

Kristy Merrick
Financial Reporting Council
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Dear Kristy

Please find below, the High pay Centre think tank's response to the Financial Reporting Council's consultation on the Wates Corporate Governance Principles for large private companies.

About the High Pay Centre

The High Pay Centre is an independent think-tank focused on the causes and consequences of high pay and economic inequality. We aim to produce high quality research and policy recommendations in order to support fairer pay practices, better corporate governance and more effective business performance. Our research and analysis is regularly featured in the media, while our policy recommendations – including binding shareholder votes on executive pay, mandatory publication of pay ratios and worker representation in corporate governance structures – have been supported by politicians of all parties.

We have produced a number of publications relevant to the Wates Review, covering topics including [pay and performance](#), [gender diversity](#); [stakeholder perspectives](#); and [international comparisons of corporate governance systems](#).

The Principles

We welcome the FRC's interest in the governance of private companies and believe that the diagnosis contained in the Wates Review is essentially correct. The Review notes that:

'the economic and social significance of large private companies can be as great as publicly listed companies and, when problems occur, there are comparable risks for a wider range of stakeholders, such as customers, pensioners, the workforce, supply chains and the community.'

Much of the public scepticism towards big business results from concerns about the societal impact of current business practices – for example, how pay distribution within major employers affects incomes and living standards, or how businesses exacerbate the risk of dangerous climate change.

Historically, the UK's corporate governance regime has appeared focused on ensuring the integrity and probity of companies for potential investors, and has therefore focused on publicly listed companies. But whether or not a company is publicly or privately listed has little bearing on its social or environmental impact. Therefore any governance regime aimed at aligning the actions of businesses more closely with the interests of wider society should apply equally to both the listed and unlisted sectors.

For this reason, we are most interested in the aspects of the six principles that relate to societal impact. In this respect, we think the expectations of private companies should be as high as for the publicly listed. For example, on remuneration, private companies should be required to publish a single figure of pay for their highest paid executive and the median worker, and explain how pay is distributed through their organisation. This can reassure stakeholders that workers are being treated fairly and that problems associated with low or stagnant pay (such as increased social security costs paid through public money) are being averted.

Similarly, principle 6 states that companies should have to explain how they have undertaken meaningful engagement with their stakeholders, including their workforce. Listed companies will shortly be required to introduce one of three options for engaging with their workers (either worker directors; a stakeholder committee; or a non-executive director with designated responsibility for stakeholder issues). We think that these requirements – of which, we believe worker directors are the most suitable – should also apply to private firms.

Also in principle 6, we welcome the reference to 'social and environmental impact'. However, we think this could be given greater prominence. Firms should be explicitly required to explain how they monitor and measure this impact. In the long-term, it should be an objective of the FRC and other policy-makers and regulators to achieve an appropriate framework for reporting social and environmental impact, enabling better and comparable understanding of the holistic value of companies.

Finally, we think it should be noted that much of the scrutiny of listed companies governance is done by independent parties – such as think tanks, NGOs or commercial research organisations.

Listed companies are well-known and easily identified (for example, through the listing authority) but it may be more difficult for independent organisations to identify private companies to whom the Principles apply. Therefore, we think it would be appropriate for the FRC to maintain a register of all companies to whom the principles apply and their disclosures on its website, thereby ensuring the fullest possible scrutiny with minimal risk of non-compliant companies falling through gaps.

Next steps

The High Pay Centre will continue to carry out research and analysis on pay, governance and responsible business practices over the coming months, and would be very happy to discuss our work with the FRC and Wates Review team in more detail. Please contact Director Luke Hildyard via luke.hildyard@highpaycentre.org if this would be of interest.

Yours faithfully

A handwritten signature in black ink, appearing to read "Luke Hildyard".

Luke Hildyard
Director, High Pay Centre