WALL STREET JOURNAL

Risk & Compliance Journal.

The Morning Risk Report: BHS Leads to Call for Better Governance at Private Cos

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Jul 27, 2016 7:08 am ET

The U.K.'s Parliamentary inquiry into the sale of retailer BHS for a nominal one pound to a consortium last year, and its subsequent collapse in April, revealed what it said was a string of corporate governance failures and raised concerns over the duties and responsibilities of board of directors in a private company.

At the heart of the inquiry is the fact that BHS carried a pension scheme deficit of around 570 million pounds that might have to get covered by taxpayers. Billionaire businessman Sir Philip Green, the company's owner from 2000 to 2015, and its board failed to adequately address the trustees' concerns over the growing deficit, starting in 2013, according to the inquiry. "The most worrying insight into the exercise of corporate governance was obtained in examining the decision to sell BHS itself, in which the chairman of the selling company [Anthony Grabiner]…played no effective part," the report said. "We saw meagre evidence of the type of constructive challenge that a good board should provide." Mr. Green and Mr. Grabiner were among numerous executives, bankers, lawyers and business people questioned by the committees in charge of the investigation into BHS's collapse. In a statement, Mr. Green called the report a "predetermined and accurate output of a biased and unfair process." Mr. Grabiner doesn't appear to have commented.

The events with BHS led the Institute of Directors to urge the new Prime Ministers to call for a review of U.K. corporate governance. "Now is the time to take a fresh look at how large private-owned companies are governed," said Oliver Parry, head of corporate governance at the IoD, in an email. "Non-executive directors are there to rein in the excesses of executives and protect the company's long-term sustainability, including its reputation." **According to The Conference Board, a private enterprise's owner and board are accountable to its stakeholders, including its employees. "The U.K. Companies Act 2006, which is the primary source of U.K. company laws, in addition to reaffirming the traditional duties to avoid conflicts of interest and disclose self dealing, introduces the duty to promote company success…and defines it as the duty to consider the long-term consequences of business decisions on a wide range of stakeholders," said Matteo Tonello, managing director for corporate leadership at the Conference Board.**