

Enhancing Managerial Accountability: An Analysis of the UK Corporate Governance Code (2018)

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Abstract: This article examines the impact of the UK Corporate Governance Code (2018) on managerial accountability, focusing on its provisions for transparency and the "comply or explain" principle. It evaluates the Code's strengths, including fostering stakeholder trust and encouraging ethical governance, while addressing key criticisms such as rising compliance costs and the limitations of its voluntary framework. The discussion highlights the evolving role of corporate governance in the context of global economic changes and increasing environmental, social, and governance (ESG) expectations. The article concludes that while the Code has significantly advanced managerial accountability, its future success depends on its adaptability to emerging challenges and its ability to strike a balance between flexibility and enforceability.

Keywords: Corporate Governance, Managerial Accountability, UK Corporate Governance Code.

1. Introduction: The Role of Managerial Accountability in Corporate Governance

Accountability is an essential part of many governance frameworks, and corporate governance is no exception. It plays a crucial role in ensuring that the actions of boards and executives align with the interests of shareholders and broader stakeholder groups. In the area of corporate governance, accountability may relate to a company's responsibility to society or other stakeholders, or to a manager's responsibility to the board of directors. However, the primary focus of corporate governance is on the accountability of the board of directors of a company to its shareholders.

The Organisation for Economic Co-operation and Development (OECD) defines corporate governance as a framework that ensures strategic guidance, enables efficient managerial oversight, and establishes the board's accountability to both the company and its shareholders. These principles form the foundation for the UK Corporate Governance Code (2018) (the Code), which introduces a robust set of provisions to enhance managerial accountability. By articulating clear principles and duties for chairs, directors, and boards, the Code seeks to refine governance practices and foster transparency, oversight, and ethical decision-making.

This article attempts to examine the ways in which the UK Corporate Governance Code (2018) enhances managerial accountability by evaluating its key provisions and principles. Furthermore, it critically analyses the potential of the Code to deliver long-term benefits to companies, shareholders, and stakeholders. The discussion aims to not only unpack the Code's current impact but also assess its adaptability and effectiveness in the evolving corporate environment.

2. Enhancing Managerial Accountability in Corporate Governance

Accountability in corporate governance manifests through several key mechanisms that ensure transparency, responsibility, and ethical conduct within an organization. The Code emphasizes two critical aspects of accountability:

transparency through disclosure and the "comply or explain" principle. These mechanisms serve as foundational pillars to enhancing managerial accountability, ensuring that corporate actions align with both shareholder interests and broader societal expectations.

2.1. Transparency and Disclosure

First of the aspects is the disclosure and explanation of information, providing transparency to stakeholders regarding decisions and actions. This proposal for transparency is reflected in various principles and provisions. For example, as documented in the Code Provision 14, duties, and responsibilities in the head of the company should be clear, documented, agreed by the board, and accessible to the public. At the same time, this expression of information disclosure also appears in the section of Audit. These words for transparency align with Behn's view of accountability involving the provision of information and explanations, which highlighted the importance of increased transparency to clarify collective and individual responsibilities. Transparency is essential for ensuring that companies are accountable to their shareholders, employees, and other stakeholders. By requiring companies to disclose their governance practices, the code enables stakeholders to assess whether the company is being run in a responsible and ethical manner. This disclosure also allows shareholders to evaluate the effectiveness of the board of directors and make informed decisions about their investment. In summary, the integration of the transparency principles into different sections of the Code shows that the Code enhances accountability.

2.2. The "Comply or Explain" Principle

Secondly, the accountability behind the "comply or explain" principle. Due to its nature of the soft law, the Code provides more flexibility and adaptability to the corporate governance framework, which is fully reflected in the "comply or explain" approach. According to the description of the "comply and explain" approach, companies are free to choose whether to comply with the Code or not, and if they choose not to comply, they may provide an explanation. Although the Code has been modified from the previous version by removing the requirement that its existing arrangements ensure proper accountability

but an explanation is not an obligation, but the refinement of the provision on the concept of “explain” still reflects the aim of enhance accountability that underlies the approach. To be specific, the definition of “explain” is more in line with the current business environment, while the code also adds provisions for challenging the explanation. However, because “explain” is not an obligation, the “comply or explain” approach has not been able to change one of the major drawbacks of the original provision in terms of enhancing accountability, that it is entirely up to the directors to explain it.

