

# UKSA letter to the DTI

**(From Update 2002/3)**

*This is the text of a letter sent by UKSA Chairman David Blundell to Patricia Hewitt, Secretary of State for Trade and Industry*

Dear Minister,  
The United Kingdom Shareholders' Association has campaigned for 10 years to improve standards of corporate governance, control the breathtaking levels of overpayment to underperforming directors of PLCs and protect the rights of shareholders. We believe that company directors have a prime responsibility to formulate and then expedite business strategy in order to create value.

Value creation creates more jobs, pays more taxes and increases GDP. Many investment pundits approach value creation in terms of the share price, but recent events demonstrate that the share price may bear no relationship to the directors' achievements or the company's prospects. Companies can only create value for shareholders, employees and the government to the extent that they earn more on their invested capital than the cost of that capital. Companies which achieve this aim over the long term will rightly expect their share price to reflect that value creation – but only to the extent that it is not appropriated by management via, for example, share options.

It is true that many companies have approached the objective of value creation solely in terms of the share price, the massaging of which almost always ends in tears and value destruction. The substantial falls in the UK and US stockmarkets are partly due to a belated recognition of the large scale value destruction that was taking place in the middle of the dotcom boom. Despite this directors of value-destroying companies are paid the same (often more – viz Marconi) as those who create value.

This is probably due to the lack of awareness and inertia among institutional shareholders. Look at how the ABI and others agreed to Vodafone's value-destroying remuneration policy – that really is a scandal. Far too much value is diverted from employees and shareholders to paying the directors and top management, disguised in over-complicated remuneration policies and confusing option awards. The new draft Companies Act actually suggests a remuneration system based on total shareholder return. Unfortunately that is a flawed measure, and one open to manipulation.

In 1992 there were no university chairs in corporate governance, now we have at least three in the UK alone. Furthermore, Cadbury, Greenbury, Hampel *et al* have spawned an awe-inspiring growth industry in remuneration consultants and non-executive directors but little else. Indeed, one could argue they have been part of the problem. The invariable solution over the last decade has been greater regulation and more corporate governance rules, again to no avail.

UKSA believes there is a simple approach which we would urge you to consider – give the legal owners of companies (the shareholders) more powers and encourage them to do their job a lot better than they have done. It is after all their, or their clients', money.

In the past UKSA has made several proposals to your department, four of which are detailed below:

- force companies to pay for the distribution of members' resolutions and nominations for directors, submitted properly and in good time;
- ensure that the annual report is distributed electronically before the deadline for shareholders resolutions and
- give shareholders the right to determine the board's overall annual remuneration ceiling.
- give nominee shareholders proper ownership rights in law. Past ministers have failed to rise to the challenge. UKSA would urge you to see past the vested interests and act on behalf of employees, shareholders and the UK economy.