, including some of the UK's most famous names, such as Allied Boots and the Virgin Group. While private company directors have the same duties under Section 172 of the *UK Companies Act* as those of listed firms, private companies currently have only rudimentary reporting requirements and are not subject to the *UK Corporate Governance Code*.

This is difficult to justify. The legal separation of the company from its shareholders is the same in private companies as in public ones, and private companies have the same legal protection in terms of limited liability. Major companies have significant public impact on employment, consumers, supply chains, the environment and local communities and should arguably have the same social obligations [Lawrence, 2017].

5. Discussion of the UK Government Corporate Governance Reform Proposals

In August 2017, the UK Government published its response to the Green Paper on corporate governance reform that it issued at the end of November 2016 [BEIS, 2017]. The proposed reforms focus on four main elements. The first will require all listed companies to reveal and justify the pay ratio between CEOs and the average worker. Companies of a certain size will have to explain publicly how their directors take employees' and shareholders' interests into account, while all large companies will also have to make their responsible business arrangements public. They will also have to set out more clearly in remuneration policies the impact of share price growth on long-term executive pay outcomes. The Government has also stated that it would announce at a later date details of a review it has said it will carry out in relation to the use of share buybacks by companies, including to ensure that they cannot be used artificially to influence performance targets and so inflate executive pay. The second element will see those listed companies with significant (20 per cent) shareholder opposition to executive pay packages listed on a new public register, which will be run by the Investment Association, which represents UK investment managers.

The third element will see new measures introduced to ensure employees' voices are heard in the boardroom. The Government has delegated to the Financial Reporting Council the responsibility to come up with how best to achieve improved employee representation by introducing a new requirement into the *UK Corporate Governance Code*. It suggests that, on a comply or explain basis, companies would have to: assign a non-executive director to represent employees; create an employee advisory council; or nominate a director from the workforce. The fourth element of the reform package is a proposal to extend the scope of the *UK Corporate Governance Code* to cover large private companies. The FRC will consult with Government and the business community to help develop a voluntary set of corporate governance principles for large private companies. The reforms requiring legislation will be implemented by June 2018. However, the register of companies with significant shareholder opposition will be launched by the end of 2017.

The proposed reforms received a mixed response, with the business community heaving a collective sigh of relief that some of the tougher measures that were proposed in the 2016 Green Paper had been dropped: in particular, the requirement for an employee director on the board and annual binding votes on executive pay.

The reform that attracted most headlines is the mandatory disclosure in a quoted company's directors' remuneration report of the ratio of CEO pay to the average pay of the company's UK workforce, plus a narrative explaining changes to the ratio from year to year and how the ratio relates to pay and conditions across the wider workforce. This reform has been much debated and criticised since it was first proposed, with the so-called "Goldman Sachs/Waitrose supermarket" flaw being commonly voiced: the pay ratio for the CEO of a company like Goldman Sachs may appear much less extreme, because of the generally high level of pay of much of the company's workforce, than that of a supermarket company (say) where the pay of much of the workforce will be considerably less than that of the CEO. This may well create a misleading and unhelpful impression of the significance of a company's executive remuneration. Not surprisingly, 75 per cent of quoted companies commenting on this proposal were opposed to it [BEIS, 2017].

This new CEO pay reporting requirement will sit alongside an existing requirement, in place since 2013, for the directors' remuneration report of UK "quoted" companies to have to disclose the annual increase in CEO pay over the previous year when compared to the annual increase in the average pay of the entire workforce. However, in contrast to the proposed CEO pay ratio disclosure, currently a company can use a different comparator group of employees in relation to this "annual increase" disclosure if it considers the comparator of all employees inappropriate. The company must then explain why that different group has been chosen.

Before the Government's Green Paper was published in 2016 there had been much discussion about the possibility of the UK introducing a requirement, seen in some other jurisdictions, for a "worker-representative director" to be appointed to company boards. The Green Paper instead proposed that companies should adopt one of three possible "employee/other stakeholder-engagement" mechanisms: 1) certain of a company's existing non-executive directors to be designated as responsible for ensuring that stakeholders' voices are heard by the board, 2) the creation of a stakeholder advisory panel, and 3) the appointment of individual stakeholder representatives to the board.

The Government's 2017 response summarised the various concerns that these possibilities were seen as having, for example their potential to create conflicts of interest, the difficulties of selecting the right individuals to take on this role and the negative impact they could have on the unitary nature of UK boards and their effective functioning. The Government nevertheless decided to ask the FRC to consult on the inclusion in *UK Corporate Governance Code* of a new requirement for premium listed companies to adopt, one of the above three employee-engagement mechanisms.

The Government proposes strengthening the engagement of stakeholders with companies by a number of other related disclosure and guidance measures. Engagement with stakeholders by UK companies is something the *Companies Act 2006* recognises by requiring directors to have regard to the interests of various non-shareholder stakeholders (such as employees and customers and suppliers) when carrying out their primary statutory duty to act in a way that promotes the success of their company (the so-called "section 172 duty").

A potentially significant reform that is proposed will require private and public companies with at least 1,000 employees to disclose how their directors have complied with their section 172 duty, with regards to employee and other stakeholders' interests. The Government says that this new requirement will be subject to further consideration and so it is difficult to be certain at this stage how onerous or difficult it may be for companies to provide this sort of disclosure. The Government does, however, say that it envisages that the disclosure would involve explaining how key stakeholders have been identified, how their views have been sought, why the company's engagement mechanisms were considered appropriate and how the information obtained from them influenced the board's decision-making.

