OWNERSHIP AND INFLUENCE: THE DEBATE ABOUT SHAREHOLDER INFLUENCE ON LISTED COMPANIES

Matthew Gaved

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Abstract

This thesis addresses the long-standing debate about the ability of investors in public listed companies to significantly influence or even control certain aspects of board and management decision taking. Much of the recent interest in these issues has focused on increased public disclosure of boardroom practices and standards.

In contrast, my research shows that informal relationships between companies and their major shareholders are playing an increasingly important role in influencing key aspects of corporate strategy, major financing and investment decisions, and board membership.

The research was undertaken through: an analysis of the investment portfolios of the 50 largest fund managers investing in the shares of UK companies and the ownership of 297 of the UK's largest listed companies; in-depth interviews with 120 companies, fund managers and others concerned with the quality and regulation of company shareholder relationships and information flows; and studying the role of fund managers and other shareholders in the resignations of the CEOs of 24 case history companies.

The growing importance of informal mechanisms of fund manager influence and networking means that shareholder influence no longer depends on the formation of coalitions of the size proposed by Scott, or the alignment of interests through formally constituted Shareholder Protection Committees. A model of 'extended ownership' describes how effective control may pass to the fund manager with the largest, but still sub-minority, shareholding.

It is also crucial to understand that investment decisions by fund managers are influenced by and related to a wide range of company and investor-specific factors. These are described and the impact of their interactions on shareholder behaviour discussed.

This thesis is relevant to the current debate about the public role that should be taken by institutional fund mangers in the process of corporate governance. Models of investor behaviour which assume that fund managers are a homogenous investor type or which do not take into account the key role of informal influence mechanisms are therefore of limited value.

Acknowledgements

The qualitative research described in this thesis is substantially based on 120 interviews undertaken in the Summer and Autumn of 1993 and early 1994 with: Company Chairmen, CEOs, Finance Directors and Investor Relations Managers; Fund Managers; Regulators; and others concerned with the management and intermediation of the relationships between companies and shareholders. I would like to thank everyone interviewed for the time they committed to the research project; a list of those who took part is included in Appendix I.

In addition, thanks are due to Sir Geoffrey Owen of the London School of Economics, Nick Miles of Gavin Anderson, Donald Butcher of UKSA and Dr Caroline Vaughan for their close reading and useful comments on drafts of my report `Ownership & Influence' (1995), which formed the basis of Chapters 4 to 7 of this thesis. I would also like to thank; Citywatch and Gavin Anderson for the information on the portfolios of institutional investors which was used to compile the analysis set out in Chapter 3, and Dr Joanna Gumulka of the London School of Economics for her help in applying the use of Lorenz curves and the Gini Coefficient to the analysis of equity portfolios and shareholder data.

Finally, I would particularly like to thank Professor Stephen Hill of the Interdisciplinary Institute of Management of the London School of Economics for his support during the development of my research and for his extremely helpful comments during the drafting of my thesis.

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Introduction

This thesis addresses the long-standing debate about the ability of investors in public listed companies to significantly influence or even control key board and management decisions. Much of the recent interest in these issues has focused on increased public disclosure of boardroom practices and standards.

My research shows that, in the UK, informal relationships between companies and their major shareholders are playing an increasingly important role in influencing key aspects of corporate strategy, major financing and investment decisions, and board membership.

In contrast, much of the academic work that has taken place, particularly in the USA, and in general, over the last 15 years, on the relationship between share ownership and shareholder influence, has focused on formal mechanisms of control through the ownership and use of shareholder voting rights. Many of the theoretical papers written on these issues and the empirical studies that have taken place have looked at the economic impact (for example, on corporate performance, shareholder wealth and the value of management incentives) of the differential treatment of shareholders (for example through the payment of 'greenmail') and actions by incumbent managers to retrospectively constrain shareholders' rights and influence through mechanisms such as 'poison pill' defences. Many of these sorts of practices, which were widely used by US companies during the 1980s (but a number of which were initially developed in the 1970s), would have been (and still are) legally prohibited, or for regulatory or other practical reasons impossible to initiate in the UK. However, in the USA, Longstreth (1991) estimates that in the 1980s over 1,200 listed US companies adopted some kind of 'poison pill' defence against hostile takeovers, providing a rich and rewarding research environment for US economists.

Much of the work on corporate ownership and the responsiveness of corporate managers to shareholders' interests has its roots in the pioneering study by Berle and Means (1932) who sought to describe the supplanting of personally owned and managed business units by 'great aggregations .. under unified control and management' (Means 1983b, p.299). Berle & Means put forward the case that, 'the separation of ownership and control increases ... the market power that arises naturally from active competition among a few large independent

corporations' (Means 1983a, p.467), and that this follows the atomisation of corporate ownership and the corresponding rise in managerial control. Although seemingly flawed in some respects (for example, incorrect judgements were apparently made about the underlying ownership of over half the industrial companies in their sample[1]), Berle & Means introduced both a methodology, namely the use and analysis of share registers to determine underlying ownership, and a typology to describe how organisations were controlled.

Their view that the majority of their sample of 250 major US companies were not effectively controlled by anyone other than their managers (and certainly not by shareholders) led to the rise of 'managerialism'; a model which is implicitly behind much of current concern with corporate governance, the issue of who is 'controlling the controllers' and the role of institutional investors in this process.

In the UK, interest in 'corporate governance', initially in the late 1970s and then more intensely in the late 1980s, arose from coincident concerns. These can be summarised as the belief, held by an increasing number of listed companies, that their institutional shareholders were 'short-term' in their investment strategies and their evaluation of companies' future prospects. On the part of fund managers, there were growing concerns that there were too few accepted standards about how companies should be run by their boards of directors and respond to the interests and concerns of their shareholders. It therefore became increasingly clear during this period, to many companies and their major shareholders, that a consensus was lacking in relation to the nature of the 'problem' and how this should best be addressed in order to benefit the major interested parties.

One response was Marsh's (1990) review of the perceived problem of 'short-termism' by institutional investors. Published by the Institutional Shareholders Committee, which through its membership bodies represents a high proportion of UK institutional shareholders and funds under professional management, this study represented a comprehensive articulation of the financial 'efficient markets' model of the stock market, share ownership and the disciplines and mechanisms of professional fund management.

[1] For example, see Nyman & Silbertson (1978).

The background to my study is therefore multi-disciplinary. Chapter 1 (Ownership & Management) and Chapter 2 (Shareholder Influence & Governance) review research from sources reflecting sociological, economic and financial perspectives, as well as the published views of interested parties more actively involved in the day-to-day management of corporate - shareholder relationships.

The review which comprises Chapters 1 and 2 suggests that past models of shareholder company relationships fail to satisfactorily describe the underlying dynamics of corporate ownership and shareholder influence in the UK, for three main reasons.

Firstly, accurate, reliable information about the ownership of listed companies has been difficult to obtain, as it has had a high commercial value to the companies which specialise in analysing the information and is normally considered confidential by their listed company clients. This information is also only available for a limited number of companies - those willing to pay for it to be compiled using information from their share registers. An alternative is to use a proprietary database of 'raw' information compiled from companies' share registers, but these mostly contain details of nominee accounts which can only be consolidated into useful information about fund managers' shareholdings with specialist knowledge and computer systems.

However, in 1994 Citywatch was founded to provide a more accessible and comprehensive service to stockbrokers, with a regularly (monthly or quarterly) updated database of information about fund managers' holdings in all the major listed companies. The Citywatch database for the Top 300 companies in January 1996 was made available for my research. The analysis of this information provides valuable insight into the ownership of the UK's largest listed companies and the investment strategies of the largest fund managers.

Another source of information on share ownership in the UK has been the studies undertaken by the then Central Statistical Office (CSO). However these aggregated studies have given little indication of potentially important differences between companies and also give little insight into investors' portfolios within the main ownership categories (pension funds, insurance companies etc). In addition, by focusing attention on the *beneficial* ownership of shares, and separating the holdings of UK and foreign investors, the CSO statistics have

tended to lead to an under-appreciation of the extent to which shares in listed companies are now under the control of professional fund managers.

Secondly, although many aspects of US models of company-shareholder relationships are not applicable to the UK, due to the UK's different legal and regulatory environment and also for reasons of 'accepted practice', the implications and repercussions of the 'arms'-length', and not infrequently adversarial and litigious, corporate-investor relationships in the USA, have tended to dominate much academic thinking about the 'Anglo-Saxon' model of corporate governance[2]. The substantial differences between the Anglo-Saxon (USA & UK) system and those operating in counties such as Japan, Germany and France have tended to disguise, in turn, important differences between the UK and USA. Since the publication of the Cadbury Committee Report on 'The Financial Aspects of Corporate Governance' (1992) and shorter accompanying 'Cadbury Code', awareness of these differences has increased.

Whilst the Cadbury Code, as currently being implemented by listed companies in the UK, *could* provide a satisfactory model for the USA, as Black & Coffee (1993) suggest, there are many factors which make this unlikely. In addition to legal and regulatory hurdles, the wider dispersal of share ownership amongst both private and institutional investors in the US also represents a substantial barrier to the development and operation of a consensus-based Code in the case of Cadbury one which is also substantially underpinned by informal relationships and networking between the key participants, rather than the force of over-riding legal and regulatory constraints on the relationships between the key participants. However, it can also be argued that a weakness in the Cadbury Code is that it treats institutional investors as a homogenous group and thereby underestimates important aspects and implications of the level of concentration of ownership found in many UK listed companies.

Thirdly, models of shareholder coalitions fail to describe in any detail how these actually operated. The existence of these groups was generally assumed in the absence of a controlling minority shareholder, majority shareholder, or closely linked group of shareholders with a majority or large minority interest. This assumption was supported by restricted evidence of shareholder co-operation and knowledge of formally constituted Investor Protection

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[2] For a comprehensive description and review of the development of the legal and regulatory framework in the USA governing company-shareholder relationships, see Roe (1994)

Committees. Changes in share ownership since these coalition models were developed mean that the holdings of many individual fund managers are now large enough, and the structure of the ownership of many companies so concentrated that, in many cases, the largest institutional shareholder alone has a combination of sufficient formal and informal power to effectively control a company, without necessarily being a controlling minority shareholder under any conventional definition[3]. This power is a result of both the concentration that continues to take place in the UK fund management industry, reflecting the portfolio performance and strategies of individual managers, and informal arrangements made between major shareholders.

I have researched these issues in three ways. **Firstly**, through an analysis of share ownership, which uses the Citywatch database to analyse the ownership of the 'Top 300' listed companies and the equity portfolios of the Top 50 fund managers investing in UK shares. In December 1995/January 1996 these comprised approximately 83% and 50% of stock market value respectively. This information highlights substantial differences in the structure of fund managers' equity portfolios and I use a number of ranking and concentration measures to quantify and compare these.

Secondly, using qualitative research into the factors which drive the relationships between listed companies and institutional shareholders, and the circumstances which enable institutional investors to influence key aspects of corporate strategy, major financing and investment decisions and board membership. This research was based on 120 in-depth interviews, undertaken with: Company Chairmen, CEOs, Finance Directors, Company Secretaries and Investor Relations Managers; Brokers; Fund Managers and Regulators; and others concerned with the management and intermediation of company-shareholder relationships. These interviews took place in the Summer and Autumn of 1993 and early 1994.

Draft copies of a Report based on these interviews were sent in the Autumn of 1994 to all those interviewed (see Appendix I) and the comments received were taken into account when preparing Chapters 4 to 7, which are closely based on that report[4].

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[3] Berle & Means (1932) and Florence (1961) used a shareholding of 20% as the threshold for minority control, Scott (1986 p.50) 10%.

[4] The final version of this report was published as 'Ownership & Influence' by the Institute of Management,

This research strongly indicated that informal control mechanisms were the primary means through which the largest institutional shareholders of under-performing companies sought to influence key board and management decisions. A huge amount of material was gathered in the interviews on these and related issues. Although this is summarised in Chapters 4 to 7, the analysis fails to capture many of the comments and disclosures that were made with respect to individual companies, fund managers and the personalities involved. The interviews were undertaken on the basis that none of these specific comments would be attributed or published in my thesis, yet there is no doubt that this material is extremely pertinent and provides an important bridge between the general statements set out in Chapters 4 to 7 and the case histories of CEO resignations which are summarised in Chapter 9 and set out in more detail in Appendix K.

To provide this bridge I have created a 'Composite Case History'. This is based on the many company and fund manager specific references made in interviews but which could not be used or quoted directly because of the issue of confidentiality. The Composite Case History forms Chapter 8 of my thesis and describes the progression of shareholder intervention in a company in which a number of management and financial problems emerge. These become of increasing concern to the company's major institutional investors and eventually undermine their confidence in the executive directors, leading in turn to the resignation of the Finance Director, CEO and Chairman over a period of months.

Twenty four actual case histories of CEO resignations in poorly performing companies are set out in Chapter 9. Although each of these case histories is inevitably more specific than the Composite Case History which forms Chapter 8, the close relationship between the Composite Case History (based on interviews) and actual case histories (based on press accounts) is very apparent.

The ownership information analysed in Chapter 3 closely supports the views expressed in the one-to-one meetings. Rather than needing to operate in extended 'coalitions' of possibly 20 fund managers to influence the board or management of a company, far fewer fund managers

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London School of Economics (Gaved 1995). A summary of this material was also included in a more recent paper published by Institute of Accountants in England and Wales on 'Closing the Communications Gap: Disclosure and Institutional Shareholders' (Gaved 1997).

are now typically involved. Although ownership concentration declines with company size (in terms of market capitalisation), the Top 10 fund manager shareholders of a typical ('modal') Top 300 company control approximately one-third of the shares and the Top 5 fund managers around one-quarter.

This analysis and the material obtained from interviews supports the view that the greatest shareholder influence typically lies with the Top 3 or Top 5 fund manager shareholders. In practice, the interests of these investors is often closely related and rather than form an active coalition (involving perhaps meetings and agreed objectives), the largest shareholder takes the lead in representing the views and interests of companies' major shareholders where there is a particular requirement to do so. This will typically be triggered by a loss of confidence in the CEO, board or management team and a deterioration in past or forecast financial performance.

I have described the role of companies' lead shareholders in these situations as being one of 'extended ownership', in which the biggest shareholder takes the dominant role with at least the tacit approval of other large shareholders. Although this may represent a weak form of coalition, it can be argued that the concept of a coalition ties in more closely with the formally constituted Investor Protection Committees which were not unusual in the 1980s and earlier, but which appear to have seriously declined in number and individual importance during the 1990s.

The relationship between companies' major fund manager shareholders is both more focused than implied by the term coalition, due to the emergence of lead shareholders and their importance through extended ownership, and more diffuse, because arrangements between fund managers appear to be a good deal less formal than they were in the past. Informal arrangements have replaced more formal structures, and the concentration of ownership found within many companies provides a strong platform for their largest fund manager shareholders to act as the dominant source of external influence on a CEO, or board or management team.

My **third** area of research looked for evidence of shareholder intervention in under-performing companies. From the interviews summarised in Chapters 4 to 7, it is clear that

financial under-performance is the most common trigger for intervention by fund managers in the affairs of a company, in which they may seek to influence corporate strategy, key board decisions and even board composition.

As set out in Chapters 4 to 7 and the composite case history (Chapter 8), much of the attention of fund managers is directed at the leadership, performance and credibility of the CEO[5]. In cases where institutional investors or other major shareholders have lost confidence in the CEO, they may seek the resignation of the CEO from the company.

In Chapter 9 I describe how I have identified 18 companies in which there is either strong or circumstantial evidence of shareholder influence contributing to the immediate resignation of the CEO (ie leaves the company the same day) in 1995. This group comprises approximately 12% of the 150 companies which announced the resignation of their CEOs in 1995 and one quarter (26.1%) of the 69 companies which had below average shareholder returns and which announced the resignation of their CEOs in 1995. In the case of three companies (Calor, Central Motor Auctions, News International) the CEO resignation was apparently influenced by a majority non-financial shareholder (SVH, the Myers family and News Corporation/ Rupert Murdoch respectively). In a fourth case (the computer games retailer Rhino) the CEO was ousted by the management team from Electronics Boutique, which had taken a 29.9% stake in Rhino.

In the other 14 companies, the analysis of news stories and ownership of the company either directly or circumstantially implicates fund managers in the resignation decision. In nine of these cases I have rated the evidence to be very strong and in the other five the evidence to be more circumstantial.

In nine companies it appears that a small coalition of the companies' top three to five shareholders were the primary source of influence, in which the largest fund manager shareholder may well have taken the leading role. In the other five companies it appears that the largest fund manager may have acted alone, without having had the need to form even a loose coalition or to act as the lead shareholder representing the interests of other shareholders. In three of these companies PDFM was the dominant financial shareholder

[5] Although other titles may be used, the most common being Group Managing Director.

(Hickson, Mowlem, United Carriers). In the other two cases, Top 10 fund managers MAM (OMI) and M&G (JLI) appear to have taken the dominant role.

