

Harvard Law School Forum on Corporate Governance and Financial Regulation

Corporate Governance—the New Paradigm

Posted by [Martin Lipton](#), [Wachtell, Lipton, Rosen & Katz](#), on Friday, September 1, 2017

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Editor's Note: [Martin Lipton](#) is a founding partner of Wachtell, Lipton, Rosen & Katz, specializing in mergers and acquisitions and matters affecting corporate policy and strategy; [Sebastian V. Niles](#) is a partner at Wachtell, Lipton, Rosen & Katz, focusing on rapid response shareholder activism and preparedness, takeover defense and corporate governance. This post is based on a Wachtell Lipton publication by Mr. Lipton and Mr. Niles.

This week witnessed two very significant developments in the new paradigm for corporate governance, one in the U.S. and one in the U.K. Both will have cross-border impact. Both have the purpose of promoting investment to achieve sustainable long-term investment and growth.

In the U.K., [government proposals](#) for corporate governance reform center on (1) better aligning executive pay with performance and with explaining, if not actually improving, worker wages by publicizing and focusing the attention of corporate directors on the ratio of average worker wages to executive compensation, and (2) improving governance by emphasizing that Section 172 of the Company Law, a constituency statute, provides that directors owe fiduciary duties not just to shareholders, but to customers, suppliers, workers and the community and economy. There is a provision for worker-board engagement by a designated independent director, a formal worker advisory council or a director from the workforce. The report directly relates improving stakeholder governance to mitigating inequality in the U.K. society.

In the U.S., Vanguard sent a [letter](#) to the boards and CEOs of all of the corporations in the Vanguard portfolios worldwide setting forth its views on governance, engagement and stewardship. It also issued its [2017 investment stewardship report](#). The report sets forth Vanguard's policy for dealing with activist pressure and contains illustrations of how Vanguard dealt with several actual activist campaigns. ([See our memo on today's Vanguard letter](#).)

The U.K. government report and the Vanguard letter and report, together with the effort by the World Economic Forum to promote acceptance of [The New Paradigm: A Roadmap for an Implicit Corporate Governance Partnership Between Corporations and Investors to Achieve Sustainable Long-Term Investment and Growth](#) issued last year by its International Business Council, gives hope that they will spark additional efforts that together will alleviate the pressure, by asset managers for short-term performance and by activist hedge funds for quick gains from financial engineering, against long-term investment in R&D; capex and reinvestment in the business; building strong employee relations, employment stability and employee training; and sustainability and good corporate citizenship.
