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CORPORATE GOVERNANCE REFORM

One of Britain's biggest assets in competing in the global economy is our reputation for being a dependable and confident place in which to do business. Our legal system, our framework of company law and our standards of corporate governance have long been admired around the world.

One of the reasons why we have maintained this reputation is that we have kept our corporate governance framework up to date with reviews and improvements being made from time to time. I am, therefore, publishing today the Government's response to our Green Paper consultation on Corporate Governance Reform which I initiated in November last year. This looked at three specific aspects of corporate governance: executive pay; strengthening the employee and wider stakeholder voice in boardroom decision-making; and corporate governance in large privately-held businesses where I saw particular scope to strengthen and build on the current framework.

The Green Paper generated a wide debate and a big response from a wide cross section of business and society and I was grateful for the IFB's own response. We also benefitted from the work of the House of Commons BEIS Committee which published recommendations for corporate governance reform in April following its own inquiry. Our consultation is now complete, and we have been carefully considering the way forward. Three key messages emerged from consultation:

First, that large companies could do more to strengthen the employee, supplier and wider stakeholder voice at boardroom level as a key factor in improving boardroom decision-making, delivering more sustainable business performance and building wider confidence in the way businesses are run;

Second, in relation to executive pay, there were widely held concerns that a small minority of companies are not responding adequately when they encounter significant shareholder opposition to levels of executive pay and that remuneration

committees need to do more to demonstrate that they are sensitive to pay and conditions in the wider workforce;

Third, there was a strong view that there should be more transparency and accountability about corporate governance in large, privately-held businesses, reflecting their economic and social significance.

I am writing to you specifically on the issue of corporate governance in large, privately-held businesses.

As part of its reform package, the Government intends to encourage our largest privately-held businesses to recognise the benefits of strong corporate governance arrangements and adopt higher and proportionate standards. It will do this by encouraging the development of a voluntary set of corporate governance principles tailored to the circumstances of these companies, drawing on existing models where appropriate. It will also introduce legislation to require all large companies (private and public) to make a statement about their corporate governance arrangements, where they are not already covered by an existing reporting requirement.

The IFB has expressed an interest in lending its expertise to the development of a set of such voluntary corporate governance principles, an offer for which I am grateful, since the involvement of organisations such as your own will be vital in ensuring that the principles are relevant and command respect. I would therefore like to invite you to work with the IoD, the CBI, the Financial Reporting Council, the BVCA and others to develop a set of voluntary corporate governance principles for large private companies. It is my intention that a prominent business figure should lead this work and help coordinate and organise the inputs of all involved.

Thank you for taking this work forward and for your constructive and sustained engagement with this important agenda.

Yours sincerely


THE RT HON GREG CLARK MP
Secretary of State for Business, Energy & Industrial Strategy