The analysis of fund manager portfolios (Chapter 3) shows that these three fund managers are amongst those which are most willing to take above average or 'overweight'[6] stakes in companies, apparently increasing their investment risk. Why are fund managers prepared to do this?

My qualitative investigation (Chapters 4 to 7) suggests that the UK's largest active fund managers adopt this investment strategy because they are able to commit sufficient internal resources to effectively monitor companies and thereby reduce investment risk below the level incurred by other investors without the same internal monitoring resources and skills. The two most important ways in which investment risks associated with large holdings are reduced are, firstly, through improving the quality and breadth of information flowing into fund managers' investment decision taking and portfolio management processes. For example, closer direct contact with a company's senior executives enables a fund manager to assess their personal management skills *and* better evaluate the statements made directly by the management team about the company as well as information indirectly received by the fund manager from third party sources (including competitors, customers, trade papers and brokers analysts).

The second reason is that, through being better informed and in more regular contact with the executive directors and possibly other senior managers, a fund manager is more likely to be able to effectively and credibly bring *informal influence* to bear on the company relative to other shareholders.

Thus through being better informed (but without necessarily requiring the disclosure of 'inside information') and a credible source of shareholder influence, investment risk is reduced. The argument for active investment monitoring and corporate governance processes is therefore that they will yield higher portfolio returns on both a risk and cost adjusted basis, relative to the market as a whole.

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[6] Portfolio investments in individual companies are often described as under or overweight relative to the stock market as a whole or the constituents of a reference index.

Whilst the Cadbury Code provides a *formal* framework for corporate governance and shareholder oversight, principally through defining the roles and responsibilities of NEDs more clearly in relation to those of the whole board, just when shareholder influence is generally becoming less formal. In particular, Investor Protection Committees, used in the past to co-ordinate coalitions of institutional shareholders, are now of declining and probably negligible importance. They have been replaced by *informal* relationships between an elite group of fund managers, acting in small groups and working through personal influence on companies and their boards. These informal coalitions exercise control over troubled companies through the actions of 'lead shareholders', which typically have holdings significantly below those previously thought necessary for the exercising of minority control. I have called the increase in shareholder influence occurring in these situations 'extended ownership'.

The idea of 'extended ownership' encompasses both cause and effect, as large active fund managers have come to realise that they need to take large stakes in companies they favour in order to have a significant impact on investment performance. At the same time, company specific risks are controlled through increased monitoring and the more general corporate governance framework set out in the Cadbury Codes and supporting Codes and standards (eg about boardroom pay, and reporting on companies as going concerns and the adequacy of their internal controls). If risk and market adjusted total shareholder returns are average or above, large actively monitored shareholdings should be associated with higher levels of 'investment comfort' and therefore greater stability and reduced likelihood of dis-investment compared with smaller shareholdings, which are more likely to be associated with lower levels of monitoring and, as a result, higher investment risk.

This apparent loyalty on the part of companies' major shareholders, is however, a double edged sword, as the objectives of fund managers and the companies do not necessarily coincide and as the number of companies held in actively managed investment portfolios tends to decline, fund managers naturally become more critical of their investment choices. In many cases, the size of the stakes held strongly influences the response of fund managers to declining performance, missed opportunities, self-serving and faltering management, but other portfolio-based and company specific factors are also important.

However, as Ball (1990, 1991) recognises, the relationship between owners and `the owned' will always be in a state of 'creative' tension, reflecting fundamental differences in the objectives of fund managers in particular, and the companies in which they invest. I hope that this thesis will provide a useful model of some aspects of this asymmetry, with particular reference to the exercising of ownership rights and informal influence by institutional investors.

To summarise: Chapter 1 and Chapter 2 comprise a review of literature raising issues relating to share ownership and the rights and responsibilities of companies and shareholders.

Chapter 3 provides a quantitative analysis of both published and original data about the ownership of UK listed companies and the structure of fund managers' equity portfolios.

Chapter 4 looks at key aspects of fund management, whilst Chapter 5 reviews how investors become knowledgeable about companies and how the latter seek to keep shareholders informed.

Chapter 6 looks at some of the formal mechanisms available to shareholders if they wish to exercise ownership rights and influence over a company.

Chapter 7 analyses mechanisms of informal control, the informal relationships and networks which exist between senior fund managers, and the issues they and other shareholders consider when deciding if they should try to influence the board or management of a company.

Chapter 8 is a composite case history, describing the relationship between a company and its major financial shareholders in response to financial, management and strategic problems.

Chapter 9 describes the selection of companies whose CEOs resigned in 1995 and the analysis of press stories and Citywatch and other ownership data about these companies.

My conclusions are set out in Chapter 10.

Chapter 1 Review: Ownership & Management

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I Introduction

In this Chapter I review previous work in the fields of corporate ownership (Section II) and management and institutional influence (Section III).

In the UK, ideas and information about 'private' share ownership have been caught up with those of `wider share ownership' and the Government's privatisation programme, which started in the 1980s. In this Section I look at how these ideas emerged and became intertwined, and also the underlying fiscal forces pushing investors towards collective, and in many cases contractual, savings schemes. Personal Equity Plans (PEPs) and employee share ownership schemes, and the relationship between these and direct ownership, are also reviewed.

The management, ownership and performance of companies under different forms of ownership have been studied a great deal, particularly in the USA. In Section III, I review the literature on the relationship between managers, ownership and corporate performance. The evidence is mixed, and important issues are raised about: the alignment of management objectives with those of shareholders; the ability of managers to extract private benefits from companies; and the problems shareholders have to address in terms of the separation of management and ownership.

Mutual mistrust often results from this separation. In practice the shape of management and shareholder horizons are probably rather similar, but each group wishes the other took a longer-term view[1]. In response to this mutual asymmetry, managers may seek to entrench

[1] For example, models of the value of future earnings from current and planned activities and investments are seemingly based on similar assumptions, which may include the current values of future cash flows. However it is important to remember that investment decisions by managers require a commitment for a project to actually happen; in a sense their valuation of the project becomes fixed at the moment of decision and subsequent choices are significantly constrained by this determination. In contrast, investors are able to continuously re-evaluate projects and the current value of expected future cash flows and the impact of these on shareholder value. Managers do not have this freedom, nor at the time of investment decision are shareholders as well informed as managers. Therefore at no point in time will both the information possessed and the value of this information to managers and shareholders be the same. The more flexibility managers have in influencing the outcome of a project in the light of new information and the more informed are investors, the lower value discrepancies are likely to be and the lower the risk (in terms of perceived earnings volatility) to investors and the higher the value that will be placed on the company. See Marsh (1990, p.11) for a description of the time horizons over which future dividends are valued.

their position and shareholders retain the right to freely transfer their part-ownership of the company to a willing buyer.

II Narrowing Share Ownership

The ownership by the private individual of shares registered in his or her name is the simplest and most `direct' definition of private share ownership, one also used in a recent study of private share ownership in the USA (Poterba, 1993). This is also the narrowest definition of private share ownership and needs to be distinguished from other forms of private share `ownership', in which individuals can be identified as beneficial owners but the shares involved are legally controlled by a trust or intermediary and are registered in the name of this (impersonal) third party on the companies' share registers.

Typically shares held in employee savings schemes and share plans are under the control of trustees, and investments in Personal Equity Plans (PEPs) are controlled by professional fund managers. Although normally included in CSO and Government statistics about private share ownership (see Chapter 3) these forms of ownership are essentially collective and not individual, with personal share ownership rights either absent or significantly curtailed. The distinction between direct and beneficial ownership of shares by private individuals is important when reviewing the changes which have taken place in the ownership of shares in recent years and the increasing dominance by institutional investors of share ownership in the UK.

A Privatisation Programme

Both the promotion of employee share ownership and the introduction of PEPs were elements of the Government's self-professed drive in the 1980s towards `wider share ownership', the major component of which was the sale to members of the public, through Public Offers for Sale, of shares in companies previously exclusively in Government ownership.

However, the privatisation programme, employee share ownership and PEPs did not start to constitute a coherent programme until after the 1983 election (Grimstone 1987). PEPs, although announced in the 1986 budget, were not in fact introduced until 1987.

Both Grimstone (1987) and Kay & Thompson (1986) identify a speech by Moore (1983) as establishing the policy framework for the Government's privatisation programme and the role of wider share ownership within this, in which wider share ownership was described as the 'Promotion of a kind of popular capitalism' (Kay & Thompson 1986, p.19), although these ideas had previously been set out before the Conservative re-election in 1983 (Moore 1992).

However coherent these policies may have sounded in policy papers (Moore 1992) or speeches (Moore 1993) or the House of Commons (Ridley 1981), Kay & Thompson (1986) believe that 'any objective which seems achievable [wa]s seized as justification' (p.19) by the Government and the communicators of its policies. Although Ridley (1981) asserted in the House of Commons that 'the more all our citizens own capital .. the better it will be for political reasons' the view of Kay & Thompson was supported by Grimstone (1987), who, at Schroders, was closely involved in the development of the privatisation programme. He describes the structuring of the first sale of British Telecom shares and the directing of the marketing programme to the general public as taking place because 'new distribution channels would be needed' (p.24), and the subsequent sale of British Gas using very similar techniques as 'pragmatic' (p.24) because of the size of the issue. Grout (1987b) also identifies the BT flotation as 'not only present[ing] a change in the fortune of the wider share ownership programme, but also a major change in the policy itself' (p.60).

Brittan (1986) saw these and other privatisation sales to the general public, and the massive increase in the number of private shareholders which resulted (from around three million at the beginning of the 1980s to over 11 million in the early 1990s) as providing the Government with a strong constituency against re-nationalisation of the enterprises (by some future Labour government[2]). However, Brittan thought that the substantial incentives given to the 'new' shareholders represented a regressive subsidy, from the general body of taxpayers to the enlarged shareholder class.

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[2] This objective appears to have been successful by 1989, when 'The [Labour] party's policy documents stress[ed] the need to work with markets, rather than replace them with the tools of a command economy' (Kellner 1989, p.35) in marked contrast to the position seven years earlier when party policy was strongly opposed to share ownership 'by private individuals, through [which they could] reap the benefits of the collective effort of others' (p.35).

Brittan also argued that one of the reasons for the final scale of the privatisation programme was that it 'proved technically easier and politically more acceptable than originally proposed' (p.35) and coincided with other government objectives, including an end to the Government's inability to control the expenditure/investment of nationalised industries and the need for the Government to finance expenditure in other areas.

That neither of these were at the forefront of the Government's 1979 election manifesto is perhaps understandable; instead privatisation was presented as a way of increasing competition and improving services to customers. Other components of this policy were decentralisation, reduction of monopolies and contracting out public sector work (Grimstone 1987). Nevertheless, by 1986 Goodison, as Chairman of the Stock Exchange, was able to claim that 'wider share ownership has got on to the agenda' in its own right (p.5) but voiced the concern that 'the growth of contractual savings institutions ... has been at the sacrifice of more direct personal involvement in the risks and rewards of industry' (Goodison 1986, p.5).

The emphasis by Goodison on *contractual* savings is significant, because non-contractual institutionalised savings, such as Unit Trusts were not seen as having created an extensive 'consumer franchise', witnessed by the widely (if not wildly) fluctuating levels of sales and repurchases by Trust managers (Kempster 1990, p.28).

In fact, it is now clear that, although the Government's privatisation programme established something of a consumer franchise for privatisation issues (purchased through the primary market), this did not extend to the secondary market either in respect of individual companies (analysed in Chapter 3) or the stock market in general (CBI 1990).

B The Gap Between Primary & Secondary Markets

The division between the primary and secondary markets for shares is critical to an understanding of the impact of the privatisation programme on private share ownership. Although the privatisation programme was a primary market activity, at least one Conservative thinker connected this with an opportunity to 'arrest the downward trend in the individual ownership of company securities' (Redwood 1986, p.7) and 'reduce political tensions that come from misperceptions of the City as a rich man's casino' (Redwood 1990,

p.2). Perhaps based on his prior experience as a fund manager in the City, Redwood also believed that greater private share ownership would 'provide firmer underpinnings for the large liquid London markets[3]' and that 'small shareholders are often long-term investors' (Redwood 1990, p.2). This view was shared by the Institute of Directors (IOD) (Bracewell-Milnes 1987) and Cadbury (1990) when discussing the proprietorial role of personal and family based shareholdings in the post-war period. However, Grout (1987b) thinks that 'many of the privatisation holders may simply see themselves as being in the position of traders with no information and high transaction costs[4] .. in which case the widening of share ownership may stop as abruptly as it started' (p.73), a concern shared by Skidelsky (1992).

Like Goodison (1986), Redwood also voiced concerns that the individual was 'seldom interest[ed] in the nature of the investment his [pension] fund managers make, vital though they are to his future prosperity' (Redwood 1986, p.8). Indeed, he argued that the component investments of pension plans should be transferred to the direct control of a beneficiary 'in proportion to his contributions and entitlements' (Redwood 1985, p.14).

Although the latter proposal appears impractical in terms of the restructuring of occupational pension schemes, the idea of pension 'portability' is now to be found in transferable pension rights and personal pension schemes, and the idea of 'transparency' in the annual statements of fund value, as well as projected benefits, produced by many occupational and personal schemes.

As Hutton (1988) describes, before the onset of the Government's privatisation programme 'traditionally shareholding had been for an elite class in Britain', partly because 'at least half the population are excluded simply because they have no cash' (Hutton 1988, p.3). This problem, and the limits the sale of shares would place on the breadth of share ownership were

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[3] Breedon (1993) found that the distribution of stock market trades by size was quite different between Rolls-Royce (privatised) and Lloyds Bank and Marks & Spencer (both long-established listed companies), with Rolls-Royce showing many smaller trades. Whether this makes any significant contribution to the level of liquidity experienced by large (institutional) traders is not clear, although there are presumably benefits for other small traders.

[4] For example, although explicit (commission) costs have remained steady for some years for private investors, their orders are normally executed at the touch (bid-offer spread, which ranges from 0.7% for FT-SE 100 companies up to 6% for less liquid stocks) whereas professional investors frequently deal inside the touch, considerably reducing their implicit transactions costs. However, since Big Bang (in 1986) the Securities & Investments Board (SIB) believes that retail investors have benefited from the more efficient processing of orders, whilst admitting that 'The LSE's trading structure in principally designed to meet institutional preferences for liquidity, and is generally perceived to do this very well' (SIB 1994).

also recognised by other proponents of even wider, 'universal' share ownership through the giving away of shares (see Letwin & Letwin (1986) and the SDP (1986) for example).

Although Hutton argues that this wealth-based ceiling on the extent of shareholdings meant that 'so long as the next privatisation is bigger, then you stand a good chance of extending share ownership. But with anything smaller, the shares are likely to be taken up by existing share owners' (p.8) evidence from a number of surveys suggests that the overlap between successive privatisations was comparatively weak and that the success of each privatisation was as dependent on attracting first-time shareholders as on existing owners buying shares again. It is the preponderance of the former group of 'one company share owners' - which accounted for approximately half of all shareholders by 1990 - that led to increased awareness of the 'thinness' of UK share ownership (see, for example, Gaved & Goodman (1992)).

Although Government policy has made only a limited contribution to the 'deepening' of direct share ownership (for example by the reduction of stamp duty), the supposed citizen-based benefits of wider share ownership were consistently articulated during the late 1980s and early 1990s - see for example Lamont (1991a, 1991b), Shaw & Marsella (1990), HM Treasury (1990).

Others saw additional benefits, including those of private shareholders adding to the diversity of investment views and 'a greater willingness to move in the opposite direction to the herd of investment management' (Hugh-Smith 1990), and a belief by the National Economic Development Council (NEDC) that 'the accumulation of share portfolios would cheapen the cost of equity finance to industry' (NEDC 1990, p.6), although no explanation was provided by the NEDC as to why this should be the case, nor would this view necessarily be held by supporters of efficient market models of the stock market (eg Marsh 1990).

However, the NEDC did identify that the bulk of private wealth lay in owner-occupied housing and that this acted as a barrier to the wider ownership of equities[5]. This is an issue

[5] Perceptions that owner-occupied housing is 'a sound investment' has been substantially driven in the past by high rates of inflation in house prices. In periods of low inflation it is not clear that the fiscal treatment (the principal element being Capital Gains Tax (CGT) exemption) of housing will be seen as so attractive, given that potential capital gains liabilities are at least partly shielded through indexation. Only when house prices inflate above RPI is the CGT exemption valuable. On this basis, house price inflation below or in step with RPI will make other forms of investment relatively more attractive than they have been in the past, although

raised by Grout (1987a, 1987b) in the context of portfolio diversification of both financial and human capital. Grout is of the view that the minimal impact that small, directly held, share portfolios make on the variance implicit in an individual's total portfolio, means that there is little to choose between a direct portfolio and an investment in a collective (though not necessarily contractual) vehicle such as a unit trust. This is because, although collective schemes incur higher explicit costs than direct share ownership, these may well be less than the (implicit) monitoring costs which would be incurred by a single private investor making rational investment decisions.

