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UK activist Gatemore brands May's corporate governance plan 'insufficient'

CIO Meidar outlines flaws with package to tackle executive pay, worker representation and compliance

Theresa May's plans to rebuild trust between the British public and its corporate sector came under fire today from an activist hedge fund alongside unions and opposition politicians.

Liad Meidar, CIO at activist fund manager Gatemore Capital Management, said the green paper consultation fell short and was "insufficient to address some of the most glaring lapses in the UK corporate governance code".

He highlighted three main flaws of the UK Prime Minister's plan, which received broadsides from opposition MPs and labour unions, as well as a lukewarm reception from the finance industry.

"Fundamentally, the UK corporate governance code remains based on a flawed principle of 'comply or explain,'" he said. "There remain few repercussions for a company that provides a weak explanation for non-compliance."

He added that UK regulators should have the ability to take enforcement action against non-compliance, and that rules governing board composition and independence should be mandatory.

Citing Steven Clifford's work on CEO remuneration, Meidar said executive pay should comprise salary and restricted stock, the latter of which cannot be cashed until retirement.

"Half of the allocated shares could be cancelled if shareholders fail to realise above-average returns over the CEOs tenure," he added.

Meidar also said May had made a false assumption that labour representation on corporate boards had made Germany's economy more successful and transparent.

He pointed to the country's well-trained labour force, family-owned companies with long-term outlooks and a weak currency relative to its economy, as factors for its robust health.

"If the Prime Minster wants to replicate Germany's success in the UK she should be pushing for better workforce training, encouraged by tax incentives for companies which participate," he said.

"Adding to a company's regulatory and reporting burden will not help to achieve this and, in effect, it will make the UK a less attractive place to do business."

The reforms include a requirement for all listed companies to reveal the pay ratio between executives and typical workers; the creation of a new public register, kept by the Investment Association, to name all listed companies that have had significant shareholder opposition to executive pay packages; and a Financial Reporting Council initiative to give workers a voice in the boardroom through a non-executive director to represent employees, an employee advisory council or a director nominated from the workforce.

More radical proposals to put workers on boards and introduce annual binding pay votes were dropped from the final package.

The reforms will come into force by June 2018.