A LONG-TERM FOCUS FOR CORPORATE BRITAIN
Call for Evidence Response Form

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Organisation (if applicable): Risk assurance and board effectiveness consultant

Please tick the box from the following list of options that best describes you:

	Quoted company
	Other company
	Investor or investment manager
	Business representative organisation
	Investor representative organisation
	Non governmental organisation (NGO)
	Trade Union
	Lawyer or accountant
X	**Other (e.g. consultant or private individual)**

The Board of Directors

<u>Question 1</u>: Do UK boards have a long-term focus – if not, why not?

Comments

Three initial points can be made:

1) Most boards, in my experience, aspire to have both a long and short-term focus. Whilst many boards will seek to have a long-term view, in my experience the expression "without a short-term there will be no long-term" sums up the daily challenge many face.
2) Boards will try hard to satisfy the needs of both short-term obligations and long-term aspirations, by advocating a "both / and" mindset, rather than an "either / or" mindset. I would expect you to hear a number of statements that it is quite possible to pursue short and long-term goals without difficulty. In my experience though, the extent to which this "both/and" approach can be easily achieved by the majority of organisations is a crucial point. There are many anecdotes (often discussed in corridors and around the coffee machine) of senior leaders making short-term decisions at the expense of the long-term. Whether this has a foundation in fact is a crucial issue that – to my understanding – has not been definitively researched or practical pointers/indicators established one way or the other (beyond very obvious examples).
3) The extent to which espoused aspirations and desires (e.g. to be long-term oriented) are actually translated into a true, impactful behaviour over a period of time is a key issue. Examples of boards having made a series of specific long-term decisions (e.g. major investments) does not necessarily mean the company is truly long-term oriented across all key areas. Criteria such as Investors in People awards and other CSR

measures might offer some insights in this regard, but they are likely only to be indicators of the overall position for the company (but far better than nothing).

The work of Hofstede is also worth noting. There is strong research to support the assertion that the UK has a tendency to be more short-term than other countries.

http://www.andrews.edu/~tidwell/HofstedeLongTerm.html

http://www.clearlycultural.com/geert-hofstede-cultural-dimensions/long-term-orientation/

Although the cultural characteristics Hofstede uses are not identical with short-term/long-term in business terms, they set a cultural back-drop which may permeate many UK business practices

Question 7: Is short-termism in equity markets a problem and, if so, how should it be addressed?

Comments

There will be many stakeholders who value the ability to invest for a short period of time and get a good return; others are looking for longer-term returns (e.g. many pension funds) and would likely be concerned with judgements that favour the shorter-term at the expense of the longer-term.

Of course, how one can measure/validate when an organisation is/is not sacrificing the long-term for the benefit of the short-term (and equally that any short-term short-falls will be made up in the long-term) remains the key issue. Analysts and investors I have spoken refer to the insight and credibility of senior leadership responses on key strategic issues as one litmus test. How this "gut feel" of management capability could be robustly translated into constructive tips for senior leaders in UK Plc is something that should be considered, but this advice needs to go beyond the superficial and general, so that practical examples can be offered. Moreover, a focus on good practices, for all its advantages runs the risk of missing crucial "blind spots" that might be undermining the long-term viability of the organisation in other ways.

Question 8: What action, if any, should be taken to encourage a long-term focus in UK equity investment decisions? What are the benefits and costs of possible actions to encourage longer holding periods?

Comments

Remuneration practices immediately come to mind, and progress appears to be occurring step by step.

At a corporate level, tax incentives for investors could also be considered to

penalise short-term buy/sell strategies whilst favouring longer-term investment strategies. Correctly structured this may be able to be constructed in a broadly revenue neutral manner.

Recent moves to improve the incentives for R&D may help, but for some MNCs this could simply result in a reallocation of funds from one territory to another, with no overall step up in R&D for the corporation as a whole.

Directors' Remuneration

Question 11: What are the main reasons for the increase in directors' remuneration? Are these appropriate?

Comments

There has been an inevitable talent war looking for those capable of running organisations effectively, which was probably bound to lead to remuneration increases faster than salaries for other employees.

However, there is a risk that "self-justification" bias may have encouraged senior executives and their advisors to seek increases at the higher end of a given range, leading, over time, to a growing gap. Non-executives on remuneration committees must clearly be asked to show greater diligence in their oversight, but the role of a code of good practice for UK Plc (akin to the latest FSA code on remuneration) could play a role in helping to dampen excess in this regard. Whether a cap on bonuses / remuneration would really help is a moot point, and would likely be best addressed by looking at the objective evidence / research into this question.

Question 17: Do you have any further comments on issues related to this consultation?

Comments

There appears to be limited reference to academic research in the consultation paper. I hope that a good balance of opinions are sought with regard to this consultation, including those from academia, since their insights are likely to be evidence based and less susceptible to biases that can – inevitably - arise from self-interest.

I would be happy to discuss any points further.

Yours faithfully,

James C Paterson