Direct private investors are seen as essentially 'passive' in nature (see Hutton and Scott (1990) for an account based on British Telecom shareholders) and appear to diversify their portfolios less than expected (King & Leape 1984). Grout (1987) sees this as consistent with long-term investment horizons and the relatively high transactions costs incurred by private shareholders with modest portfolios. Oldham (1990) also discovered that private investors in the UK are very price resistant to even basic portfolio management services of the kind provided through High Street banks.

Shleifer & Summers (1990) have shown that the activity of private share portfolios in the USA is affected by whether the individual is personally making the investment decisions or whether the portfolio is managed on their behalf by a professional manager - although based on the Poterba (1993) definition this kind of 'ownership' would be classified as institutional and not direct.

The 1980s were therefore characterised by a massive widening in the number of private share owners, both created by and contributing to the success of the Government's extensive privatisation programme. Apart from Redwood's (1986, 1990) comments specifically relating increased private share ownership through the privatisation programme to the secondary market for companies' shares, government interest in wider share ownership was strongly focused on its own interests and need to distribute large quantities of primary equities into the retail market and, at the very least, establish a competing source of demand to the institutional sector. However, based on the evidence of Grimstone (1987) and Kay & Thompson (1986) it

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there is little likelihood that this will be preferentially diverted towards direct share ownership and away from collective schemes PEPs, Pension Plans or employee share ownership schemes, all of which benefit from different degrees of fiscal privilege superior to direct equity investments.

is fairly clear that it was only over a period of several years and with the benefit of hindsight that these requirements joined the facilitation of employee share schemes and PEPs to create a 'wider share ownership' programme of any coherence, and one in which long-established listed companies were to play only a very limited role.

C Fiscal Factors

Goodison (1986) lamented that the greatest part of personal financial investment was made through collective vehicles operated by professional fund managers. The basis of these collective schemes has been overwhelmingly tax driven, different types of investment schemes benefiting from varying degrees of 'fiscal privilege'. This has meant that, in the early 1980s, the choice of investment scheme could make a difference of at least three times the effective after tax rate of return (Hills 1984). Goldsmith (1969) believed that the use of level premiums by many of these schemes was also a significant contribution to the rise in life assurance and pension fund assets.

Although it is clear that degrees of fiscal privilege converged in the period 1979-1988 (Saunders & Webb 1988), pension funds continue to attract and retain savings far more than any other kind of financial investment (the only other comparable, and competing, source of personal wealth being housing), while the overall impact of the differential treatment of savings mechanisms and their impact on different classes creates a 'mosaic of different regimes' (IFS 1989). Many savings investment vehicles are long-term, but in the USA, mutual funds (broadly equivalent to investment and unit trusts in the UK) attracted huge flows of retail funds in the two year period 1993 and 1994. Kaufman (1993) saw these massive retail investments as being made in response to the decline in short-term interest rates and believed that the subsequent disinvestment, when interest rates rose, would add to overall market volatility and the risk profile of investing households. He contrasted this scenario of direct investment (albeit through collective vehicles) to long-term, normally level premium savings products which typically involve the intermediary (an insurance company or bank for example) allocating some of its own capital to reduce the volatility of returns to investors.

The introduction of PEPs in 1987 (offering two of the three key tax privileges enjoyed by pension funds[6]) was positioned by the Government as an extension of its wider share ownership programme, but as Lee & Saunders (1988) and the IFS (1988) describe, PEP tax privileges appealed most to existing shareholders and the relatively sophisticated investor. Part of the reason for the limited initial response to PEPs may well have been their complexity and restrictions on investing in collective vehicles such as investment and unit trusts. An easing of the restrictions in 1989, and a change in the annual limit resulted in an increase of 250% in the number of plans taken out in 1989/90 and an increase of 375% in the amount invested (Inland Revenue 1990) compared with the previous year; evidence indeed of the impact of tax incentives and legislation on the pattern of personal investment[7].

The softening of the rules surrounding PEPs was seemingly undertaken in response to the Government's growing realisation that PEPs were not successful in significantly increasing direct stock market investment (Lee & Saunders 1988), largely because PEPs required the operation of nominee accounts by plan managers, which presented a significant and costly barrier to the maintenance of ownership rights[8]. However, the changes made to PEP regulations since their introduction in 1987 have done little to address this issue and PEPs are now largely collective investment vehicles, operating in a similar way to Investment and Unit Trusts and operated by the same fund managers. Although often included in accounts of progress towards 'wider share ownership' PEPs are largely outside the scope of descriptions of direct share ownership because, although linked through being part of the Conservative Government's political agenda for 'wider share ownership', they are managed by professional fund managers in much the same way as other collective funds. They therefore present similar, continuing and significant ownership barriers to the investor.

[6] These being the tax free treatment of income received by the fund and capital gains made within the fund. The third significant benefit enjoyed by pension funds but not by PEPs is tax rebates at the marginal rate of tax on contributions (to a maximum ceiling); this tax benefit therefore effectively compounds tax free within the fund. Funds taken from a PEP are however completely tax free (whether as a lump sum or as a series of 'income' type payments) whilst income derived from a pension policy (possibly through the operation of an annuity) is taxed, although part of the total value of a pension policy (now generally 25%) can be taken as a 'tax free' lump sum.

[7] See Wirth (1986) for comments on the impact of the ERISA legislation on savings patterns in the US.

[8] For example, many plan managers made a charge (of around £10.00 per occurrence) for forwarding Annual Reports or arranging for an investor to attend an AGM of a company in which they, through their PEP, held shares.

D Employee Share Ownership

Employee share ownership represents the third component of the Government's wider share ownership policies (HM Treasury 1990), both in respect of companies which have been privatised by the Government and others, although as Poole (1988) observes, the adoption of schemes has been uneven, depending both on the size and industrial relations/organisational style of the organisation.

Employee share ownership has long been one of the objectives of proponents of increased/wider share ownership (for example, see Temple 1990), although it is not clear whether employees fully value their participation in schemes of which they are members or understand the significance of the correlation between (or 'bundling' of) their financial capital held in a scheme and their firm-specific human capital held in the same organisation (Grout 1988). However, while it appears that the share prices of companies with employee financial (equity) participation perform *on average* better than firms without such schemes (Richardson & Nejad 1986), there is no evidence that there is any direct causality (for example both may reflect the impact of better/more enlightened corporate management).

Were it not for the tax benefits associated with employee share schemes approved by the Inland Revenue, this suggests that employees should invest in *any company but their own* (and, for correlation reasons, preferably one in a completely different industry) in order to avoid the problems of tying together returns from their human and financial capital. This view was also shared by the TUC (1990): 'if shareholding is seen as a means of increasing wealth, then most workers would be well advised to build up a portfolio of other shares, in addition to those which they might get free or cut price' (p.7).

As Langdon, a promoter of employee share schemes, comments (1989, p.8) 'a prudent financial advisor would probably advise individuals not to hold a significant proportion of their savings in shares of the company which employs them'[9]. But as such schemes are seen as valuable by corporate managers and provide tax incentives (and so much of savings

[9] Echoing this concern, Williams (1991) comments that 'the cold verdict of the market on a company's share price can leave its mark on others in the organisation in addition to the board and CEO. We have very broad equity participation amongst our employees and the fluctuations in our share price, particularly when they do not appear to correlate with news or information published by the company [Oxford Instruments] causes

behaviour is tax-based (Saunders & Webb 1988)), the benefits are seen as outweighing the potential disadvantages.

The motivations of companies in supporting such schemes may be less altruistic than generally thought, as restricted executive share option schemes have been introduced and at four times the rate of 'all employee schemes' (Young 1989). One mechanism for the funding and operation of employee share ownership is the use of an Employee Share Ownership Plan (ESOP). Although these have hardly been adopted by UK listed companies for a number of legal and tax-based reasons, their use in the US is much more widespread 'one by-product of the development of the ESOP in the US [being that] employee share blocs can be seen as a useful weapon to a company in the event of a hostile takeover' (Graham 1990, p.46).

In common with many corporate managers, even strong proponents of employee share schemes (see, for example, Breenan 1988) accept that it has not been proved that such schemes work, but a second cause for concern is that corporate managers believe that such schemes are essentially costless and may even be a cheap way of raising capital. As Richardson & Barnes (1991) show, this is not the case; shareholder dilution does occur and such schemes are therefore far from costless. Richardson & Barnes therefore regard the widespread adoption of unproven and unmonitored share schemes as supporting the managerialist model of corporate control in which managers (and their staff) capture benefits at the expense of shareholders. But, as Young (1989) notes, these schemes have also been 'approved in committees of Non-Executive Directors (NEDs), in general meetings of shareholders and by the discrete but powerful subcommittees of the institutions' (p.9).

These concerns are shared by the National Association of Pension Funds (NAPF), the industry body representing pension fund trustees and companies operating schemes for their employees. The NAPF (1992) recognises that employee schemes claim to achieve incentivisation, and may play a useful role in aligning the interests of employees and shareholders and therefore may benefit both the company and its shareholders, but actually feels that well structured profit related pay and cash bonus schemes are generally more appropriate. Certainly, there is evidence of only a weak alignment between participation in share schemes and measures of commitment to the firm and other work attitude measures

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pressure of a different, but altogether very real variety ..'.

(single plant study, Dewe, Dunn & Richardson 1988), a view shared by the TUC: 'The view that individual ownership of shares in an enterprise is an effective means of involving the workforce in its strategic direction is .. overstated' (TUC 1990, p.8).

Proponents of employee share ownership have previously argued that the concern of shareholders with the dilution of both ownership (a current cost) and pre-emption rights (a potential cost) has placed unwarranted hurdles in the way of more extensive employee share ownership, but there is little doubt that employee share ownership involves transfers from existing shareholders and other taxpayers to the beneficiaries of these schemes.

Whether executive option schemes involve the same transfers, and in particular imply no net gain to shareholders is open to question. Nyman (1974), for example, found in the USA a significant and positive relationship between the value of directors' holdings, company profits and growth (in revenues), although a relationship was not found between measures of corporate performance and the percentage of shares in issue held by directors. Instead, the relationship between ownership and performance is found in significance of directors' stakes to their personal wealth.

III Management, Ownership & Corporate Performance

A Models of Management Behaviour

Agency models of the corporation are based on the principle of alignment between the interests of shareholders (as owners) and managers, as their agents. Much effort is put into the design of executive and director compensation and share ownership schemes which best achieve this alignment over different periods of time; typically at board level with a three to five year performance horizon in mind. These schemes are created with the belief that the closer the alignment, the more likely it is that managers will work to further their own financial interests in ways which will also produce maximum rewards to shareholders. In these schemes, the alignment of interests is not left to chance but becomes an explicit linkage. The structure of these schemes has become of increasing interest to institutional shareholders in both the UK and USA, although their direct control of the operation and terms of these schemes remains comparatively weak. In the UK this led to the establishment of the CBI-initiated Greenbury Committee in 1995 and the subsequent publication of the Greenbury (1995) Report and Code.

Agency models of management behaviour will therefore predict that the interests of managers and shareholders should become increasing aligned as managers' direct shareholdings in their employing company increase.

In contrast, managerial models predict that, as managers' share stakes increase, so too will their control of the corporation to the detriment of other shareholders. Such self-serving at the expense of other shareholders will be indicated by reduced returns to all shareholders, as corporate value is endogenously captured by the internal management group. This model suggests that, as managerial control of the corporation increases through share ownership managers are increasingly able to successfully deflect corporate profits and wealth to their own ends, before net corporate earnings become attributable to shareholders, in which they would only share a part.

The case for such management expropriation in situations in which managements' influence was sufficiently strong, through share ownership, was put forward by Jensen & Meckling

(1976) and formed the basis of a study by Morck, Schleifer and Vishny (1988) using a composite measure of corporate wealth (Tobin's Q). They found that with stakes below 5%[10] there was a positive relationship between management ownership and performance, apparently supporting the agency model of management behaviour. However, in this study the cause and effect may be the other way round, as it can also be argued that already successful companies are more likely to reward their managers with stock options, which are subsequently exercised and the resulting shares retained by managers increasing their direct holdings and possibly also reducing their taxation liabilities (in the USA) after a further holding period.

Morck et al also found that for management shareholdings of between 5% and 25% there was a negative relationship between size of stake and corporate performance. This result suggests that managers were using their position to extract wealth from shareholders, but that their personal loss (as shareholders) was below their personal gain as members of the internal management group who 'squander corporate wealth' (Morck et al 1988, p.293)[11]. Above 25% there was also a positive relationship between ownership and performance, suggesting that managerial and shareholder interests had again converged. A similar result was found by Wruck (1989) when investigating the impact of announcements of public and private equity sales in the USA; sales which entrenched management in the 5-25% shareholding range had a negative impact on firm value, as did other announcements indicating shareholder entrenchment.

Holderness & Sheehan (1988) made a comparable study looking at both managerial shareholders and non-personal majority shareholders (ie with stakes in excess of 50%) and found a similar lack of expropriation for both groups, which does not support Manne's (1964) prior assertion that the value of a large/majority holding in a corporation is the additional compensation and perquisites that the controlling security holders can accord themselves. It would appear that at high levels of ownership[12], the costs of self-serving

[10] Gordon (1966) found that the median aggregate holding of management was only 2.1% of the issued share capital of the 176 largest non-financial companies in the US.

[11] One way this may happen is through management diversifying business activities beyond that expected or required by shareholders. Wanatabe & Yamomoto (1993) described this in terms of a mismatch in the diversification utility curves for management and shareholders; the maximum utility shareholders being at a lower level of diversification than that for managers; who shareholders may fear are building a business with interests outside the span of their management competence.

[12] For example, in excess of 25% (Morck et al 1980; Wruck 1988); in excess of 50% (Holderness & Sheenan

outweigh any potential advantages, although the alignment of the management role with that of majority shareholder may inhibit management taking actions that they would if ownership was more dispersed (eg in wage negotiations; Grout & Laisney 1987).

Earlier, Glasberg & Schwatz (1983) found that both shareholder controlled and management controlled companies exhibited little or no difference in either profit margin or rate or return to stockholders, consistent with the convergence of interests and agency models of companies, but not with the finding of Curcio and Wadhwani (1990) that firms with diffuse ownership showed faster Total Productivity Growth (TPG) than those with an entrenched management group, effectively insulated from takeovers by the extent of their own holdings. This latter finding is, however, consistent with the finding of Weston (1979), that no firm in which `insiders' owned more than 30% had ever been acquired in a hostile takeover.

These multi-firm studies create an image of an 'average' firm in which ownership is either diffuse or concentrated in the hands of managers or a large minority or majority shareholder. But at firm level, they fail to take into account important practical differences between companies, such as industry-specific barriers to entry[13] and financial risks (caused for example by higher borrowings to finance new investments) faced by each firm and its management team.

Risk is easily diversified by a fund manager through the structure of his portfolio (for example, see Fama & Jensen (1983)) but not so easily by owner-directors, who may have a substantial part of their personal wealth tied up in the company. In these circumstances they are likely to prove more risk averse than directors who have little personal financial investment in the firm (Jensen & Murphy 1990).

B Management Incentives

In contrast, directors with significant share *options* may be excessively risky in their management actions as they essentially have no downside risk, an asymmetry which may implicitly present shareholders with an unacceptable risk/reward relationship. But the problem

(1988).

[13] See study by Palmer (1973) which found that owner controlled firms only showed significantly higher rates

of relating management rewards to corporate performance also exists with basic remuneration packages (eg excluding the value of outstanding or exercised options). Gregg, Machin and Szymanski (1993) report that a prior relationship between earnings per share (eps) and stock market value and the remuneration of the highest director of the UK's top 200 companies broke down in 1988. After 1988 remuneration was most closely related to sales growth, which is not seen as so closely related to shareholders' best interests as eps and other measures of profitability.

However, it is possible that if the value of exercised options were included in this analysis, total rewards would more closely match performance measures of greatest importance to shareholders, for example eps and profitability rather than corporate size (measured by turnover) in its own right. This issue continues to be of great concern to UK fund managers, represented by organisations such as the ABI, NAPF and ISC (see, for example, ABI (1993).

A more favourable view of directors' behaviour comes from the Gibbons & Murphy (1991) study of R&D investment in firms with a CEO close to retirement. A managerial model of corporate behaviour would predict that R&D expenditure would decline in order to boost profits and the value of bonuses and options based on them, which would in turn lead to an increase in the personal wealth of the departing CEO. However, Gibbons & Murphy found no evidence that such 'end games' were being played by near-retirement CEOs and thought that other factors at work (more than counteracting any tendencies towards managerial self-serving in the context of long-term R&D decisions) would probably include the operation of internal constraints and socially rooted 'managerial legacy' factors.

This finding supports the classical view of the company and corporate governance, that managers can be trusted and that directors can be relied on to act in the best interests of the company (Tricker 1993). This perspective is, to a degree, also shared by Child (1969, Ch.3) who felt that social constraints have an important influence on managers behaviour in the absence of sources of countervailing power, and Taverne (1990), who felt that 'managers who are accountable to no-one may still run their companies well - because they have a sense of public service, or because they are ambitious[14], or because they are subject to the discipline

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of profit than management controlled firms in industries with high barriers to entry.

