



NOTE OF A MEETING HELD IN THE CHANCELLOR OF THE EXCHEQUER'S ROOM,
 H.M. TREASURY AT 3.30 P.M. ON TUESDAY 16 SEPTEMBER, 1980

Present:

- Chancellor of the Exchequer (In the Chair)
- Mr Ryrie
- Mr Cropper
- Secretary of State for Industry
- Mr I Lightman
- Secretary of State for the Environment
- Mr H J D Cole
- Secretary of State for Trade
- Mr P A R Brown
- Mr J R Ibbs (CPRS)
- Governor of the Bank of England
- Deputy Governor
- Mr D A Walker

Copies also to
Mr Spade
Mr Dow
Mr Danks / Mr Page
Mr Lockins
Sir Jasper Nollan
Sir Henry Benson
Lord Cullen
Mr Clancy
Mr Bell

 PROPRIETORIAL ROLE OF THE INSTITUTIONS

The meeting had before it the Bank of England paper on the Proprietorial Role of the Institutions which the Deputy Governor had sent to the Chancellor on 8 July.

2. The Chancellor, opening the discussion, emphasised the importance he and his colleagues attached to any steps which could improve the performance of UK industry. Action by the Institutions, which now held a dominant share in the equity of UK companies might help to create a pressure for better performance - but hitherto the Institutions had been content with an essentially passive role despite the importance of their stake in the company sector. However, it did not appear that overt initiatives by the Government would be likely to be successful in persuading the Institutions to play a more active role. He invited Mr Ibbs and the Secretary of State for the Environment to make the case as they saw it for a change in institutional behaviour.

13. Mr Ibbs contrasted



3. Mr Ibbs contrasted the positions in the UK and the US. In the US shareholders as a class are much more active in monitoring the performance of their investments; meetings are held between the boards of major companies and groups of analysts seeking additional information on the record about their performance, and this acts as a spur to management. Furthermore there are substantial personal investors who are able to spend most of their time - almost as a hobby - looking for ways of improving the performance of companies in which they have a stake. But there is no comparable activity in the UK; here substantial personal investors are few and far between, and if an effective group or groups of analysts were to be established to try to improve company performance, it would only be the institutions who could do this. Competent Non-Executive Directors (NEDs) could help, but only to a limited extent. Mr Ibbs emphasised that he was not concerned so much with companies in serious difficulties as with mediocre or good companies which, by making great efforts, could become good or excellent.

4. The Secretary of State for the Environment emphasised the importance of the link between ownership and management. This had been the key to the improvement in agriculture in 18th Century England, and the fact that Landlords were resident had probably contributed to the avoidance of the political upheavals which had occurred elsewhere in Europe. Similarly in the 19th Century UK industrialists owned and managed their businesses, and played leading roles in their local communities. But in 20th Century Britain ownership and management had become divorced, and company behaviour no longer corresponded to that which had been characteristic of the classical competitive market. The institutions declined to intervene in the affairs of the companies they owned, on the ground that they lacked the expertise; but in Mr Heseltine's view they were wrong in thinking that they could in this way keep out of the political firing line. He thought it essential that they should secure sufficient expertise to discharge the role for which they

/were responsible



were responsible; if they did not, a future Labour government would do it for them, probably through the instrument of a large public sector pension fund. Mr Heseltine suggested that the Institutional Shareholders Committee should set up a group which would have the analytical capability to concern itself with the performance of particular companies, on the understanding that the group, rather than the managements concerned, would command the proxy votes of the Institutions. He saw this development as setting up a "National Union of Shareholders".

5. The Governor said the Bank would not want to claim too much for the efforts they were currently making; NEDs could help, but were by no means the whole answer, and in any case a legal requirement on companies to appoint them would do no good. On the other hand, there were now clear signs of changes in behaviour, although there was still a very long way to go; Institutions were beginning to appoint NEDs to firms in which they held substantial interests, while the CBI, the Stock Exchange and the Institutions were going to raise money to promote the case for NEDs. The Bank had envisaged that Equity Capital for Industry (ECI) might have supplied a widely available analytical ability as well as filling the "equity gap"; but the Institutions had resisted this. Similarly they had frustrated an attempt to set up a stronger "Institutional Shareholders Committee", because of their worries about the inhibitions which this could create on their switching their investments. On the other hand, more recently the Prudential (under the leadership of Lord Carr) was now beginning to play a more active role, and this would serve as an important example to the other Institutions; and at the same time some of the smaller Institutions were showing themselves more open minded about talking to each other with a view to improving the performance of companies in which they held a stake.

6. In further discussion the following additional points were made:-

/i. The problem of



- i. The problem of insider trading had to be taken seriously, although it might prove less an obstacle to the extent that any group or groups of analysts operated on their own initiative rather than at the request of particular Institutions.
 - ii. The attitudes and abilities of the Institutional Managers were not such as to give much hope of early and radical change in Institutional investment behaviour.
 - iii. More use could be made of AGMs to ask companies about the essentials of their commercial policies rather than about "fashionable" issues like smoking in cinemas or interests in South Africa. And a big row at a major AGM could have an important demonstration effect in inducing other companies to take steps to avoid a comparable fate over taking their boardrooms.
 - iv. It might be worth examining whether there was any scope for adding provisions to the forthcoming Companies Bill (for example to require the establishment of Audit Committees), although it seemed likely that any effect would be presentational rather than real.
 - v. It might be worth examining the possibility of getting the EDCs to do analyses of the industrial sectors they covered, which could then be a basis for action by the Institutions and other shareholders.
 - vi. The Governor would shortly be seeing the Chairman of major insurance companies, and would take the opportunity of emphasising to them the need to discharge more fully their responsibilities of ownership.
7. The Chancellor, summing up the discussion, noted the wide

/measure of agreement



measure of agreement about the direction in which it was desirable for the Institutions to move and about the need to avoid any overt Government involvement. It would not be desirable to try to set up an early meeting between Ministers and representatives of the major Institutions; but he and the Governor, and the other interested Ministers, would take every opportunity to persuade institutional shareholders and their advisers that a more active role on their part could make an important contribution to improving the performance of the UK company sector.

JW

A J WIGGINS
17 September 1980

Distribution:

Chief Secretary
Financial Secretary
Sir Douglas Wass
Mr Ryrie
Mr Middleton
Mr Dixon
Mr Monck
Mr Lovell
Mrs Gilmore
Mr Pirie
Mr Cropper
Mr Seebom
Mrs Heaton

PS/Secretary of State for Industry
PS/Secretary of State for the Environment
PS/Secretary of State for Trade
PS/Governor
Mr J R Ibbs - CPRS