

TIMES ONLINE

Personal Investor

Shareholders should be inside the board

BY GRAHAM SEARJEANT

YET another inquiry has been set up into the relations between investors, companies and wealth creation. Don't groan. This one, sponsored by Tomorrow's Company, is to be led by Sir Richard Sykes, former boss of Glaxo. He starts with the same contempt for the oversight of companies by institutional investors that has informed dozens of reports, hundreds of corporate governance regulations and thousands of widely ignored proposals for two decades. But Sir Richard has what appears to be a novel solution.

Small investors should be banned from annual general meetings. In an interview to mark his appointment, he posed the question: "Why should one person with one share be able to have a cup of coffee and a sandwich and disrupt the company when the investors with control are not bringing it to task?"

Fund managers should use the AGM to grill the board, he argues, without the embarrassment of inexpert non-City people present. Small investors could have some other, as yet unspecified, platform to air their views. A premium-rate rant-line, perhaps.

Apart from Sir Richard, the inquiry team is planned to include chief executives, fund managers and pension trust-ees. The one thing such corporate beings can probably agree on, in private, is that individual shareholders are a pointless nuisance and an appalling waste of good sandwiches.

In any case, Sir Richard is a forthright Yorkshireman. Now that he has laid out his stall, it seems unlikely that anyone who takes an opposite view will rush to join him.

His view is, in truth, not that original. A study led by Paul Myners for the DTI years ago almost came to the conclusion that public AGMs should be abolished, but shrank from it in political horror. Instead, a final effort should be tried to make AGMs "more relevant".

Little has happened since then, except that most of the old showmen, such as Lord Hanson, who knew how to use the AGM and were delivering what small investors wanted, have retired from the stage.

In the privacy of their own lunchrooms, many chief executives share Sir Richard's view. AGM day is, for them, not a priceless chance to communicate with investors and the wider world but a no-win embarrassment that they cannot control, a costly waste of time.

To be fair, most small investors have already lost their automatic entrée to the AGM, because the investment industry has pushed us into nominee accounts. In most cases, you need to be an enthusiast to assert your rights.

Attendees at AGMs can therefore be atypical. Some have had shares in the family a long time but are not well up on business. Rather more are retired small business and professional people who tend to be argumentative and pedantic. Then come one-issue pressure group protesters, who use the minimum number of shares to mount embarrassing attacks on the board on matters where they are out of step with most others present.

If AGMs are not representative, that does not make them a waste of time. Multinationals might have saved billions if they had listened to the shrill voices of anti-apartheid and environmental protesters instead of seeing them as enemies beyond the pale.

IN THE NEWS

Complaining about arms sales at BAE Systems or about cigarettes at BAT is just self-indulgent. In more flexible contexts, however, protesters can be invaluable early warning systems for potentially damaging pressures ahead.

For anyone prepared to listen, those niggling, detailed questions from retired accountants and newsagents usually contain nuggets of good advice. People who have run their own business can be adept at spotting weaknesses.

Private investors also take a longer view than brokers or fund managers. Sir Richard's idea seems to make more sense if companies are trying to become even less accountable than today. Top companies already make regular presentations to City investors. These could be subsumed into an institutional AGM.

Throughout all those years of intellectual effort and report shelving, however, the object has been to make executive directors more accountable to someone or other in order to improve financial and economic performance. Derek Higgs's latest report on non-executive directors, already beginning to gather its first specks of dust, focused earnestly on relations between the board and institutional shareholders.

How can it be that, after so many failed tries, great minds have yet to admit that they must be going about it the wrong way? By reducing their arguments to absurdity, Sir Richard may speed this process.

The place for investors to exercise control, the place for fund managers to grill the company's management and the place for directors to account directly to shareholders is inside the board.

The key relationships in a modern board are between the chairman and the chief executive and between chief executive and finance director. Even top calibre non-executives are usually just decorative extras. They are surplus because they have no standing, unless there is some crisis of confidence. They have no standing because they do not represent any interest with clout. Independence, the grail of corporate governance gurus, leaves them in limbo but makes the core triumvirate independent of the rest of the board.

Different non-executive directors should be elected directly to represent the main shareholders and to speak for small investors. While on the board, naturally, they would still be bound by the duties of insiders, but they would have a brief from their constituents and subject to a regular poll.

Sir Richard's team could discuss something useful, such as how to elect non-executives who represent owners without changing the law. Until it is accepted that management should be accountable to investors inside the boardroom, the theory of corporate governance will remain just a theory.

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