



Shareholders need help, not just a bashing

Financial Mail on Sunday, By Lisa Buckingham, February 9th, 2003

Big Shareholders are 'pathetic'. Their failure to hold our major companies to account is a 'sin'. And as for small shareholders: they are simply disruptive wastes of time who do little more than munch sandwiches and ask inane questions at annual meetings.

It was typically outspoken stuff from Sir Richard Sykes, the former boss of drugs giant GlaxoSmithKline. And it certainly grabbed attention for a new inquiry he will launch this week.

Sykes's brusque manner should not, however, obscure the laudatory aims of his investigation into the relationship between investment and wealth creation being carried out under the auspices of the think tank *Tomorrow's Company*. Quite simply – and breathtakingly ambitiously – the inquiry will attempt to resolve some of the inefficiencies of Britain's capital markets.

Why for example, when most consumers try to plan their pensions saving over decades, do company bosses appear to run their businesses only for the next quarter's profits? And why do those very same chief executives moan that while they would like to concentrate on long-term issues such as employee retention and customer satisfaction, they are under pressure from shareholders to prime the share price as quickly as possible?

Only a couple of days before Sykes' controversial assessment of the UK's investment community, a fund manager from Threadneedle Asset Management appeared to lambast all shareholders as greedy and short-sighted.

Well, to an extent M'lud. But fund managers have done as much as anyone to create illusory expectations of stock market returns and the Sykes inquiry could do worse than look at the way in which shareholder expectations can be more felicitously handled in future.

Clearly, some individual shareholders ask truly daft questions at annual meetings. But they are in a way, small owners of those businesses and at least they turn up to make their voices heard. That is more than many major institutional investors and pension fund trustees do.

Sykes should look at these conflicts between big and small shareholders as well as the question of how investors can exercise stewardship over quoted companies without hopelessly tying the hands of management.

His agenda should also include the huge implications for the health of corporate Britain if the current drift into bonds and private equity actually marks an end to society's love affair with buying shares.

Underpinning what this attempt at a joined-up inquiry is all about should be the question of measurement. Just how do we measure the success of one company against another: how can we decide objectively whether one set of managers is head and shoulders above another?

And how can investors determine whether chief executive Bloggs should be ousted after a couple of sets of poor results or whether he should be given a longer breathing space?

Crucially, of course, this leads to the question of boardroom pay. One of Britain's top accountants told me last week that if a valid, long-term system of remunerating our bosses could be devised, most of the other problems which have absorbed countless corporate governance inquiries would evaporate.

IN THE NEWS

When chief executives last an average of only four and a half years in a job, this is of course, a pretty tall order. But it should not be beyond the wit of some of Britain's brightest people to come up with a solution.

If Sykes, now the Rector of Imperial College London and a man with a passion for improvement, can generate the answer, he will do British business and its millions of investors a great service.

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