

## Good corporate governance is not a matter determined by..

Published: January 12, 2026, 9:05 pm

---

As the FT has [reported this morning](#):

*Sir James Wates, chair of the Wates Group, one of the UK's largest family-owned construction companies, said proposals to expand the definition of "public interest entities" (PIEs) to include large private companies would increase costs and discourage growth and innovation.*

As they add:

*Wates, who also chairs the Institute for Family Business, said the proposals amounted to a "sledgehammer" and questioned the need for expanding the PIE regime, which currently applies only to large listed companies and finance groups.*

I have to admit that someone like Sir James Wates, who is meant to be experienced in corporate governance issues, is deeply disappointing when commenting in this way.

What is clear is that Wates thinks that the only obligations in corporate governance are to shareholders. He ignores obligations to other suppliers of capital, trading partners, employees, regulators, tax authorities and civil society as if they do not exist. Instead, he presumes that any company is merely the fiefdom of its shareholders and its responsibilities are designed entirely around their needs.

Wates is wrong, of course. With my colleague, Prof Adam Leaver of Sheffield University Management School, I submitted the following comments to the Department of Business, Energy and Industrial Strategy with regard to this same issue as part of their consultation on the future of audit:

*We welcome the extension of the concept of the audit to what you define to be public interest entities (PIEs). We think that this idea that there are Public Interest Entities is important. We are, however, concerned that the definition is insufficiently rigorous.*

*We would suggest that a PIE is any entity that has macroeconomic significance. What we are familiar with is the idea that firms are microeconomic entities. The whole*

*economic theory of the firm is built on the premise that they are. So too has auditing been based on that logic. It has been assumed (as is clear from the IFRS definition of the purpose of accounting) that it is assumed that audited entities only have consequence for a limited range of 'insiders' within the entity itself, and that broader responsibilities or consequences of their existence can be ignored. We do, however, know that this is not true. Since the 2008 Global Financial Crisis the idea that some firms are 'too big to fail' has been commonplace. This was originally used to describe banks but has also been used to describe the Big 4 audit firms themselves. We are now aware that the failure of even relatively minor entities can have significant macroeconomic consequence*[\[1\]](#).

It would therefore seem to be appropriate to consider that any entity capable of having macroeconomic impact meets is a public interest entity. This would be true even if that impact is concentrated in one relatively small location. As such income of £100 million may well be sufficient to identify a PIE, whilst employment of 500 people always be sufficient for this purpose. Legal form and purpose will be inconsequential if potential macroeconomic impact is the criteria for determining which entities are PIEs, as will the nature of activities undertaken also be inconsequential: the scale of the impact of failure is what matters.

As a consequence, whilst we suggest that guidelines on certain attributes (e.g. listed, AIM listed, turnover, number of employees, etc) will be of use in determining which organisations are PIEs, they will be sufficient to indicate all entities likely to be considered to be PIEs. This is because all definitions can have unintended consequences, and one of those that might result from such a rigid approach is the abuse of such rules. For example, entities may cease to operate under apparent common legal control e.g. through a single parent company, and might instead become loose federations of entities operating in a manner that apparently avoids the requirement that they either present group consolidated accounts showing a true and fair view, or to be recognised as a PIE[\[2\]](#). This potential abuse has to be avoided.

It is as our recommendation that the regulator (ARGA) should have the power to deem any entity a PIE if it thinks it would have macroeconomic consequence in the event of its failure.

We also recommend that any auditor should be obliged seek determination on the PIE status of any client from ARGA if they are in doubt as to its status. Failing to do so should be a regulatory offence.

[\[1\]](#) The failure of Greensill Capital is a recent obvious example.

[\[2\]](#) An obvious example of a group of entities working in this loosely federated way are the firms that make up the Gupta Family Group Alliance (GFG) <https://www.bbc.co.uk/news/business-57149731>

The logic Wates is using is a very long way apart from that which we use, but I suggest that only one is in the public interest.