[14] Marris (1963) also refers to internal pressures from competing groups of managers forcing senior management and boards to perform their roles to maximise rewards to shareholders (from Thompson, Wright

of competition'. But 'without the discipline of some accountability, many managers will be tempted into complacency or self-aggrandisement, neither of which will serve the interest of the shareholders or the public' (p.6).

Aligning management incentives and systems of accountability with shareholder goals is a classic principal agent problem. This attracted much attention in the USA in the 1980s as the management teams of many listed companies sought to entrench themselves through the widespread adoption of defensive `poison pills' (Dahn & DeAngelo 1988) and also the many cases of the payment of `greenmail' to protect their companies against hostile takeovers (Longstreth 1991). Although both types of management action were often presented in company announcements and management statements as being in the long-term interests of shareholders, this sort of behaviour appears to be inconsistent with the view that management always acts in shareholders' interests (Jensen & Warner 1988) and agency models of management behaviour.

C Management Entrenchment

Although shareholders failed to stop the widespread adoption of these measures, internal competition between individuals and groups of senior managers for the most senior roles has taken its toll on many directors (particularly CEOs) of under-performing companies. For example, Klein & Rosenfeld (1988) found that the payment of 'greenmail' (more politely and technically known in the USA as 'targeted share repurchases', which are illegal in the UK) was strongly associated with subsequent changes in the position of the company's Chairman, President or CEO. That these changes were only the result of the payment of greenmail is uncertain; in the case of poison pills, Malatesta & Wakling (1988) found that such companies were already less profitable than others in their industries, so it may well be that the payment of greenmail was less a sign of management power relative to non-greenmail receiving external shareholders than a symptom of declining power of an already under-performing management group.

Thus although the *payment* of greenmail supports models of managerialism and management entrenchment, subsequent events often suggest that other managers *are* effectively acting as

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and Robbie (1992)).

agents of (non-greenmail extracting) shareholders, reflecting Coulson-Thomas's view on UK Boards that 'outcomes reflect temporary accommodations and balances of power' (Coulson-Thomas 1993, p.136) and Kotter's examples of power struggles, parochial politics and bureaucratic infighting in large US corporations (Kotter 1985).

Weisbach (1988) found that such infighting, and the resulting announcements of 'inside' (executive director) board resignations is recognised as value enhancing by shareholders, despite the fact that these changes were not the direct result of shareholder actions - although resignations were more commonly associated with outsider (NED)-dominated boards than insider-dominated boards. But, in any case these are less likely the better the share price performance of the firm (Warner, Watts & Wruck 1988). Collusion between outside directors and senior managers of the company, leading to both internal and board level power struggles, cannot be eliminated from descriptions of events leading to the firings studied by Klein & Rosenfeld and by Weisbach and described more graphically in terms of organisational and personal behaviour by Coulson-Thomas and Kotter.

One of the issues that US managers and boards need to continuously have in mind is the highly litigious nature of US shareholders (see for example Jones (1981) and Thompson (1980)) as different groups seek to control the allocation of corporate wealth and resources to different parties. Although such litigious struggles for and against the board of directors and its actions (Lerner 1988) are all but unknown in the UK, management concerns about the threat of hostile take-overs and short-termism on the part of institutional investors have played an important role in the shaping of corporate investor relationships in the UK over the last 10-15 years.

D Investment Horizons

Concerns about these issues and their implications for the 'funding' of British industry[15] and the impact of claimed short-termism on the international competitiveness of UK industry contributed to the establishment of the Wilson Committee, which reported in 1980 (see Wilson 1977, 1980).

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[15] Concerns about 'City' short-termism were cited as one of the major reasons why small and medium sized companies did not want to be listed on the Stock Exchange or Unlisted Securities Market (USM) according to

This was followed by the CBI establishing a City/Industry Task Force (CBI 1987a, 1987b) which 'found no evidence to link attitudes of the City directly to the long run decline of the nation's manufacturing sector. Rather it found that many commonly held perceptions were simply not supported by the facts. They were part of a pervasive mythology that needs to be debunked ..' (CBI 1987b, pp.9-10), a conclusion mirrored by that of Marsh (1990).

It should be noted that many of the 'early' studies on stock market efficiency quoted by Marsh (for example Fama (1970), Jensen (1968) and Bogle & Twardowski (1980)) were based on studies of share prices and the responsiveness of these to information about corporate performance. Observations of share price behaviour are used to infer that, on the basis of available information (ie in the absence of false markets) investors behave rationally. Brancato (1991) describes the methodological problems of directly observing the behaviour of institutional investors in the management of their portfolios[16], although she too concludes that there is little evidence of short-termism.

This problem is closely connected with that of measuring fund performance, and that of pension funds in particular, about which the NAPF (1992) stresses that the 'overwhelming requirement is to ensure that like is being compared with like when comparing the performance of one fund against others' (p.1)[17]. Warrington (1993), on the basis of pension fund performance data collected by WM Company, suggests that 'the average pension fund holding in UK equities is now about 5 years .. [which is] not an unreasonable time frame for industrialists to demonstrate their ability to manage a company's affairs' (p.189).

However, the biggest contribution to fund performance is not stock selection (see Conference Board (1994), Lever (Ref)) for example, but asset allocation, a factor which Howell (1991) thinks will becoming increasingly important during the 1990s[18]. Asset allocation is also

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Pannell Kerr Foster (1990).

[16] For example, to determine how different types of buying and selling programmes should be treated; how to judge the duration of actual and average holdings in actively managed portfolios; the treatment of derivative-based positions.

[17] Factors such as client objectives, risk adjustment, and the median drift caused by an inbuilt survivor bias, when comparing time series also need to be taken into account and add complexity to comparative performance analysis, particularly when trustees and fund managers may be unable or unwilling to provide identical information sets (NAPF 1990).

[18] The importance of the asset allocation decision was also confirmed by a number of the larger fund managers that I interviewed (see Chapter 4). Changes in asset allocation may be achieved both through direct investment

characterised as a 'top down' approach to the selection of companies in which to invest, in which company specific decisions follow choices between countries, markets, currencies and industrial sectors and other factors.

The returns from stock selection come from both income, in the form dividends, and appreciation in capital value. Needless to say, shares are not purchased for the long-term in the expectation that the price will fall (although this is the case when shares are 'shorted'), as this would result in a capital loss. Investors' views of what a share is currently worth are based on expectations about the price at which informed marginal buyers and sellers will be prepared to trade the company's shares at some time in the future - 'what the market will value it at, under the influence of mass psychology, three months or a year hence' (Keynes 1936, p.154).

Thus 'the professional investor is forced to concern himself with the *anticipation* of impending changes, in the news or the atmosphere, of a kind which shows that the mass psychology of the market is most influenced' (Keynes 1936, p.154/155). This 'mass psychology' may also lead investors to consistently overvalue companies, as Breeden (1993) notes: 'investors who concluded that GM was pursuing a fundamentally unsound business course in the early 1980s would not have been more responsible for waiting ten years to sell their stock' (p.76). Decisions to sell can be more difficult than those to buy and the background against which these decisions are made (inflation, reference time periods and the aggregation of data) add to the complexity of measuring fund performance and in particular making multi-country comparisons (Farb 1992).

Whether short-term measures of performance measurement (typically quarterly reports are provided for pension funds trustees) encourage short-term investment behaviour (indicated by portfolio 'churn') on the part of fund managers is subject to much debate. The NAPF (1990) Investment Committee concluded that the commercial pressures on fund managers, and the need to at least match index performance, meant that they were more likely to become risk averse and therefore show greater stability in their portfolio management[19] and greater

policy and the use of derivatives, in the latter case without necessarily changing the structure of the underlying portfolio.

[19] Brealey, Byrne & Dimson (1978) observed no relationship between overall market volatility and the increase in institutional ownership. Jones, Lehn & Mulherin (1990) found that volatility was lower for stocks

turnover is, in any case, not associated with improved fund performance (Holbrook 1977). Nevertheless, Froot, Perold & Stein (1990) are concerned that foreshortened performance horizons on the part of money managers 'may also have important implications for the research strategies they pursue ... which may in turn affect the magnitude of the information gap between shareholders and managers' (p.24). Evidence for shortened horizons comes from a Bank of England (1987) survey of institutional fund managers, and Malkiel (1991) believes that in the US investor horizons shortened between the 1960s and 1980s. He relates this to both the rapidly rising importance of institutional fund managers in this period and also the dramatic increase in block trades on the New York Stock Exchange (NYSE) in the same period[20].

with lower institutional holdings but this result is not replicated in my own research (Chapter 3) or the findings of Demsetz & Lehn (1985).

[20] At the NYSE block trades are apparently normally defined at those in excess of 10,000 shares. These increased from 3.1% of market turnover in 1965 to 51.7% in 1985 (Malkeil 1991, based on NYSE data).

IV Summary

In this Chapter, I first reviewed how the Government's policy of wider share ownership in the 1980s failed to halt a 30 year trend in the increasing proportion of personal equity-based savings and wealth being directed to collectively managed investment pools operated by professional fund managers.

The concentration of equity-based personal wealth under the control of institutional fund managers continued through the 1980s, despite the Government's privatisation-led 'wider share-ownership' programme, although claims that these two initiatives were or could be successfully connected became less assertive during the 1980s as the failure of privatisation investors to become shareholders through the secondary market became more and more apparent. The overwhelming factor, resulting in the dominance of the stock market by collective, centrally managed, investments has been the degree of fiscal privilege attached to pensions, employee share schemes and, more recently PEPs.

Whether the level of institutional ownership of a company has an impact on corporate performance is not clear, nor is it axiomatic that managerial entrenchment through high levels of stock ownership leads to a level of self-serving which negatively impacts corporate or stock market performance. This may be because corporate managers assess that they will lose more as shareholders than they are likely to gain as managers, although investors do react negatively to announcements of management entrenchment through other mechanisms (eg poison pills, payment of greenmail using shareholders' funds).

The other side of the coin is whether institutional ownership influences management choices, to the detriment of corporate performance and therefore long-term shareholder wealth. This is the issue of 'short-termism'; that institutional shareholders place insufficient value on long-term management plans and the resulting price signals from the stock market dissuade managers from making the necessary investments.

Evidence for such investor-driven pressure is contradictory and only weak at best; suggesting that it is impossible to create a predictive or reliable model relating corporate performance to overall levels of institutional ownership, or the proportion of shares held by managers of the company. However, it does appear that large minority shareholders (whether internal to the

company or external) are seen as having a negative impact on corporate performance, signalled by the movement of share prices in response to such announcements. It may be that such stakes are seen as effectively blocking the actions of other shareholders, and the value of the company is discounted by investors accordingly.

However, the position of such minority shareholders is relatively unusual in the UK, and generally declines with the size (market capitalisation) of the company. Most UK listed companies show relatively dispersed ownership, but institutional investors dominate the share register. This Chapter has described some of the reasons for this domination of the ownership of listed companies by professional managers and the problems of aligning the interests of managers and shareholders to maximise shareholder wealth.

In Chapter 2, I look at research which has been undertaken into the ways that shareholders seek to bring their influence to bear on incumbent management and the broadening issue of corporate governance.

Chapter 2

Shareholder Influence & Governance

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I Introduction

In this Chapter, I review previous work in the areas of corporate ownership, management and institutional influence. The Chapter is divided into two sections. Section I looks at issues of shareholder influence and control, whilst Section II reviews research in the field of corporate governance.

Shareholder 'control' is only guaranteed to be effective when one shareholder, or a group of co-operating shareholders acting 'in concert' together, control over 50% of a company's shares. In practice, few companies have majority shareholding patterns which conform to this model, but effective control can be achieved with far smaller proportions of a company's equity. Section I reviews the literature on patterns of voting, models of ownership and the de facto control of companies over different time periods through minority positions and transient coalitions.

Corporate governance is the process by which shareholders, and boards acting as their agents, seek to direct and control corporate managers so that they best pursue the interests of shareholders, in ways which avoid the differential treatment of shareholder groups and investor inequality.

The ultimate sanction against under-performing managers is for shareholders to permit the company to be taken over by a new external management team. UK companies are generally less able to protect themselves against this possibility than companies in the USA, which historically have been able to erect substantial barriers against hostile takeover, through the adoption of devices such as poison pills and the payment of greenmail to hostile shareholders. However, in both countries more subtle codes of corporate and shareholder conduct are tending to take the place of direct management shareholder conflicts and outright changes in ownership. In the UK in particular, great importance is now placed on company shareholder communications, but the benchmark standard of good corporate governance, the Cadbury Code, is not a prescriptive model of how company shareholder relationships should be conducted, nor was it in the remit of the Cadbury Committee to attempt to provide one.

II SHAREHOLDER INFLUENCE

A Models of Shareholder Influence

Rohatyn (1993) believes that the focus in the USA on corporate governance and relationship investing arose from shareholder frustration with 'management shortcomings and compensation pills and golden parachutes' and 'management unhappiness with their perceptions of shareholder short-term horizons ... which they classified along with arbitrageurs and speculators' (p.30). This is a problem that still remains according to Poterba & Summers (1991), based on the results of a survey amongst 200+ large company CEOs.

Although there are strong similarities between perceptions about these issues in the USA and UK, the ability of US fund managers and other investors to work together has been severely constrained, until recently, under SEC regulations.

Such constraints have not operated in the UK, where fund managers have much greater flexibility in law in working with each other; the major practical constraints being the receipt of 'inside information' and the need to make a full bid for the company if an (explicit) 'concert party' is formed which controls 30% or more of a company, under takeover rules.

The formation of shareholder coalitions is therefore permitted in the UK and coalition fund managers can effectively operate with few considerations beyond those that would normally apply in the routine course of their fund management business (eg dealing restrictions applying whilst in possession of inside information).

The relative informality of these coalitions means that the 'market for control' of UK corporations is very different to that in the USA.

Most US research in this field has focused on formulaic models of corporate control, many of them based on the original model of Berle & Means (1932), which viewed 'management control' as a natural conclusion to the continuing dispersion of ownership amongst large numbers of small shareholders and the progressive dilution of the size of their stakes.

Such dispersion was viewed by Berle & Means as exogenous to the corporation, but as Leech (1987) has pointed out, many large US corporations, including many of those studied by Berle & Means and by those following their methodology (for example, Florence 1961, Gordon 1961, Wheelwright 1967, Larner 1970 and Zeitlin & Ratcliffe 1988) actively encouraged 'wider share ownership' of their stock; factors endogenous to the corporation.

In other words, ownership dispersal was not just something that happened outside the corporation (because of the way shareholders dispersed their wealth and their estates were divided between beneficiaries, for example) but, in addition, internal strategic decisions taken by a corporation's management group also influenced the pattern of ownership. Such 'internal' factors (ie decisions taken by the sponsoring Government Departments) also of course affected the (initial) pattern of ownership in the UK of privatised companies.

B Shares & Votes

Ideas of 'ownership' also crucially depend on the voting rights attached to shares. The principle of one share-one vote is of great importance to UK investors (see, for example, ABI (1991), ISC (1991), CBI (1991)). The primacy of shareholders' interests does not necessarily mean that companies should exclude the interests of all other stakeholder constituencies in their decision making, only that shareholders are the single most important group (Cope 1992). In the USA, concerns about the unequal treatment of shareholders (following massive greenmail payments by Texaco and Disney, in particular) were a contributing factor to the formation of the Council of Institutional Investors (Machold 1988) and also depressed share prices (Kamma, Weintrop and Wier 1988). For example, Ryngaert (1988) found that management initiatives which *restrict* voting rights (one type of poison pill defense) have a negative effect on share prices when the company is perceived as a potential takeover target.

An alternative view of the relationship between shares and voting rights is held by Rydqvist (1992), who believes that there is no social need to restrict a company's choice of share structure and, in addition, at firm level there may not always be sound reasons for doing so. In fact, Harris & Raviv (1988) claim that the highest economic value will be achieved through the complete separation of voting and income rights.

However, the reason why the one share one vote model is so common, and considered the norm by both companies and investors, is that its widespread adoption makes it easier for investors to price shares and make comparisons between companies. Pricing equities with identical economic claims and voting rights therefore facilitates the efficiency of the market and reduces investor uncertainty. These benefits, should in turn lead to a lower cost of capital for companies, excluding consideration of any discount or premium value that is placed by investors on companies where there are stakes granting minority or majority control to particular shareholders.

It is also extremely unlikely that the routine separation of the economic and voting rights of shares would be politically acceptable, because 'once the pieces have been parcelled out nothing exactly corresponding to the conventional meaning of ownership or property remains' (Dahl 1970, p.132).

Levy (1982) found a positive relationship between 'voting inequality' and the voting rights premium for shares with more powerful voting rights.