The Government's reforms would also require all companies (including private companies) with at least 2,000 employees to disclose their corporate governance regime in their directors' report and on their website. For private companies with 1,000 (or more) employees this would be in addition to the reporting on how they have discharged their section 172 duty mentioned above. The Government has said that it will also consider extending this requirement to limited liability partnerships.

Whether or not the Government's package of reforms is likely to be successful needs to be judged alongside the objectives set by the Government. In her introduction to the Green Paper [BEIS, 2016] the Prime Minister Theresa May attributes a broader purpose to corporate governance than previously envisaged, neatly encapsulated in her statement that "for people to retain faith in capitalism and free markets, big business must earn and keep the trust and confidence of their customers, employees and the wider public". She also talks about the need to "strengthen decision making and accountability" and to "deliver opportunity and choice for all".

The objective of strengthening decision making and accountability is the reason for the establishment of the current framework of corporate governance twenty-five years ago, as articulated in the Cadbury Report. However, the expectation that corporate governance can prevent, or at least reduce, the sort of behaviour that led to a loss of trust in business, and can restore faith in capitalism and free markets, is arguably wishful thinking.

As far as the need to rebuild trust in business is concerned, this is a very difficult objective to deliver by means of policy. While the proposed changes to the existing governance framework can contribute to an improvement in general standards of business behaviour, and make companies more aware of the impact of their activities on their stakeholders, it is nevertheless not possible to create trust through regulation alone. As noted by Hodges [2017], changes to corporate governance rules can encourage companies and their directors to adopt and display the sort of behaviour that may earn back trust, but this takes time.

In a nutshell, while corporate governance reforms can help to reduce the risk of bad behaviour or poor decision making, it cannot eliminate the factors that cause them. As the Financial Reporting Council noted in its recent report on corporate culture, "while legislation, regulation and codes influence individual and corporate behaviour, they do not ultimately control it" [FRC, 2016, p. 8].

Conclusions

The UK Government published its response in August 2017 to the Green Paper on corporate governance reform that it issued at the end of November 2016. It intends to implement its reform proposals, so that they apply to accounting periods starting after June 2018, by a mixture of secondary legislation and changes to the *UK Corporate Governance Code* coupled with the preparation of new guidance and certain other initiatives in related areas. Although the Government claims the reforms comprise a "world-leading package of corporate governance reforms," with the exception of the mandatory reporting of the ratio of CEO pay to the average pay of the company's UK (not worldwide) workforce and a proposed new *UK Corporate Governance Code* requirement that companies adopt (or explain why they have not adopted) one of three mechanisms for enhancing the voice of the workforce at board level, they largely involve incremental development of existing principles of corporate governance. To that extent, many companies may feel that most of these reforms do not represent a serious challenge to their existing governance processes.

The outcome of the corporate governance recent reform process reflects the reality that politics ultimately dictates what can be achieved. Given the ambitious aim set out by the Government of restoring trust in the capitalist system and free markets, the dilution of the initial headline-grabbing proposals reduces the chances of success and has arguably transformed what may have been a watershed moment for UK corporate governance into business-as-usual.

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Appendix:

Timeline of Key changes in UK Corporate Governance Post Financial Crisis

Dates	What changed?	Description	Notes
2007–2008	Global Financial Crisis	Global Financial Crisis precipitated by financial risk-taking, culminating in September 2008 collapse of Lehman Brothers	Review of UK corporate governance commenced in 2009
29 June 2010	2010 UK Corporate Governance Code	Board composition and selection Role of chairman and NEDs Board evaluation Annual re-elevation of directors Business model and significant risks Align performance-related pay to long-term interests	The UK Stewardship Code was launched in July 2010 Guidance on board effectiveness released in 2011
1 October 2012	2012 UK Corporate Governance Code	Fair, balanced and understandable Audit committee reporting: significant issues relating to the financial statements; external audit effectiveness Gender diversity.	Guidance on audit committees
1 October 2014	2014 UK Corporate Governance Code	Clawback and malus provisions Shareholder engagement Longer-term viability statement Ongoing monitoring of risk management and internal control	Guidance on risk management, internal control and related financial and business reporting

Dates	What changed?	Description	Notes
16 June 2016	2016 UK Corporate Governance Code	Minor changes reflecting EU law: Audit committee needs sector competence Advance disclosure of plans to retender the external audit	Updated guidance on audit committees
2016–2017	Corporate Governance Reform and review of the Code	Driven by Government; BEIS Select Committee consultation and report; Government Green Paper; FRC fundamental review of the Code	

Source: [Deloitte, 2017].

Summary

This paper examines the background to, and describes the main conclusions of, the most recent re-appraisal of UK corporate governance by the UK Parliament and Government in 2016 and 2017. This scrutiny of UK corporate governance followed high-profile corporate governance failings in 2016 alongside frequent press reports of disproportionate executive pay that eroded public trust in business. Set against the backdrop of the decision of the UK electorate to exit from the European Union in the referendum held in June 2016, the attention on the issues of executive pay, the voice of stakeholders and corporate governance in large privately-owned businesses, is indicative of a desire by the UK Government to better prepare UK businesses for a post-Brexit world, as well as to improve public faith in the free market system. The corporate governance reforms proposed by the UK Government in 2017 are not as radical as those initially proposed in 2016 and reflect recent changes in the political climate in the UK that have weakened its authority. Whether the largely incremental changes to corporate governance processes that are proposed achieve the broader aim now attributed to UK corporate governance policy, of improving public trust in business, remains to be seen.

Keywords

corporate governance, agency theory, executive remuneration, stewardship