6
Corporate Governance in the United Kingdom

6.1 Introduction

Though corporate governance in the United States and the United Kingdom have more in common than any other pair of developed countries, the two systems have striking differences that even render the term or concept of ‘Anglo-Saxon’ corporate governance irrelevant. Shareholders in the UK enjoy unparalleled power in corporate decisions relative to their US counterparts. That is because the purpose of the US corporation and the purpose of the UK corporation are not, strictly speaking, the same.¹

UK company law clearly states that the final aim of a corporation is to advance the interests of its shareholders. This approach known as ‘shareholder-centrism’ provides enhanced shareholder protection relative to the US approach. In addition, there are no exculpatory statutory provisions that shield directors against their fiduciary duties.

6.2 The development of corporate governance in the UK

The development of corporate governance in the UK is linked to a string of financial scandals in the 1980s and 1990s: the collapse of the BCCI, the Maxwell fraud in 1991; the fall of Barings in 1995.

The reaction of the UK Parliament was swift, trying to fix the problem for the long run. That occurred through several steps or committees. The UK regulatory framework retains a market-based approach that enables the board to have flexibility in its structure and management, while being accountable to its shareholders.²

6.2.1 The Cadbury Report (1992)

Following a series of corporate governance scandals, and particularly the Robert Maxwell scandal, the UK business, political and academic
institutions felt the need to reorganize the different texts and legisla-
tions dealing with corporate governance. A Committee on the Financial
Aspects of Corporate Governance was formed and chaired by Sir Adrian
Cadbury. The Cadbury Report suggested that the presence of non-exec-
utives should be effective in improving board independence and firm
performance.

The Committee provided several recommendations on specific areas:
the board of directors, the role of non-executive directors, the internal
reporting of financial statements, the role of the auditors, and the role
of institutional investors. More specifically, the Cadbury Report recom-
mended that one person should not take the positions of board chair-
person and chief executive. The Cadbury Report was not mandatory,
but companies were required by the London Stock Exchange to report
whether they have complied with the Cadbury Report or explain why
they have not.

Due to public and shareholder criticisms over boards’ remuneration, par-
ticularly the British Gas excessive payments to its directors, the Greenbury
Committee was formed in 1995 to look over the issue and come up with
proposals. The Greenbury Report recommended that corporate remuner-
ation be related to performance.

6.2.3 The Hampel Report (1998)
In a sense, the Hampel Report was a combination of both the Cadbury
and Hampel reports culminating in The Combined Code for the UK listed
companies.

6.2.4 The Turnbull Report (1999)
The Turnbull Report focuses on providing the board with specific tools
in the areas of risk management and internal control and provides spe-
cific recommendation as to how to develop and enhance a sound internal
control system.

6.2.5 The Higgs Report (2003)
The Higgs Report insisted on the role and effectiveness of non-executive
directors and their relationship with the shareholders. Inter alia, the Higgs
Report recommended that a non-executive directive hold a key position
on the board of directors.