Managers may issue debt (Harris & Raviv 1988) or dual class (differential voting) shares to help entrench their own position. Although Jeong & Noe (1993) found a positive relationship between management ownership of such shares and shareholder wealth for relatively modest holdings, this became negative as holdings increased. These findings are similar to those of Morck el al (1988) and Wruck (1989), but these studies only looked at ownership of shares with the same voting power. Stock market and shareholder resistance to the issuing of shares with other than one share one vote, and the valuation penalties that may be imposed on companies which do so by investors by investors, suggest that managers need to be think skinned to go ahead with equity issues that offer investors something other than one share one vote. Their reasons for doing so are likely to be the private benefits acquired through working for companies with non-standard voting structures, suggest DeAngelo & DeAngelo (1985), whose findings were later supported by Grossman & Hart who observed that 'when deviations from one share one vote do occur, they do so in situations where the private benefits are large' (p.200).

This finding also supports the model of Stulz (1988), that there is an optimal level of insider ownership - which may not be that high. Although Sherman (1989) puts forward the case that, 'ideally, a director's investment in company stock should be great enough so that when faced with a decision in which the interests of the board and shareholder differ, the director will have every incentive to decide for shareholders' (p.46). However, this articulation of the kind of incentive mechanism needed to ensure the alignment of the interests of managers (as agents) and shareholders (as principals) is made without any hint as to what the minimal level of managerial or board level shareholdings should be, and therefore cannot be compared with the empirical research of Morck et al (1988), Wruck (1989) on management ownership of shares in single share class companies and that of Jeong & Noe (1993) on dual class share ownership.

In the UK, the ABI and NAPF have indirectly addressed this issue by setting a limit for the *rate* at which shares can be allocated to employees (including directors) and therefore a cap on the dilution shareholders will suffer through the operation of these schemes (Richardson & Barnes 1991).

Voting rights are therefore valuable, both to shareholders to instigate change or block management proposals, and to management to entrench their position. In a theoretical paper, Harris & Raviv (1988b) find that 'the simple majority rule along with one share one vote is an optimal governance scheme in the sense that the better management team is always elected' (p.205).

C Voting Behaviour

Despite the value placed on voting rights by investors, it is not always easy to get fund managers to vote, as Tegner (1993) recounts. Grossman & Hart's (1988) theoretical model of voting behaviour is based on the assumption that each investor assumes that he cannot affect the outcome of corporate elections. The result, according to Harris & Raviv (1988) is that 'in actual takeover situations, we almost always observe at least one investor large enough to behave as if his vote were significant' (Harris & Raviv 1988, p.212)[1]. In the UK, despite extensive programmes by the ABI and NAPF to try to increase levels of institutional voting, only around one third of eligible votes are cast at companies AGMs, according to Mallin (1995) and almost all these are cast by proxy by institutions ranked in the top 20 of companies' share registers. The Harris & Raviv (in the US) and Mallin (UK) research suggests that institutional investors do widely assume that their votes will make no difference to shareholder poll outcomes and this implies that the perceived value of voting rights normally lies substantially below voting costs.

However, the vast majority of shareholder votes are not about corporate takeovers, but about more routine matters, as surveyed by Lerman, Davis & Arnold (1993), who found that no shareholder proposals appeared on shareholder ballots of the 29 major UK listed companies surveyed and that 'British law places significant obstacles in the way of shareholders who wish to submit proposals' (p.42). See also Davis (1993) on this issue and Gillibrand (1993), who contrasts the difference between 'show of hands voting' by shareholders present at an AGM or EGM and the use by company Chairmen of proxy votes to defeat shareholders attending the meeting. Galbraith reflects thus on the position of the individual stockholder: 'his vote, if it is for management, is unnecessary and if against, futile. In other words, it is valueless' (Galbraith 1978, p.84). This is a view shared by Rubner (1965).

This contrasts with the situation in the USA where, although directors do act as 'gatekeepers' on voting issues (Pratt & Zeckhauser 1985, Black 1990), institutional investors are routinely successful in having their proposals placed on ballot papers, although it appears that

[1] One of the reasons no doubt why Grossman & Hart (1988, p.201) believe that 'it is generally optimal for small shareholders to vote with management, and not to devote the time and effort to read proxy statements and form an independent view'. This is a perspective shared by Grout (1987b, p.70), because 'information is a public good [and] mutual funds [unit trusts] are able to spend less money per head researching into

increasingly the issues they initially propose are successfully negotiated with management before the balloting process begins (IRRC 1993).

Voting by UK fund managers is now of considerable interest to their trade associations (for example, see NAPF (1991)) and, although some very large nominee holdings are not voted at all, the Institutional Shareholders Committee (ISC) found that the average proportion of votes cast by the top major shareholdings[2] of 20 major UK listed companies had increased from 20% in 1990 to 34% in 1993 (ISC 1993b), insurance funds showing significantly higher voting levels than pension funds. The ISC believes that this trend is likely to continue and may even be assisted by changes in EC disclosure rules (ISC 1993c), although the slightly later work of Mallin (1995) involving a larger sample of companies did not reveal any significant increase in voting levels between her own and the second ISC survey.

In cases where fund managers support management proposals, votes will normally be cast without reference to the beneficial or underlying owners (for example pension fund trustees), although Shanagher (1992, p.3) believes that 'local authority pension funds should .. make their own decisions on how to vote. They can't leave it up to the fund manager'. But the logistics of routinely obtaining voting instructions from beneficial/underlying owners on the basis proposed by Shanagher is seen by Easterbrook & Fischel (1983) as raising significant additional problems as 'the costs of locating and transmitting information to widely scattered beneficiaries would be substantial [and] individual shareholders would have less incentive to monitor management than does one large institutional investor' (p.426). The disenfranchisement of beneficiaries' voting rights is also an issue which applies to PEPs, many employee share ownership and incentive schemes and private client stockbrokers which manage discretionary funds; in all cases voting power effectively rests with a professional group of fund managers or scheme trustees. This problem would also have applied to Redwood's (1985) earlier proposal for the disaggregation of collective pension funds; the attachment of voting rights to individual actual or 'virtual' holdings would have presented the pensions industry with enormous administration costs and problems.

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companies and yet produce 'more' information per head than individuals acting independently'.

[2] This group may not be exactly the same as the top 20 shareholders as multiple holdings by single fund managers were not consolidated before the information was submitted by participating companies to the ISC.

Despite the encouragement of increased shareholder voting by the representative bodies of institutional fund managers and other quarters, not all companies appear to welcome active voting by their shareholders, even on routine matters. Laing (1990) for example, proposes that shareholders should only have voting rights after one year of ownership and that voting rights for each shareholder should be restricted - provided that eps grow at an agreed rate; a kind of 'sweetened poison pill' more in keeping with many US managers' views of how shareholders' rights should be constrained than those commonly held by the managers of UK listed companies and their institutional shareholders.

D Shareholder Control

This brings us onto the central issue of how shareholder control is organised and how it should be defined. One of the more restricted definitions is 'the right to determine the management of corporate resources, ie the right to hire, fire, and set the compensation of top-level managers' (Harris & Raviv 1988a, p.57, Footnote 4), based on Jensen & Ruback (1983)). Scott (1990) points out that the owners of shares are the owners 'merely of the right to receive an income and vote in corporate affairs' and that, although shareholders do not own the assets of a company, they do have 'the ability to determine the uses to which the assets are put [but] their power of control is dependent on the social context in which their legally defined property relations are founded' (p.351).

How much control shareholders have over a corporation is to a large extent a function of the ownership structure. Berle & Means' typology of five types of ownership (owner controlled, majority controlled, legal control, minority and management control) led to similar studies (Gordon 1961, Larner 1970) of major US corporations and also others in the UK (Florence 1961), Chile (Zeitlin & Ratcliffe 1988) and Australia (Wheelwright 1967).

Stegler & Friedland (1983) describe the response in the 1930s to 'The Modern Corporation' as 'astonishingly uncritical' (p.258), and it is not surprising that their own research and that of many others has challenged the Berle & Means model of corporate ownership. This has been either on the basis of additional research (Stegler & Friedland investigated the relationship between ownership and measures of executive compensation and corporate performance) or

a reworking of information about the ownership of companies included in Berle & Means' original study.

In particular, Nyman & Silbertson (1978) argue that the belief that 'the typical large modern corporation is viewed as being run by professional managers with little proprietary relationship with their firm' (p.77) is flawed, as was the methodology of Berle & Means, and therefore that of Larner, Gordon and Florence based on it. Nyman & Silbertson's specific criticism of Berle & Means is that the latter made the assumption that 39 out of the 43 industrial companies in their sample were under management control, without having sufficient data to show this one way or another. Nyman & Silbertson quote three later studies (Goldsmith & Parmelee (1940), the NRC project (1939) and Perlo (1957)) which show that of the 39, a total of 33 had 'centres of ownership' (Nyman & Silbertson 1978, p.78) which should have precluded the classification by Berle & Means of these companies as being under management control.

Nyman & Silbertson put forward the case that ownership structures are too complex for 'arbitrary statistical criteria' (p.78) to be applied to analyses of ownership: 'any individual firm may be related to other corporations, banks, financial institutions, and family owners via complex patterns of shareholdings, interlocking directorates and kinship networks'.

Some of these patterns have been analysed by other researchers; for example Lundberg (1937) and Burch (1972)[3] looked at patterns of family control, both finding higher degrees of family control and therefore lower levels of management control than suggested by Berle & Means. The more recent Patman Committee (1968) is reported by Nyman & Silbertson (1978) as showing banks becoming increasingly important trustee holders of corporate stock in the USA, while their own research in the UK of 250 companies, based on three criteria, showed that 56% of the companies in their sample had at least some degree of proprietorial interest and should therefore not be classified as being under management control.

Scott & Hughes (1976) similarly showed how the identification of control type depended on the level of analysis undertaken into the ownership of companies. Their own detailed and deep analysis into the ownership of listed Scottish companies showed far closer relationships

[3] Although published in 1972 Burch's data covered a 20 year period from 1951.

in the ownership of listed Scottish companies than would be revealed from their top 20 shareholders alone. Some of these connections were made through multiple (parallel) directorships and, as suggested by Fitch & Oppenheimer (1970), we 'should not underestimate the power of ... interest groups owning large blocks of shares or having seats on the boards of directors ... [because it is the] Board [that] controls finance, capital expenditure, dividends and broad objectives, and ... chooses the Chief Executive' (Nyman & Silbertson 1978, p.77).

E Shareholder 'Coalitions'

The importance of institutional investors in the ownership and control of companies had already been recognised by Berle (1959) who suggested that 'once the stages of majority, minority, and management control have been done through, a fourth stage of control, by fiduciary institutions, might be reached, through which dispersed stockholdings would once more become concentrated' (Nyman & Silbertson 1978, p.91).

Berle's proposed 'fourth stage' of control, which went beyond the original Berle & Means model, brings us closer to the realities of the present day and Scott's model of 'constellations' of shareholders providing the basis of 'coalitions of interests' which can exercise influence and possibly outright control over a corporation (Scott 1985, 1986, 1990). The mechanism for this control was earlier described by Blumberg (1975) as being through 'behind the scenes alliances which can accumulate the necessary critical mass' (Blumberg 1975, p.93). Scott found that 'controlling constellations' were made up, normally, of the UK's largest fund management groups. Inclusion within a controlling constellation depended on the shareholder (fund manager) being one of the largest 20 for a given company. On this basis, Prudential Assurance participated in 88 of the controlling constellations out of a possible 100 of the UK's top 250 companies which showed this type of control (Scott 1986 pp.64,100).

It is important to recognise that Scott's analysis of ownership is on the basis of *all* companies and thus contains a sub-set of listed companies (the focus of my own research) but is not wholly comprised of them. For example, of the 250 companies in Scott's research universe, 13 were public corporations (seven of which have since been privatised and have been either partly or wholly replaced by listed companies), 38 were wholly owned by other companies,

nine were under foreign exclusive majority control and 8 of which were mutuals. I estimate that of the remainder, at least ten were not listed in 1972 on the London Stock Exchange. The balance of 172 companies suggests that of the listed companies included in Scott's analysis, around 60% were subject to constellation control.

On the basis of a computer-based network analysis of the relationships between constellations, Scott described the relationships between the 250 companies as a 'polyarchy' in which:

> 'Large non-financial enterprises were able to play a leading part ... because the massive investment funds of their pension schemes enabled them to operate as financial intermediaries as well as industrial undertakings. As units of 'finance capital' they took their place alongside the more narrowly defined `financial' enterprises. ... The results [of the analysis] show[ed] that controllers and investors were tied together into an extensive, diffuse, and cohesive structure. Prudential Assurance and the National Coal Board [with its pension fund], having the largest number of controlling participations, lay at the core of the network and were surrounded by circles of other participants to whom they were linked through intense and cyclical chains of connection' (Scott 1986, pp.118/9).

A second source of influence over companies is through directors who sit on one or more company boards (multiple or parallel directorships). Scott investigated these 'interlocks' as well and found that of the 100 companies controlled through constellations, 88 were interlocked (ie through at least one director sitting on the board of at least one other company in the top 250).

However, the relationship between participation in the polyarchy of controlling constellations and director-based interlocks was weak and did not appear to be an indicator of underlying capital relations:

> 'there was no one-to-one relation between the partial networks of capital relations and interlocks, though they had, of course, definite points of articulation. Both networks were extensive and diffuse, each being dominated by a large component of connected enterprises. The central enterprises in each network, however, were not identical. ... Key positions in the network of interlocking directorships were played by the big four clearing banks, while the leading positions in the network of participations [in ownership constellations] were held by insurers and pension funds' (Scott 1986, p.119).

For example: 'the Prudential, which participated in 88 of the controlling constellations was interlocked with only five of the top 250 enterprises - and threeof these interlocks were with American subsidiaries' (Scott 1986, p.119). But, unlike the trend towards concentration in ownership by financial institutions, Scott & Griff (1984) found that the pattern of interlocks between directors of the top 250 British 'enterprises' has remained largely similar throughout this century (the reference years being 1904, 1938 and 1976; see table in Scott (1985, p.97)).

The finding that the pattern of interlocks did not tie in with the network of shareholdings can be contrasted with Scott's earlier view, apparently based on Pfeffer (1972, p.220) and Aaronvitch & Sawyer (1975), that 'financial enterprises that participate in the controlling [equity based] constellations are able to put their representative on company boards' (Scott 1985, p.109). Although the finding that commercial banks are strongly represented in the director networks supports the view that companies 'will seek out the directors of financial enterprises as a way of enhancing their access to [debt-based] capital' (Scott 1985, p.109). A similar model of board representation is held by: Gordon (1945, pp.57,187), Peterson (1965), and Monsen, Chiu & Cooley (1986) and supported by the research of Zeitlin (Zeitlin (1974), Zeitlin & Ratcliffe (1988)), which found that the role of familial (kinecon) networks was critical to an understanding of corporate ownership in Chile.

Scott felt that the lack of shareholder representation on UK corporate boards 'might make sense if fund managers had the necessary time and skills. But with a multitude of funds and managers and widely diversified shareholdings it must be unlikely that their managers can play the galvanising role the critics seek' (Scott 1986, p.119). Ridley (1986) also described how 'it is rare for pension fund managers to nominate directors to company boards' (p.52).

Part of the reason for this may be the diversified nature of institutional investment portfolios, since 'dispersed ownership gives individual owners little incentive to participate in decision-making since any benefits are shared by all owners in proportion to their holdings [but that] greater concentration may produce [management] behaviour closer to profit maximisation' (Leech & Leahy 1991, p.1427).

A second reason is that 'many large shareholders, particularly institutional investors, do not wish to have representatives sitting on the boards of companies in their portfolios [because

of] the conflicts of interest that this would entail[4]' (Oxford Analytica 1992, p.5). See also Denham (1993), who describes the situation in which fund managers' obligations to investors may conflict with requirements of institutions investing as 'Type 2', which is 'not based on the premise of sustained long-term relationship' and therefore does not require difficult judgements or consideration of management issues and as a result is 'sporadic and episodic in nature' (p.4).

This lack of association between directors and 'finance capital' is not found in Germany or Japan, where relationships between the two are close, although their governance systems are far from identical[5].

[4] Cowan (1989) describes how the Magellan Fund (one of the largest and most successful mutual funds) disinvested its holdings before Peter Lynch became an outside director of a listed company prior to his retirement from Fidelity.

[5] For discussions on the differences between the 'Anglo-Saxon' (UK and US) model of corporate governance and those of Japan and Germany see; Charkham (1994), Kallfass (1988), Kester (1991), Kester & Luehrman (1991), Lawrence (1980), Roe (1992), Schneider-Lenne (1992), Scott (1986), Zeigler, Bender & Biehler (1985).

III Corporate Governance

A Shareholder `Oversight'

In the UK, the legal control of shares listed on the London Stock Exchange has now reached close to 80% (Chapter 3), thus the issue of oversight of corporate managers is one that must be primarily addressed by institutional investors.

One of the mechanisms through which fund managers can provide effective corporate 'oversight', exert influence as they see fit, and take control of a company if the need arises, is through participating in an active coalition of shareholders, of the kind described and analysed by Scott. When formally constituted, such shareholder groups have been known in the UK as 'Investor Protection Committees' (IPCs). As Matheson (1993) describes, 'these usually involve conversations with management and its advisors and frequently have an influence on management decisions' but 'this low-key approach .. may have been taken too far in that it created a perception that the institutions almost invariably avoid confrontation, only taking overt action in extremis' (p.179).

