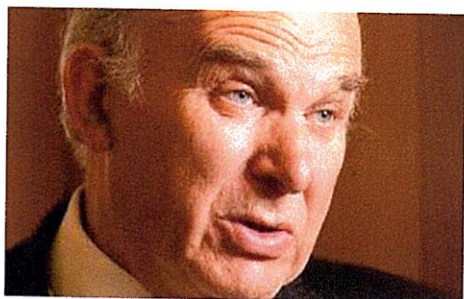


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## UK kicks off major investor/corporate review on equity short-termism, exec pay and women on boards

Review to look at systemic problems of the investment chain in company oversight.



by Hugh Wheelan | June 22nd, 2011

The UK government has announced one of the biggest ever reviews of corporate governance and investor responsibility, including a probe into short-termism in equity markets, a consultation on excessive executive pay and a watch on initiatives to increase the number of women on corporate boards. Addressing a conference of the Association of British Insurers (ABI) yesterday (June 22), Vince Cable, Secretary of State for Business, Innovation and Skills, said the investigation into investor short-termism, part of the government's broader "Long Term Focus for Corporate Britain" review, will be led by Professor John Kay, a leading economist and columnist for the Financial Times. It will examine systemic problems in shareholder ownership and whether the investment chain between asset owners and managers is impeding better oversight of companies by their owners. Kay, helped by an expert panel, will look at behaviour along the investment chain from company boards, through pension funds, advisers and fund managers to ultimate beneficiaries, to assess the impact on the long-term performance and governance of UK quoted companies. A final report will be published next year. Cable said a government consultation had revealed a consensus that fragmentation in the ownership of big UK companies made it more important than ever that large investors engage with the companies they have stakes in. He added: "The way the investment chain operates in the UK often hinders rather than help this kind of engagement – a problem compounded by a lack of transparency." The Minister said turnover in shares seems to rise "inexorably" and that he had heard concerns from asset owners that the way fund managers are incentivized was short-termist. He said other responses had mentioned that the rise of proxy voting agencies and use of index funds meant that shareholders were less interested in acting like owners: "There were a lot of issues raised and we cannot ignore them. Britain needs long-term investment. Our aging society needs a safe way to fund a growing pension bill. And there are increasing demands for companies to be transparent – whether about ownership, tax, or greenhouse gas emissions."

Specific areas he said he had asked Kay to examine are:

- How best to ensure that the timescales over which companies and fund managers operate match the interests

of clients and beneficiaries

- Ways to strengthen engagement between institutional investors and quoted companies
- The most effective means of boosting transparency for clients, underlying beneficiaries and companies themselves
- The legal duties and responsibilities of asset owners and managers
- The implications of increasingly fragmented share ownership in the UK. Cable said a separate consultation to be kicked off next month would also discuss changes to company reporting and will propose tougher provisions on disclosure of executive pay and its link to company performance. He said the consultation was the culmination of a body of work on company reports that will make them “clearer, shorter and more relevant”. Cable said it was “outrageous” that last year median earnings for FTSE 100 chief executives rose 32%, whereas the share index rose only 7% – and average employee pay rose by less than 2%, barely half the rate of inflation. He criticised investors, who he said had not been challenging excessive pay: “To be frank, I don’t see much evidence that remuneration committees have been living up to their responsibilities, or that major shareholders have been holding them to account.” The third prong of the review is a look at company responses to targets to raise the number of women on corporate boards, an issue that is also receiving major attention from the European Commission. A government-led report by Lord Davies published in February, revealed that women comprise just 12.5% of FTSE100 boards and 7.8% in FTSE 250 boardrooms.

Davies recommended that the UK’s biggest 350 companies should publish aspirational targets for the number of women they expect to have on their boards in 2013 and 2015. Cable said: “I strongly urge all chairmen to publish their aims by his deadline of September this year. And I encourage investors to focus the attention of the boards of the companies they have interests in, applying moral pressure to do the right thing.” He said the government would wait to see the results of the voluntary approach before deciding whether further legislative action could be required.

[Link to Vince Cable speech](#)