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

A copy of the consultation available at: http://www.bis.gov.uk/consultations.

Responses to the Consultation should be received by 14 January 2011.

Completed copies of the response form should be returned:

Via email to: clgconsultations@bis.gsi.gov.uk

Via post to:

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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 – Professional Institute**

The Board of Directors

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

Comments
Organisations are formed to fulfil a specific purpose in society and that purpose drives everything the organisation does. For an organisation to survive in the long term its purpose needs to be outward looking and serve the society in which it operates. Profit is important as a resource and a measure of success but when perceived as the primary purpose of the organisation, it encourages managers, and trustees, to focus inward on financial returns instead of externally, and the contribution the organisation makes to society which is the ultimate judge of its performance and arbiter of its success. There is only one valid business purpose, which is to create and retain customers. Too much of the current short term focus is on profit alone, therefore to recreate a long term focus Boards of Directors need to have a quality first focus on their customers.

<u>Question 2:</u> Does the legal framework sufficiently allow the boards of listed companies to access full and up-to-date information on the beneficial ownership of company shares?

Comments
The current legal framework does not provide shareholders with sufficient influence on the remuneration committees of public companies. The law should be changed to extend authority to enable minority shareholders to influence decisions such as those concerning remuneration and bonuses.

Shareholders and their role in equity markets

<u>Question 3:</u> What are the implications of the changing nature of UK share ownership for corporate governance and equity markets?

Comments
No response

<u>Question 4</u>: What are the most effective forms of engagement?

Comments
Organisations of all types are being significantly challenged because of the need to be increasingly competitive and satisfy multiple diverse and complex stakeholder requirements. To ensure productivity, safety, efficiency and effectiveness, quality outcomes must be the number one priority. An organisation applying quality principles will be one in which people: • can be trusted to supply the required outputs at the required quality and on time; • find the best value solutions that fulfil the requirements; • are authorised to stop a process that is failing; • don't compromise on the quality of work for short term gain; • do what they say, when they say they will do it;

- act ethically and with transparency in what they do to build trust;
- are aware of the impact of what they do to others and society generally and manage all the risks before they become a reality.

There is now a widespread awareness within enlightened organisations that integrated management (joined up thinking) is needed and a large number of integrated management initiatives are either underway or have been completed.

Integrated management can provide enhanced communication through simplicity and uniformity leading to enhanced stakeholder understanding and satisfaction as well as improved management and process transparency.

The prevailing management model is still heavily based on “Theory X” command and control and has not progressed to the more enlightened “Theory Y” consensus management and “Theory Z” autonomous management.

A national campaign to change business education and practices could provide major benefits for organisations, such as:

- reduced layers of management,
- improvements in employees’ opportunities, involvement and engagement
- encouraging development of internal talent (reducing the need to pay high recruitment costs etc)
- improved productivity
- improved levels of employee retention.

<u>Question 5</u>: Is there sufficient dialogue within investment firms between managers with different functions (i.e. corporate governance and investment teams)?

Comments
No, investment firms should invest in their businesses process capabilities in order to facilitate holistic analysis as a basis for investment decision-making rather than relying upon financial data alone.

<u>Question 6</u>: How important is voting as a form of engagement? What are the benefits and costs of institutional shareholders and fund managers disclosing publically how they have voted?

Comments
Increased transparency would lead to a more critical analysis of long term performance.

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

Comments
Customers, investors and shareholders often think only in the short term, don't know or understand what the business needs in order to innovate and thrive and often don't care about the impact of their demands in terms of the businesses own sustainability and the effect of its actions on wider society. Short–termism in equity markets has led to the destruction of much of British manufacturing industry through asset stripping (for example BTR, Hanson, Siebel and GEC who acquired substantial businesses and then restricted research, product development and investment in machinery). The solution could include: • the establishment by the Government of a long term strategy and plan, agreed with Industry and the Unions, for regaining position within global market sectors such as aerospace, defence, automotive, white goods, electronics, chemicals, IT etc that could be leveraged to increase national wealth; • the adoption of practices similar to the establishment in post war Japan of an impartial national body responsible for assessing the quality of exported products with powers to impose sanctions in cases of inferior product quality.