But there is always a limit as to how much institutions will want to cooperate as they are in competition with each other (James 1986, Scott 1990) while the free rider issue is a major problem for fund managers actively involved in corporate interventions, both in terms of executive time and external costs (for example, see Black & Coffee (1993) for an account of Norwich Union's involvement with Tace plc).

The circumstances in which investors will seek to influence a particular company are, as I describe in Chapters 6 (Shareholder Rights) and 7 (Instigating Change), firm specific, but there has been much interest in the general types of conditions that create an environment in which intervention may take place.

Zald (1969) felt that it was when *strategic issues* arose that controllers would strive to influence the board and to see that its wishes are carried through, although Scott believed (1985, pp.53,109) that the rarity of such intervention indicates that 'in the generality of cases, .. shareholders are satisfied that their interests are reasonably well served' (based on Nichols

1969, p.104). Shareholders prefer to operate through a process of 'covert supervision' (Glasberg 1981, Gogel & Koenig 1981) and there is 'a widespread reluctance on the part of institutions to act in a positive way' (Dodds 1989, p.24). Dodd also quotes (p.25) an anonymous UK fund manager as saying:

> **'one of the problems is knowing when to interfere. It is difficult to assess whether the company is going through a bad patch or suffering from bad management'**

and this was a concern repeatedly voiced by fund managers in my own research interviews.

But Monks argues that one of the primary reasons for shareholder passivity is the problem of collective choice and the diversity of investors' interests. This diversity is such that he believes that the real 'challenge is to align different species of investors with attractive risk/reward alternatives for equity participation' (Monks 1993c, p.129) and that the increasing use of index funds highlights this issue (Monks 1993b), a subject also raised in Gordon & Pound (1993). Monks' case is that because the management of index funds is so price competitive, ownership rights cannot be exercised in any meaningful way (eg through shareholder activism: Monks (1993c)). At the other end of the ownership/intervention scale, Monks has established his own investment fund based on a limited number of portfolio investments and high levels of shareholder activism (Monks 1993a).

Although the ownership structure of many listed companies suggests that professional fund managers possess a high concentration of power, lack of homogeneity in investors' interests means that they do not behave as a monolithic group (Brancato (1991, 1993), Lowenstein & Millstein (1988))[6]. This point is also made by the City Capital Markets Committee (1977) in its submission to the Wilson Committee.

Evidence of diverse investment interests and approaches to the use of ownership rights include the reluctance of US mutual funds (Roe 1993) and pension funds (Dingen 1992, Monks 1993c) to participate in corporate governance and the finding that investors who are also trying to sell management financial services are likely to be less critical and independent

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[6] This point is separate to the practical limits placed on the formal use of this power through constrained voting opportunities, the relatively low rates of participation in shareholder polls and associated issues discussed in Section II of this Chapter.

(Brickley, Lease & Smith 1988). These and other self-imposed constraints undoubtedly contribute to the belief on the part of companies and others concerned with shareholder behaviour that (institutional) investors are very often seen to be intervening 'too late' in a corporation's affairs (Monks & Minow 1991).

One view of this state of affairs is that intervention only takes place when the diverse interests of investors are sufficiently coincident that the benefits of participation in a shareholder coalition (UK) or, for example, to support for an anti-management proxy voting challenge[7] (USA) are greater than the expected value of free rider benefits. Such benefits may be garnered if other investors take the initiative in dealing with problem companies and management teams. 'Such as the Prudential or M&G[8], which are among the more active shareholders, [and allowed them] to .. use their vast resources to monitor a company themselves' (Dodds 1989, p.26).

Artus (1990) confirms that, whilst it is possible for smaller fund managers to treat shares as 'tradeable paper claims with little regard to the proprietary responsibilities attaching to the ownership of theses claims, this is not a position which is possible for the Prudential' (p.12), a position predicted by Fitch & Oppenheimer (1970). Paul Myners (1993) (formerly CEO and now Chairman of Gartmore) believes that fund managers will increasingly seen to take on ownership responsibilities because of the continuing trend of concentration within the UK fund management industry and also the 'evident trend in many institutions to having the shares of fewer companies in their portfolio' (p.2). Similar observations about US share ownership have been made by Brancato (1988, 1991, 1993).

Black (1992d) believes that large holdings (by implication such as those held by the Pru, M&G, Gartmore and other major UK fund managers) may be associated with better corporate performance[9], reinforcing the benefits to all shareholders of a committed corporate

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[7] As discussed earlier, formal shareholder coalitions, of the kind described by Scott (1985, 1986, 1990) were effectively impossible to organise in the US until very recently due to the weight of regulatory filings and prior commitments of intent required by the SEC and the associated risks of corporate and intra-shareholder litigation. The possible impact of the recent changes has been reviewed by Black & Coffee (1993), using the UK as a model. However, almost all the other research on US companies described in this thesis is based on the expression of shareholder influence through the actual or threatened use of the proxy voting process.

[8] Directors of both these and other 'active' UK fund managers were interviewed as part of my qualitative research, described in Chapters 4 to 7.

[9] Lehn (1991) suggests that 'Because of ... capital market forces, it is likely that ownership structures will evolve in ways that are consistent with value maximisation. Ownership structures that are revealed to be 'sub-

monitor, despite the fact that in such situations the power of the dispersed (non-monitor) shareholder group will be reduced.

Individual shareholders therefore have more power in the absence of concentrated ownership and/or a large monitoring shareholder (De Alessi 1973). De Alessi's view suggests that, if taken to an extreme, wider share ownership (the wide dispersal of corporate ownership amongst many private shareholders with small directly held stakes) may result in lower corporate performance and therefore smaller returns to investors.

This model is, of course, consistent with that of Berle & Means (1932) which saw shareholder atomisation and the dispersal of ownership as directly contributing to the rise of managerial shirking, self-dealing and other forms of economic expropriation of wealth from shareholders. In these circumstances Shleifer & Vishny (1986) suggest that it may pay private shareholders to `reward' larger shareholders for their monitoring role with a higher level of dividends than would normally be required by private shareholders. (Private investors are generally believed to prefer capital gains to income, compared with institutions, some of which have strong views about the payment of dividends by the companies in which they hold stakes (M&G Group 1991)).

Index funds[10], which may account for as much as 30%[11] of US pension fund assets (according to fund managers I interviewed in New York), are not necessarily all passive owners, as an initial reading of Monk's analysis of their cost constraints would suggest. The most common reason given by index fund managers as to why the funds they manage should *not* participate in corporate governance processes is that index fund performance is measured on variance from the index and not performance relative to the index[12] (Jenks 1988). Non-

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optimal' result in depressed stock prices, which in turn create strong incentives for more efficient ownership structures' (p.26).

[10] Lowenstein (1991) suggests that index funds have grown in popularity because active funds were trading too much, incurring high costs and under-performing industry (market benchmarks) and that this over activity was itself a response to the criticism that major shareholders were 'unwilling to recognise any responsibility that went beyond immediate market gains'.

[11] Lowenstein puts forward the case that the use of 'indexing' is wider than this figure indicates as many fund managers are effectively 'closet' or 'shadow' indexing their funds in return for higher 'active' management fees.

[12] However, Bowman (1991, p.34) comments that 'Our passive indexed core has shown consistently better market performance than our active external managers', so even though the performance measures may be different, index funds still outperform actively managed funds. Davis (1993) believes this discrepancy is less in the UK than in other markets. Jensen (1968) finds no consistent out-performance of (pension) funds after

participation therefore provides the lowest cost route to the achievement of their index fund investment mandates.

The argument that index and other low participation funds should always wait for a free rider benefit is strongly countered by the trustees of CalPERS (California Public Employees Retirement System) and other activist index funds in the USA, on the grounds of the legal obligation to exercise their fiduciary duties and that these responsibilities are independent of the style of fund management practiced (see Hanson (1993), Sherman (1989) and Bowman (1991) for example). This argument is rooted in the ERISA legislation which requires US pension funds to consider their voting power as an asset and therefore to vote their shares as a matter of fiduciary responsibility. The approach taken by CalPERS is that this principle applies both to the formal exercising of shareholder rights (through voting) and the use of informal influence to seek to improve standards of governance, strategic management and business performance in those US companies in which its funds are invested. In practice, over the last ten years, CalPERS has focused its attention on between ten and twenty companies each year, these comprising its annual list of corporate governance 'targets'.

An analysis of proposals made by Monks and others that CalPERS should become an investor in so called 'corporate governance funds' led to a detailed study of the performance of corporations targeted by CalPERS and others for some degree of shareholder activism. Gordon & Pound (1993) concluded that, through proxy challenges to the composition of the Board or corporate strategy, investors earn an average of 30.4% excess return following the announcement of the initiative, but that this did not depend on the result of the proxy vote. The key factor is presumed to therefore be the proxy challenge itself (particularly by a major and influential 'activist' fund like CalPERS) which 'successfully galvanised corporate policy change' (p.3). This finding suggests that latent (ie the threat of shareholder action, implied or explicit) and actual shareholder power are of a similar order in at least some circumstances.

The ownership structure of a firm will also affect the willingness of investors to become involved in corporate governance-type initiatives, and the more diffuse the ownership the less likely this is to happen. 'The large scale enterprise requires an ownership interest sufficiently large to encourage the owners to undertake the task of overseeing management and other

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adjustment for risk and Kon & Jen (1979) found the same result for mutual funds.

inputs and of setting a proper course for the enterprise' (Demsetz 1988b, p.231). Demsetz believes that the increase in firm-specific risks (within the context of an investment portfolio) inherent from becoming a 'controlling owner' of a specific enterprise are only taken on in return for a comparative advantage (in terms of risk-adjusted total investment returns).

Rather than make (crude) accusations of 'insider trading' against such owners, Demsetz monitored the trading activity in shares of companies where there was a controlling shareholder and found seven times the average (expected) level of trading. He argues that the introduction of legislation to limit such insider trading will therefore lead to a decline in corporate monitoring by controlling shareholders with large stakes. This is rather similar to the argument that the use of inside information leads to greater efficiency in financial markets, and that restrictions on the availability and use of such information increases investor risk, reduces the quality of price discovery and the efficient allocation and pricing of capital through market mechanisms.

In the UK, there is little doubt that the insider dealing laws and related stock exchange regulations are a major constraint to the close involvement of institutional fund managers in companies. For the largest fund managers, this issue appears to be a significantly greater constraint on direct action against a company or its board of directors, or their participation in a 'coalition' or informal grouping of (major) shareholders with similar objectives, than their lack of knowledge about a company or uncertainty about the quality of information that they possess.

The legal and moral hazard problems of a major shareholder using privileged (if not strictly 'inside') information for private gain, the expropriation of shareholder wealth or self-dealing have led Coffee (1991) to propose that the optimal monitor will have: the ability to hold large stakes; the inclination to invest for the longer-term; and no substantial conflicts of interest. Black (1993) has also argued that SEC rules have unnecessarily restricted the institutional oversight of corporations through administrative burden, forcing institutions to be passive investors as a matter of political convenience (Black 1992e) and that such widespread passivity has not been driven by the needs of the investment community.

However, the increasing size of institutional shareholdings means that institutional investors 'will be progressively impelled to give up their neutrality, in so far as the volume of stock they hold obliges them to shed the simple role of institutional investor' (Scott (1985, p.108) based on Chevalier (1969, p.108), see also Baum & Styles (1965, p.11)). Chevalier found that in around half the top 200 US corporations which had a shareholder group with 'dominant influence'[13], the groups were based on families and not on financial institutions. This can be contrasted with Scott's findings in the UK that, of the 100 (out of a total universe of 250) companies with shareholder coalitions, families were only represented *at all* in 55 and that in only 7 of these was the family shareholding block 3% or more of the companies' issued share capital[14].

In this Section we have so far seen how, in practice, management can only be effectively challenged by 'the occasional shareholder or group of holders who together possess a relatively substantial minority position that can serve as a base to offset the advantages inherent in management's position' (Baum & Styles 1965, p.12).

In the UK, explicit interventions in the affairs of companies by groups of shareholders working together as a coalition or IPC are relatively rare, but in both the UK and USA there is a general impression of shareholder 'passivity' in respect of many companies. Whilst Scott proposes that this is because shareholders are generally satisfied, it may be that the actual level of shareholder intervention is much higher but covert, as suggested by Nichols.

What is clear is that institutional fund managers are able to justify non-intervention and their non-participation in company specific shareholder coalitions on many different grounds. These may include legal constraints, the potential impact of becoming 'insiders' on portfolio performance, the limited if not negligible influence conferred by small shareholdings, and the restricted investment mandates attached to index funds.

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[13] ie the other companies were not classified by Chevalier; in contrast Scott (1986) placed all the companies in his sample of 250 companies in 9 control classifications, of which 'Constellations' was the ninth and largest (100 companies).

[14] A further 46 companies out of the 250 were judged to be under some other kind of personal control: 7 wholly owned; 15 with an exclusive family majority; 13 with secure minority family control; and 11 with limited minority family control. Of these, I estimate that only around 25 were listed in 1972, suggesting that there was significant family influence (taking 3% as a threshold) in only around 32 out of 125 listed companies (26%), a proportion which has undoubtedly declined further in the last 20 years through the natural dispersion of personal wealth and family Trusts and the creation of new equity (reviewed in Chapter 3).

Equally, the trend for actively managed funds to reduce the number of companies in which they invest and correspondingly increase the size of their shareholdings in favoured companies, means that the size of stakes may force a more active approach to corporate oversight by fund managers than has typically been the case in the past.

B Takeovers

One of the most important reasons for increased greater corporate concern about the ownership and investment policies and the voting behaviour of institutional shareholders, and a major element in the `short-termism' debate, has been the operation of the 'market for corporate control' through takeovers. Two delineations are needed at this point: the first is that debate over takeovers centres on those that are deemed to be 'hostile'; the second being that the debate is almost entirely restricted to listed companies.

Many bids are categorised as 'hostile' simply because they are initially opposed by the Board and management team of the target company. There are two grounds for such opposition. The **first** is that extending the period in which a company is 'in play' may result in a better offer to shareholders for their equity in the company. Such improvements are often achieved when one or more other companies are willing to bid a higher price for control than that provided by the initial offer. Such alternative bids take time to organise and, in general terms, are more likely to be made if the target's incumbent management group and their advisors are able to extend the takeover timetable through the use of obfuscatory public relations, legal and regulatory devices.

The **second** is managerial entrenchment. Fear of losing their employment and associated benefits drives the incumbent management team to oppose a bid purely for reasons of self-interest and without particular regard to shareholder interests (supporting the managerialist model), although these may also be served by managerial resistance for the reasons set out above. Franks & Mayer (1992) found that these fears were rational; the turnover in directors of companies subject to successful hostile bids is over four times that of the turnover in friendly bids[15]. This finding suggests that managerial self-interests may be served by

[15] Managerial self interest is also borne out by a company director I interviewed who commented (in respect

supporting a 'friendly' bid for their company, but that a lower premium for control may be paid, sacrificing wealth of the current shareholders. Alternatively, managerial opposition to a 'hostile' bid may serve shareholders better than managers in the long-run as a higher premium may be obtained for their control of the company. An alternative outcome is that managerial opposition to a bid is successful. Grossman & Hart (1980) show, in a voting/control model of the firm, that even if the directors do not appear to be acting in the best interests of shareholders, the 'free-rider problem' may mean that it may be impossible for them to be disciplined and replaced in a takeover bid.

The difference between the value of a company owned by a diverse and dispersed group of shareholders and that owned by a single, acquiring shareholder, is the bid premium. There is strong evidence that almost all the economic value of a takeover of a listed company to the acquiror (and its shareholders) is effectively paid to the shareholders of the target company, and this bid premium (abnormal stock market return) is of the order of 30% (Jenkinson & Mayer 1992)[16]. In effect, the premium is paid because of the improvements that the acquiror expects to make in the operating units or company acquired. These improvements are normally achieved (Hall 1990) although inevitably some acquirors pay too much when purchasing other business units.

The willingness of institutional investors to accept this bid premium is seen as evidence of their 'short-term' investment horizons and lack of willingness to 'back' incumbent managers[17]. In fact, around half of bids characterised as 'hostile' actually fail and the pre-bid share price performance of companies that are the subject of hostile and friendly bids are indistinguishable (Franks & Mayer 1992), supporting Jenkinson & Mayer's (1992) assertion that a large proportion of hostile bids are associated with the corporate strategy of the acquiring company rather than managerial failure on the part of the target company.

Jenkinson & Mayer also document a high and increasing level of direct institutional intervention in corporate activities in the UK which they believe, may be acting as a

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of another company involved in a number of hostile bids in the 1980s) that after a bid was announced the key to success was negotiating the personal pension arrangements and other `pay offs' to directors of the target company and that once these had been agreed raising the offer and completing the takeover successfully was almost a matter of formality.

[16] Jensen (1993) quotes a figure of 41% for the US.