2.3. Balancing Flexibility and Accountability

Both transparency and the "comply or explain" principle contribute significantly to enhancing accountability within corporate governance. However, their effectiveness depends on proper implementation and monitoring. The Code's emphasis on clear disclosure and duty of explanation ensures that companies are held accountable, but it also puts the responsibility on shareholders and other stakeholders to scrutinize these disclosures and explanations effectively.

While these provisions have enhanced accountability, they also raise questions about the extent to which the Code could drive real change in corporate behaviour. The balance between flexibility and accountability remains a key challenge in corporate governance, particularly as the business environment continues to evolve. Ultimately, the success of these mechanisms will depend on the willingness of both companies and stakeholders to embrace a culture of transparency, responsibility, and ethical governance.

3. Evaluating the Future of the UK Corporate Governance Code

Three decades ago, the Cadbury Code of Best Practice (Cadbury Code) was promulgated. Cadbury Code not only laid the groundwork for the formation of the Code, but also established a precedent, influencing the adoption of similar codes in almost 100 countries. However, with the passage of time and changes in the business environment, the Code has developed several outdated elements, which has begun to drift away from the effectiveness of modern public corporate governance. Therefore, it is worth discussing whether the Code could continue to provide benefits to companies, shareholders, and stakeholders.

3.1. The Cost of Compliance and Disclosure

One of the major criticisms of the Code is the increasing cost burden it imposes on companies. Changes in detail requirements in the Code have led to increasing demands for disclosure and compliance form companies to adhere to the code, resulting in significant costs. According to a position paper released by the Financial Reporting Council (FRC) in July 2022, the FRC aims to strengthen the Code's coverage from several aspects of corporate governance frameworks. The eventual cost to this refinement of the Code will still be placed on the companies which willing to comply with the Code, and it does not seem like this kind of refinement project is over, as the FRC continues to introduce de facto disclosure obligations. These costs may be disproportionate, especially for smaller companies, raising questions about the Code's overall impact on corporate competitiveness. While larger firms may have the resources to meet these demands, smaller firms may struggle to comply, potentially undermining the

very principles of fairness and inclusivity the Code aims to promote. Besides, another heavy cost comes from corporate compliance, which resulting from the principle of “comply or explain”. In practice, the “comply or explain” principle is not as flexible and adaptable as it is set out in the Code, and the provisions of this principle often amount to mandatory requirements for corporate governance which supported by the high rate of compliance reflected in a survey.

3.2. The Evolving Role of Corporate Governance

As corporate governance continues to evolve, the question arises whether the UK Corporate Governance Code can remain effective in meeting the needs of contemporary business environments. The rapid changes in global markets, the increasing focus on environmental, social, and governance (ESG) factors, and growing calls for more stakeholder-oriented governance models all present challenges to the traditional shareholder-centric framework promoted by the Code.

Moreover, the global nature of business today requires cross-jurisdictional governance standards, and the UK Corporate Governance Code may face increasing pressure to align with international best practices. In this context, the future of the Code will depend on its ability to adapt to these broader trends while maintaining its core focus on managerial accountability.

The UK Corporate Governance Code has made significant strides in enhancing managerial accountability, but its future effectiveness is uncertain. Rising compliance costs, the limitations of the "comply or explain" principle, and the changing landscape of corporate governance all point to the need for continued adaptation. Whether the Code can remain relevant and beneficial to companies, shareholders, and stakeholders will depend on its ability to evolve and respond to emerging challenges.

4. Conclusion

The UK Corporate Governance Code (2018) has undeniably advanced managerial accountability through its emphasis on transparency and the "comply or explain" principle. These mechanisms have fostered improved corporate practices and stakeholder trust. However, the rising costs associated with compliance and the voluntary nature of the Code's provisions raise significant concerns about its long-term efficacy.

To remain relevant, the Code must address these challenges by adapting to emerging trends, including global governance standards and the integration of environmental, social, and governance (ESG) considerations. Ultimately, the Code's future effectiveness will depend on its ability to balance flexibility with enforceability while maintaining its focus on ethical governance and accountability.

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