Boardroom Review Limited
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The Rt Hon Kwasi Kwarteng MP
Secretary of State, Department of Business, Energy and Industrial Strategy

RESPONSE TO THE BEIS CONSULTATION: RESTORING TRUST IN AUDIT AND CORPORATE GOVERNANCE

Dear Secretary of State

In the Consultation Forward, you state that the trust placed in our economy is dependent on our open and competitive markets, our strengths in innovation, and the high standards of our labour market. However, in the Executive Summary, the document continues, "corporate failure can happen but it should rarely be a surprise", followed by over 200 pages of reforms, aimed at avoiding future corporate failures and preventing surprises.

Good governance sits alongside strategy and performance, but it cannot replace them. Successful companies, companies that pay wages, dividends and taxes, thrive mainly on well-executed strategies, appropriate risk taking, and visible leadership. These are time consuming activities for boards of directors. Some of the reforms in the BEIS Consultation may increase accountability as intended; however, they will also divert directors' attention away from value creation, and towards controls and processes. In order to comply, directors will have to choose between spending less time on strategy and execution, committing more time to governance (and potentially crossing the line, which has further implications with regard to objectivity and independence), or reducing their NED portfolios to accommodate these demands.

None of these options will increase public trust, decrease the risk of corporate failure, or eliminate the element of surprise. They are unlikely to contribute to the goals cited in the Executive Summary around long term economic growth, productivity, business confidence, investment, entrepreneurialism and scale. Furthermore, they are unattractive choices for the brightest boardroom talent, who compare administrative workloads, public scrutiny and minimal rewards of PIEs with those of private equity, inter alia.

There are a multitude of reasons for corporate failure, not many of them related to corporate reporting, and most of them related to flawed decision making over long periods of time, misplaced optimism in markets, and human frailty. In the past, reforms led by, inter alia, Sir Adrian Cadbury and Sir Derek Higgs have recognized these relationships, and succeeded in improving our world class governance system without stifling entrepreneurialism, innovation and an appropriate appetite for risk.

Ministers, government officials and regulators have a responsibility to be proportionate in their responses to market successes and failures. It is critical, therefore, that these reforms, when finalized, reflect a genuine commitment to good corporate governance in its widest sense, and support directors in their quest for excellence, rather than, as currently drafted, assume that layers of bureaucracy are appropriate substitutes for individual knowledge, judgement, and trustworthiness.

Yours faithfully, Dr. Tracy Long CBE, for and on behalf of Boardroom Review Limited

BACKGROUND This response is submitted by Dr Tracy Long CBE, founder of Boardroom Review Limited. Evidence and observations are general in nature, relating to reforms impacting boards of directors. Tracy is a leader in the field of Board effectiveness, and an experienced Board and Committee member. She founded Boardroom Review Limited in 2004; as a trusted advisor to the most senior decision makers, she has conducted over three hundred and fifty international reviews across publicly listed (PIE), mutual, privately owned and public sectors.