[17] In practice, institutions regularly back incumbent management and have played a major role in thwarting

substitute for takeovers. They discovered that intervention is most commonly associated with announcements of poor corporate performance (for example, dividend cuts) and found in companies with limited corporate governance. Poor governance practices might, for example, be indicated by a small number or proportion of independent NEDs sitting on the board, or the roles of Chairman and CEO being combined.

The market for corporate control (through the mechanism of a hostile bid) can therefore be seen as one in which shareholders allow a management team to be replaced by one more competent, or which believes itself to be so.

This external control is now being replaced by shareholder intervention, in which shareholder 'exit' is being replaced by 'voice' - ideas based on those of Hirshman (1970). The common feature of both is that the institutional investor is positioned as a kind of 'long-stop' on poor management performance (Charkham 1990) ie the choice *between* exit and voice is the exception rather than the rule.

Thompson, Wright & Robbie (1992) believe that corporate restructuring (buy-ins, buy-outs, mergers, acquisitions etc) have made a positive contribution to the performance of the 'mother' company, without all the benefits being captured by the other party (as normally happens when a bid premium is paid for complete control), tying in with Charkham's belief that change in ownership is usually an unnecessary alternative to changing management (Charkham 1990).

Corporate governance and the widespread adoption of the 'Cadbury Code' are seen as providing a framework facilitating increased institutional 'voice', but in practice shareholders only interface with the Board of directors of a company, and not any deeper[18]. Gordon (1991) suggests a reason for this: to delve deeper into a corporation would invite self-serving by executive (inside) directors and senior managers of the firm, but the shareholder would not have sufficient information or control of the organisation to effectively monitor, let alone stop this happening. The implication is that to go 'below' board level in their governance of a

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hostile takeovers (Brancato 1989).

[18] One of the criticisms of the Cadbury code, particularly by 'unreconstructed industrialists' (Arthur 1993, p.94) such as Sir Owen Green is that the Code has little to say about the entrepreneurial growth and development of companies, a concern also shared by Jenkins (1993).

company, shareholders will themselves become managers, introducing both legal problems (of fund managers becoming 'shadow directors' and risks of moral hazard[19]. With limited competence and information, close involvement in the management of a company risks volatile public returns (to all shareholders) and triggering excessive private returns being taken by the (remaining) incumbent management team through increased shirking of responsible decision taking and involvement in the management process and wealth appropriation. And, as Alchain & Demsetz (1988) point out, if the monitoring/controlling shareholder sought to involve other shareholders in their managerial decision making processes, chaos would result.

C Non-Executive Directors

The independence of NEDs from the executive (inside) directors of the company, and therefore their ability to act independently of them and act more directly as agents of shareholders than incumbent management, has been questioned in many studies and also appeared to be the aspect of the Cadbury Code[20] receiving the slowest and most reluctant compliance (NAPF 1993). But it should still be recognised that there have been major changes in corporate governance practices in the last 2/3 years (Conyon 1993).

In the USA it is the CEO who is normally responsible for appointments to the Board (Ricardo-Campbell 1993) whereas in the UK it is normally the Chairman, but in both countries there would appear to be 'little scope for shareholder participation in the nominations process[21]' (Main 1993, p.161). In both the USA and the UK it may be effectively

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[19] A problem that Shonfield (1965, p.381) identifies in particular with the shareholder representatives sitting on the Aufsichtsrat board of German companies, because if these shareholder representatives are to be skilled in controlling executive managers, they will themselves need to be good managers; in which case they are more likely to align themselves with the firm's management than act as effective monitors, a contradiction also recognised by Berle (1954). More recently and in the UK Korn/Ferry (1992) found that most NEDs are also serving on the main boards of other companies and nearly one-third of the Chairmen of the UK's largest listed companies had previously been full-time executives of the company, suggesting that NEDs are overwhelmingly a member of the management elite and will both personally identify with the issues being faced by executive members of the board and share many of their values in common. A problem also recognised by Cadbury (1993b, p.8), who comments 'On the one hand we require directors to have enough knowledge of the business to know what is going on. On the other we require them to stand far enough back from the day-to-day management of the business to maintain their objectivity'.

[20] See Cadbury (1993a, 1993b) for a personal summary of the Code (Cadbury Committee 1992b) by the Committee Chairman.

[21] According to PIRC's research, a majority of FT-SE 100 companies have at least one position on the board which is insulated from regular election by shareholders (Simpson 1993).

impossible for a director to be appointed without the support of the incumbent board, as Gillibrand (1993) found with Chloride and Monks with Sears Robuck. In many respects it is difficult to disagree with Harbrecht & Berle (1960, p11) that it is a 'myth that the directors were elected by the stockholders though the undeniable fact is that they have been chosen by their predecessor directors as vacancies occurred for the last 30 or 40 years' (quoted in Schonfield (1965, p.379), although there has been a marked shift in the composition of US boards towards outside directors (Lear 1984) and this has also happened more recently in the UK (Korn/Ferry 1992).

Some commentators argue that merely by agreeing to join the board of a company, and because of their underlying reasons for doing so, NEDs have sacrificed their independence from the company (Bacon 1988). But it should be noted that the unitary board structure of UK companies places less emphasis on the difference between executive and non-executive directors, than the German system of two-tier boards and the US emphasis on 'inside' and 'outside' directors.

A proposal that the executive and non-executive director roles should be different in the first draft of the Cadbury Code was fiercely resisted by the Confederation of British Industry (CBI 1992), the IOD (Morgan 1992) and others (Goodman (1993), Alexander (1990) and Jenkins (1993)) and did not appear in the final code (although specific roles are specified for NEDs on the Audit and Remuneration Committees). Hill (1993) found a high degree of consensus amongst both executive and Non-Executive directors that UK boards should be unitary and on the role of NEDs within the context of the structure and activities of the board (and its sub-committees).

In the USA, comprehensive attacks (Lorsch 1989, Lorsch & Lipton 1993, Mace 1986) have been made on the lack of independence of the boards of US companies and the corporate decline that some of these boards have overseen, often over a sustained period of time (for example, American Express, Westinghouse, Sears Roebuck, Eastman Kodak - Monks (1993)). Charkham (1988) calls this process 'reciprocal mediocrity' (p.767), in many cases the 'slow slide in economic values' Gordon (1993, p.36) being supported by internally generated reserves.

How NEDs should be remunerated for their services is also a matter for debate. The ABI (1990) recommends that NEDs 'should not, in normal circumstances, be offered participation in share option schemes, neither should they be entitled to any compensation on loss of office since such arrangements might impair their impartiality', although how their interests should be most closely aligned with those of shareholders is not explained; in any case Trelawny (1993) believes that NEDs are 'seriously' underpaid for what they do. In contrast, and in respect of US outside directors, Geenan (1984) believed that, to precis, they are 'paid too much for what they do, but not enough for what they should do'.

One of the problems for NEDs is the sources and availability of information, the ISC (1993a) stating that 'it is important to ensure that throughout their period of office, NEDs have the same rights of access to information as executive directors' (p.3). But this can be difficult when board meetings are controlled by the CEO and virtually all the information they receive is supplied by company personnel or special board committees (Winfrey 1993).

Directors are therefore likely to have considerable difficulty in knowing what information is *not* being made available to them and in any case do not wish to be seen as 'trouble makers' (Geenan 1984). In these circumstances, it can be difficult for directors to be sure that they are making the best business judgements and, in the USA, they may thereby be laying themselves open to litigation if they have not ensured that they are fully informed before making a decision. However, and in contrast to the position in the USA, in the UK it is very difficult for shareholders to sue directors for failing in their fiduciary duties. Boyle (1987) feels that this is because the UK legal system lacks teeth to make directors accountable for their actions.

Meanwhile, Donaldson & Davis (1993) have raised the question of whether NED/outside directors make a difference to the performance of companies. After an extensive literature review they conclude that the case for NEDs is unproven. The studies they surveyed failed to yield consistent evidence in favour of NED/outside director dominated boards - in fact some studies show that executive boards are associated with superior performance and that they are no more likely to be associated with: bankruptcy, conglomerate diversification, under-investment in R&D, corporate illegality or failure of fiduciary responsibility. Donaldson & Davis conclude that there 'is no basis to prescribe that boards should be non-executive dominated'. As I have set out above, this is now the norm in the USA, fast becoming so in

the UK and the governance role and professional independence of NEDs is a cornerstone of the Cadbury Code.

In my research interviews with company directors and Chairmen (executive and non-executive) and fund managers, I investigated their views about the Cadbury Code and the role of NEDs, with specific reference to shareholders and the principle of the unitary board.

D Shareholder Communications

Regulators are keen that 'price sensitive' information is promptly disclosed to shareholders, other investors and the 'market' in general to avoid the creation of a 'false market' in a companies shares and decrease the period in which 'inside' information is not available to all market participants.

Companies listed on the London Stock Exchange are subject to continuing obligations to make routine disclosures to shareholders, including the publication of interim and preliminary results (so called 'financial calendar' announcements). They are also required to make non-routine disclosures about proposed changes in the corporate and financial structure of the company, for example, rights issues, mergers and acquisitions. Such announcements are normally made through the Company Announcements Office of the Stock Exchange, and typically these are distributed through its electronic information service before stock exchange dealings start in the morning. Thus the information will be widely available to market makers, brokers and institutional investors and other information services when the market opens and large numbers of market participants will possess the same information.

As I discuss in Chapter 4, during 1993 companies became increasingly concerned that other types of information might be considered price sensitive and put out increasing quantities of information (in the form of extended announcements and press releases) through the Stock Exchange and other wire services, that would have been handled more informally in previous years. Profit warnings are announcements made to warn investors that current or near-term profitability is expected to fall below that previously indicated or public estimates being made by analysts.

Given investors' appetites for information, it is counter-intuitive that companies making advance announcements of falling profits should suffer a bigger decline in share price than those that `surprise' the market with a later equivalent announcement (Kasznik & Lev 1993). This result suggests that investors penalise 'good' companies who provide forward information to their shareholders and effectively reward companies who keep 'bad news' private and for a longer period. Profit warnings are therefore not costless, and Kasznik & Lev found that the bigger the expectations gap being addressed by the companies which were 'advance communicators', the worse investors reacted.

Despite this cost, managers may choose to alert investors early to signal their quality as managers (Trueman 1986) and thereby help protect their own position (management entrenchment) or avoid the threat of subsequent litigation, which could place personal liabilities on managers. Although Skinner (1992) failed to prove or reject these hypotheses, Frances, Philbrick & Skinner (1993) subsequently showed that in the USA early disclosure was not a deterrent to litigation and moreover, that firms involved in litigation tended to have made more disclosures (such as earnings announcements) than those not involved in litigation.

In the USA at least, the market fails to reward advance warning of `bad news' (made far more often than announcements of 'good news' (Skinner (1992)), possibly because investors believe that 'there is no smoke without fire' and that by making such announcements managers are self dealing in one way or another, rather than looking after the interests of their shareholders.

UK rules on the disclosure of price sensitive information which falls outside the continuing listing obligations require that the company itself makes the judgement about what information should be publicly disclosed, although Stock Exchange guidelines suggest that:

> 'the more specific the information, the greater the risk of it being price sensitive. ... Companies which talk in general terms about their trading performance, prospects, strategy, and business environment, without providing financial figures are less likely to give price sensitive information but will assist the market in *forming a more accurate impression of the business*' (Stock Exchange 1993: my emphasis).

Companies need to walk something of a tightrope between these principles and even tighter legislation on the possession of inside information which came into effect on 1 March 1994 (see Freshfields (1994) for a useful summary of the changes to the law under Part V of the Criminal Justice Act 1993).

These changes are occurring at a time when companies are increasingly looking to operate professional programmes of investor relations communications (see Sciteb (1993) for example). A number of leading industrialists have acted as figureheads (perhaps 'bridgeheads' would be a better description) for the improvement of industry/City communications - Toombs (1988, 1990) and Plastow (1990) being two of the most notable[22]. Pennie (1993) provides an interesting case history of a major US corporation undertaking its first shareholder meetings following a complex demerger.

In the UK, responsibility for investor relations often resides with the Finance Director, and the time involved in this has increased over the last five years[23] according to Owen & Abell (1993). However it is perhaps not surprising that McBrides (1992) also found that Finance Directors considered the financial information contained in company annual reports to be more important than text-based descriptions of the company, products, services, performance and prospects.

Although formal (board level) responsibility may normally rest with Finance Directors, from my own research (see also Hill (1993)) it is clear that company Chairman and CEOs are also closely involved in 'the merry-go-round of presentations, discussions and lunches' (Holdsworth 1988), in keeping with Thompson's belief that (for US companies) the whole board of a company should be involved in investor relations and that contact with shareholders should not always be delegated to the company's investor relations management group (Thompson 1993).

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[22] Another link between Sciteb, Toombs and Plastow is that all are concerned with the relationships and communications between engineering and technology-based companies, many of which have high levels of R&D expenditure. Representing institutional investors, the ISC (1992) has made recommendations to companies about their disclosure of R&D expenditure, reinforcing suggestions that in terms of *information* the interests of shareholders and companies are becoming more aligned.

[23] But is expected to remain stable over the next five.

From my research interviews in the UK and USA it appears that the commitment of a significant amount of their *time* by company Chairmen and CEOs is more widespread in the UK[24] than in the US. Melcher & Oster (1993) claim that, in the USA, institutional investors and corporations 'are getting closer together' and Pincus (1986) gives an intriguing one company example of the benefits improved company investor communications can bring, suggesting that an improved flow of information reduces investor risk and will thereby help increase the value placed on the company by investors.

E Analysts

Holdsworth (1988) makes the observation that there is 'a continuous drip-feed of information to the market' (p.13) through frequent contact between companies on the one hand and investors and analysts on the other. The latter are singled out by Jacomb[25] (1990) who says 'one of the most satisfactory means of communication is through investment analysts ... [who] are independent and their primary responsibility to investors. They have no particular axe to grind since their reputation depends on the successful interpretation of a company's results and prospects' (p.56). Lavery (1988) suggests that analysts serve as effective middle-men in the information flow between companies and investors and add great value in the process. But these beliefs were not widely shared by the fund managers that I interviewed (see Chapter 5).

Investors and analysts say that the most important influence on their judgement of a company is the quality and strength of management (Worcester 1990), and the most important component of this is the past (track) record of the management team and their assessment of the personal performance of executive directors and senior managers at meetings. However, restrictions on factual information disclosure at these meetings means that they are largely concerned with prospects, strategy, and business environment (Stock Exchange 1993), as I confirm in Chapters 4 and 5. Whatever the claimed utility of 'independent' analysts to the investment community, major companies and institutional investors place great emphasis on direct contact. In the USA it is claimed[26] that conference calls to analysts are the 'vehicle of

[24] In a case description of aspects of BT's investor relations activities Merrill (1987) also confirms the need for commitment at this level.
[25] At that time Chairman of BZW, so this is not a comment without vested interest itself.
[26] Wall Street Journal 25 August 1993 p.C2.

choice' when companies wish to disclose 'bad news' (of the kind investigated by Kasznick & Lev (1993)).

The 'value-added' by analysts (particularly to the larger institutional investors) is also challenged by Taylor (1990), who believes that the low profitability and lack of a clear corporate strategy for their analysts' research product by brokers (many being members of large integrated investment houses) promotes 'a herd mentality, encourag[ing] overproduction of reports that are frequently useless, and places strong pressure on analysts to work towards other forms of revenue for the firms, notably in the corporate finance arm' (p.vii) which is more profitable than mainstream broking activities.

The loss of independence and increasing concerns about the quality of analysts' output (reports, presentations, meetings, telephone briefings) and also their lack of availability during corporate finance activities (for example; M&A, capital raising, about which there is growing awareness (Davis 1989)) is a major reason for the development of in-house research capability in the larger institutional investors. Although Arnold, Moizer & Noreen (1983) - an unpublished study quoted in Marsh (1990) - found that both UK and US analysts claimed to use multi-year horizons when making earnings forecasts, UK companies and US and UK fund managers that I interviewed believe that US analysts are now of generally higher quality.

IV SUMMARY

In this Chapter I have reviewed how shareholders' rights may be used to influence managerial behaviour. Evidence about the value of voting power to shareholders is mixed; partly because opportunities for using this power are typically limited to relatively routine and non-strategic matters[27]. In the UK, levels of voting by institutional shareholders apparently increased in the early 1990s, but still only around one-third of available votes are cast, despite the many factors leading to the institutionalisation of share ownership in the UK and the legal control of UK and overseas fund managers over shares equivalent to around 80% of total stock market capitalisation.