<u>Question 8</u>: 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
The introduction of favourable tax rates for long term investments. The benefits could include increased investment in companies' development of new, innovative products, although the SME sector might be adversely affected by such strategies.

<u>Question 9</u>: Are there agency problems in the investment chain and, if so, how should they be addressed?

Comments
No response

<u>Question 10</u>: What would be the benefits and costs of more transparency in the role of fund managers, their mandates and their pay?

Comments
Consumers would have visibility of the extent to which their investments were affected by investment charges, policies and practices, remuneration policies etc. More transparency could also serve as a deterrent to potential unethical practices.

Directors' Remuneration

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

Comments
Directors' remuneration can be driven upward through the retention of hierarchical management structures; short term strategies for profit generation, failure to invest in the development of in house talent, etc. Where value is being generated at the lower levels of an organisation there is no reason to overpay executives.

<u>Question 12</u>: What would be the effect of widening the membership of the remuneration committee on directors' remuneration?

Comments
A more equitable distribution of rewards to the stakeholders**.**

<u>Question 13</u>: Are shareholders effective in holding companies to account over pay? Are there further areas of pay, e.g. golden parachutes, it would be beneficial to subject to shareholder approval?

Comments
Minority shareholders have lost power to institutional investors such as insurance and pension companies and to speculators.

<u>Question 14</u>: What would be the impact of greater transparency of directors' pay on the:

- **linkage between pay and meeting corporate objectives**
- **performance criteria for annual bonus schemes**
- **relationship between directors' pay and employees' pay?**

Comments
An organisation applying quality principles will be one in which people don't compromise on the quality of work in return for short term gain and act ethically and with transparency in what they do to build trust. Transparency in an organisation's activities encourages adoption of and adherence to these principles.

Takeovers

<u>Question 15</u>: Do boards understand the long-term implications of takeovers, and communicate the long-term implications of bids effectively?

Comments
An organisation applying quality principles will be one in which people are aware of what they do to others and society generally and manage any risk of the impact of their outcomes before they become a reality.

<u>Question 16</u>: Should the shareholders of an acquiring company in all cases be invited to vote on takeover bids, and what would be the benefits and costs of this?

Comments
Yes, although in some respects they already do through their decisions to sell or retain their shares.

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

Comments
The degree to which stakeholder expectations are met is a function of the quality of the organisations intended outputs which include goods and services, dividends, information and working conditions. Outputs of relatively high quality are more likely to satisfy these expectations, whereas outputs of relatively lower quality may lead to dissatisfaction and withdrawal of support from those stakeholders affected. Consequently quality needs to be the first priority in any organization. Companies that put ‘profits first’ have found themselves losing market position because of the inferior quality and price competitiveness of their goods and services. It has to be recognised that putting customers/investors first is not the same as putting quality first because organisations can control the quality of their outputs but not their customers or investors. National Governments need to be aware of the impact that integrated management can have on the success and prosperity of a nation and ensure that its vision, planning and resourcing enable this approach to management to be fully exploited within all types and sizes of commercial, governmental and regulatory organisation. The CQI also advocates third party certification as a means for providing confidence to investors, customers and other stakeholders that an organisation has a management system focused on consistently providing its customers with conforming products and services and can therefore provide an outside view of the organisation's ability to consistently satisfy stakeholder requirements and continually improve. It must however be noted that ISO 9001 certification does not address the integrity issue, i.e. if an organisation is dishonest in their dealings with customers or investors, having an ISO 9001 certificate will not guarantee to change this approach. The CQI is a not-for-profit organisation independent from commercial or vested interests working to promote quality across a range of industries in both the public and private sectors, embracing all quality models, philosophies and standards that help organisations improve performance. CQI members work in a variety of roles in production and planning, human resources, IT and general management - acting as catalysts for performance improvement and the promotion of excellence.