In most companies, most shareholders' voting rights, most of the time, are indeed 'residual'. In addition to the low incidence of strategically important issues on which to vote, ownership is relatively dispersed and most shareholders do not expect their voting decisions to make any impact on the final voting outcome. Exceptions to this pattern of the trivialisation of voting rights and power occur, firstly, when a single shareholder or small group of shareholders control either a majority stake or a minority holding of the order of 30% or, secondly, a group of investors with far lower levels of holdings between them work together to exercise some

[27] There are no hard and fast rules about which voting issues are considered 'routine' and those which are considered 'non-routine' and only occasionally (for example a merger, major acquisition or a rights issue) are any of the latter linked to an issue of genuine strategic importance to the future of the company. Mallin (1995) classifies the most commonly found resolutions as follows:
Routine:
Approving auditors and their fees
Approving financial statements
Ratifying the proposed dividend
Approving a dividend reinvestment scheme
Authorising share repurchase
Authorising the issue of summary financial statements
Electing directors (but not always)
Non-routine
Authorising issue of stock
Dis-application of pre-emption rights
Amending employee share plan
Amending the articles
Executive stock options
Approving a merger
Approving an acquisition
Reduction of shareholder rights
Combined role of CEO and Chairman
Directors' service contracts
This classification is very similar to that previously drawn up by the Investor Responsibility Research Centre (1993).

control over companies by forming voting 'coalitions' of mutual interest. In certain circumstances, such groups of investors, typically consisting of companies' largest 20 shareholders but with holdings as little as 10% of a company's shares between them, may be able to exercise effective voting control over a company - through the lack of interest of other shareholders in the voting process or ambivalence about the voting outcome (leading to non-voting or abstentions) or a diversity of views are held by other shareholders, which allows a coordinated coalition to determine the voting outcome.

However, in terms of boardroom representation, such coalitions seem to only be weakly and unsystematically represented. Thus the coalition model of shareholder control describes the irregular use of shareholder power rather than continuous influence over those strategic choices and boardroom decisions made by companies but which do not require formal shareholder approval.

The implications of these findings are that the degree to which managers pursue strategies favourable to shareholders substantially depends on managers' own definitions of and beliefs about what constitutes acceptable behaviour, because many of their actions as managers and decisions as directors and senior executives will not be constrained by law or regulatory authorities on the one hand or shareholders on the other.

The outcome for shareholders therefore substantially depends on a delicate balance between mechanisms aligning the personal interests of managers to shareholders (the agency model of manager shareholder relationships) and the desire of managers to appropriate corporate wealth and earnings for their own ends (managerialism).

As voting mechanisms normally only provide shareholders with weak and uncertain power to influence incumbent management, two significant questions need to be asked. The first is whether shareholders, particularly institutional investors, exercise influence or strategic control over the companies in which they invest in other ways. The second is if alternative mechanisms are used, whether these require the formation of coalitions of the size envisaged by Scott.

What is clear is that a substantial body of research supports the managerialist model, that managers will shirk, entrench their personal positions, and make private gains at the expense of shareholders. However, there are occasions where the ownership structure of the firm, problems of collective choice, and investor cooperation and coordination mean that shareholders are unable to effectively address this problem. The weight of evidence suggests that investors respond rationally to managerial behaviour, through the stock market, and price companies accordingly when managers are in a position to shirk or self-serve to the detriment of shareholder wealth.

In reviewing research in this area, it is important to realise that there are important differences in the way that shareholder power can be exercised in the UK compared with the USA. These include, in the UK, first, the almost universal respect for pre-emption rights and the principle of one share one vote, which together serve to maintain ownership equalities and continuity of ownership and shareholder influence. In the USA, the widespread adoption of poison pill defences and payment of greenmail to selected shareholder groups underlines very important differences between the two markets.

Secondly, in the UK, shareholders are able to coordinate their actions and communicate relatively informally with the only major constraints relating to the receipt of inside information and the rules surrounding the formation of concert parties (at an ownership level of 30%). In the USA, institutional shareholders have been severely constrained in their ability to act together, a regulatory burden that has only been lightened recently.

In the UK, the introduction of the Cadbury Code has provided a formal code of corporate governance, but Shareholder Protection Committees organised to formally coordinate the interests and influence of institutional shareholders, are now almost a thing of the past.

Mechanisms for the exercising of this influence need to be distinguished from the flow of information between companies and the investment community and the roles of non-executive directors. These seldom have any formal relationships with shareholders but, according to the model set out in the Cadbury Code of corporate governance, are nevertheless are seen as representing the interests of shareholders. On behalf of shareholders non-executive directors are positioned to act as a kind of 'long-stop' on the actions and

decision-taking processes of executive directors. This approach to corporate governance structure does not necessarily sit easily with either the unitary structure of UK boards or the concentration of institutional ownership found in many UK listed companies.

It is striking how many of the models of corporate, managerial and shareholder behaviour reviewed in this Chapter are based on assumptions about the way that shareholders and companies relate to each other and not empirical observation or research. What is missing is a description of how relationships between companies and shareholders are conducted in different circumstances, how key elements of these relationships change when shareholders seek to influence companies, and other factors which influence both company and shareholder behaviour in response to changing conditions.

This thesis sets out to answer these questions, through an empirical study of how companies and shareholders behave the way they do in the 'normal' course of events (Chapters 4 and 5) and how shareholders work together in other than normal circumstances, when one or more of them believe that some form of active shareholder influence or intervention is required (Chapters 6 and 7).

The next Chapter (3) describes how the nature of share ownership in the UK has been changing in the UK over different periods, across the stock market as a whole as well as for sample groups of companies. This data underlines the steady rise in the ownership of shares by financial institutions and the narrowing of investment portfolios by many of the UK's largest fund managers, enabling internal resources to be increasingly focused on higher levels of corporate monitoring.

Chapter 3

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I Introduction

In this Chapter, I analyse the ownership of 300 of the largest UK listed companies and the UK equity portfolios of the largest 50 fund managers investing in UK shares.

A Sources of information

The following sources of information have been used:

1 Government surveys

Since 1963, these have been undertaken and/or coordinated by the Office of National Statistics (ONS)[1] on behalf of the Government, official committees (Diamond, Wilson) and also in association with the Stock Exchange and Proshare[2]. The most recent survey was published in 1995, providing the results of research undertaken in the last quarter of 1994 by Fulcrum Research. This and the previous nine surveys were variously undertaken to provide estimates of share ownership by type of beneficial owner (the principle groups being pension funds, insurance companies and private investors) which would provide information about: the ownership of equities which could be compared with other official sources of information about the assets of pension funds and insurance companies; changes in the structure of personal financial assets; and the development of private share ownership in the UK (1981 survey onwards). The results of these surveys are reviewed in Section II.

2 Gavin Anderson

Gavin Anderson is an investor relations consultancy based in the City of London which provides a 'ShareTrak' service to listed companies. ShareTrak monitors the holdings of fund managers and compares these to their total investment (market shares) in the UK stock market. Information about the latter is obtained through questionnaires supplemented with other sources as required. ShareTrak has provided values of the UK equity portfolios of the largest 50 ('Top 50') institutional investors for the end of each year 1989 - 1995. This data is analysed in Section III.

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[1] Previously called the Central Statistical Office (CSO).

3 Citywatch

This company specialises in the analysis of company share registers and has provided a database of approximately 34,000 institutional shareholdings in 297 of the largest UK companies (referred to as the 'Top 300' from this point). This data has been analysed to determine the structure of the equity portfolios of the Top 50 fund managers (Section IV) as well as the ownership of the Top 300 companies (Section V). The companies analysed ranged in market capitalisation from £32 billion (Glaxo Welcome) to £151 million (Hickson) and in aggregate accounted for 82.6% of market capitalisation at the end of January 1996, the reference month for the Citywatch data[3]. Table I.1 compares the profile of the Citywatch companies with the whole of the stockmarket at 31 December 1995.

Table I.1: Comparison of Top 300 companies with profile of Stock Market

	Stock market	% Market value	'Top 300' companies	% market
Over £2 bn	90	67.7	83	92.0
£1 - 2 bn	67	10.5	67	100.0
£500 m - £ 1 bn	80	6.6	59	73.8
£100 m - £500m	422	10.7	88	20.1
Below £100 m	1,243	4.5	-	0.0
Total	1,893	100.0	297	15.6

Sources: Stock Exchange & Citywatch[4]

4 Non-financial shareholdings

The Citywatch database only includes fund manager shareholdings and therefore excludes shareholdings controlled by commercial companies, directors, private trusts, families, charities and others. Information about these has been obtained from a number of sources, including the February 1996 edition of Company REFS (published by Hemmington Scott), Annual Reports and direct contact with Company Secretaries and Investor Relations Managers.

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[2] A private shareholder organisation financially supported by the Stock Exchange and DTI.

[3] Data sources: Market capitalisations, Company REFS, February 1996; Market value, Stock Exchange Quality of Markets fact sheet, January 1996.

[4] As the Citywatch data included all the FTSE 100 companies listed at the end of January 1996, the reason for difference between the number of Citywatch and stockmarket companies with market valuations above £2 billion is not entirely clear. Possible reasons include: differing treatments of the largely US owned SmithKline Beecham Equity Units and also HKSB's HK$ denominated shares, which were excluded from the Citywatch sample as these duplicate £ denominated shares; the timing of takeovers; and differences in market capitalisation around the £2 billion point between 31 December 1995 and end-January 1996.

As indicated in Section I (Introduction), this Chapter is essentially an analysis of investment concentration. Section I, uses ONS data to describe the increasing dominance of the UK stock market by professional fund managers. In 1963, these accounted for an estimated 36% of the stock market, by the end of 1994 their holdings accounted for 76% of the market.

In Section II, the Gavin Anderson data shows that the largest 50 fund managers ('Top 50') in each year 1989 - 1995 have consistently accounted for 50% or more of the value of the stock market. During this period market capitalisation increased some 75%, from £514 million to £900 million. Whilst the 'market share' of the Top 50 fund managers appears to have remained more or less constant over the seven year period, the value of the Top 50 fund managers' holdings has increased by close to £200 billion.

However, these fund managers are not a homogenous group in terms of either their size or investment strategy. For example, at the end of 1995, the holdings of MAM accounted for approximately 4% of the stock market, the average market share of the Top 10 fund managers (including MAM) was just over 2%, the average for the Top 20 around 1.5% and the Top 50 almost exactly 1%. These figures provide a clear indication of concentration in the ownership of shares in the UK, but a weakness of this kind of 'absolute share' data is that it does not take into account the relative positions of those fund managers ranked amongst companies' largest shareholders. This issue is particularly important when trying to understand the potential for active company-specific relationships (coalitions) between companies' biggest shareholders. These relationships are likely to be different if the Top 20 shareholders all have equal shares (of say 2.5% each, totalling 50%) than if the largest shareholder controls close to 8% and the Top 5 around 25% between them[5].

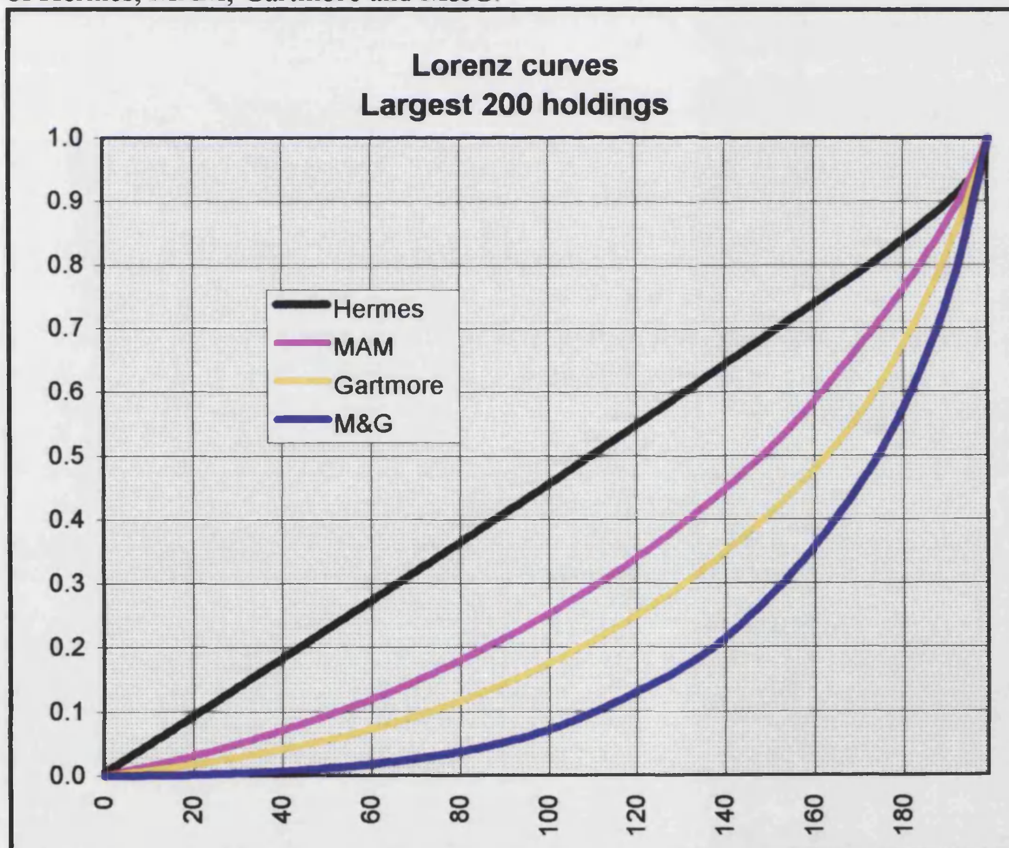
[5] This is part of the profile of the 'Modal Company' described in more detail in Section VI.

B Measures of Concentration

Lorenz curves are used in this Chapter to chart the relationships between the shareholdings of companies Top 20 fund manager shareholders, which on average control 47% of the shares of the Top 300 companies[6]. The format for a Lorenz curve is that cumulative shareholdings are calculated. If all shareholdings are equal, the Lorenz curve will be a straight line. If shareholdings are unequal the curve will be convex, the extent of the convexity reflecting the degree of inequality between shareholdings.

The Lorenz curve can provide a strong visual indication of the relationship between fund managers and shareholders, for example - see Chart I.2.

Chart I.2 Examples of Lorenz curves for the top 200 shareholdings of Hermes, MAM, Gartmore and M&G.



[6] This and all the other averages shown in this Chapter are simple numerical averages of the sample group and are not weighted by market capitalisation.

However, it is desirable to have a more precise method to analyse shareholder profiles. The Gini Coefficient is a measure of the inequality between market shares. In the context of this study, when all shares are equal, the Gini Coefficient is 0 (for example, 20 shareholdings of 2.5%, or 100 holdings of 1%).

The Gini Coefficient of inequality has been calculated using the following standard formula[7]:

$$Gini = 1 - (2\ (1/n\ (S_1 + S_2 + \ldots\ldots + S_{n-1} + S_n/2)))$$

Where: S = shareholding as proportion of the total of n holdings.

n = number of fund managers/shareholders

Using this formula, maximum inequality is 1.0.

The Gini Coefficient is normally used as a measure of income inequality because of the interests of governments and economists in measuring income dispersal and the degree of inequality between, for example, the richest and poorest deciles.

The values of Gini for fund managers' shareholdings across their 200 largest investments, range from 0.231 (Hermes) to 0.791 (M&G), as shown in Chart I.2. The values for Gini for Hermes and M&G reflect the generally known characteristics of their portfolios. Around 85% of the Hermes portfolio is indexed against the FT All-share index of around 900 companies. In contrast, M&G's portfolio is actively managed, focuses on a much smaller number of companies and a relatively high proportion of holdings are substantially overweight. Gini provides a way of quantifying these differences and comparing fund managers' portfolios and companies' shareholders on a consistent basis.

Although Gini provides a useful measure of investor inequality, the market shares and shareholdings of fund managers are treated as being of equal importance. Thus a difference of 1% between the size of the 19th and 20th shareholders (out of the Top 20) has the same impact on the value of Gini as a 1% difference between the largest and second largest shareholder .

However, the qualitative research described in Chapters 4 to 7 suggests that this is not necessarily the case, and it is a company's largest shareholders which are most likely to respond to under-performance and seek to influence the board or company. This indicates that the relationships between fund manager shareholders[8] and the companies in which they invest are influenced by: the actual size of their shareholdings; the size of their shareholdings relative to other investors; and their ranking on the share register.

If these factors are to be quantified, additional weighting must be given to the shareholdings of companies' largest shareholders, reflecting their shareholder ranking. The Herfindahl index (H) provides a measure which recognises the disproportionate power of higher ranking market participants and is calculated as the sum of the squares of the shares[9]. The shares are calculated in the same way as used for the Gini Coefficient (above).

When shares are equal, the value of H will be $1/n$[10]. The maximum value for H is 1.0 and the values for the Top 300 companies analysed by Citywatch ranged from 0.055 (Reckitt & Coleman) to 0.394 (Bank of Scotland[11]).

The analysis of share ownership set out in this Chapter shows that a number of measures of share ownership (absolute shareholdings, Gini and Herfindahl Index) are useful in assessing the relationships between fund managers and the companies in which they invest. There appear to be very substantial differences between the equity portfolios of the Top 50 fund managers, which the ShareTrak data shows account for half the total capitalisation of the Stock Market.

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[7] This form of Gini corresponds to equation (10) in The New Pulgrave Dictionary of Economics (1987 p.530). I am grateful to Dr Joanna Gomulka for her verification of this (see Acknowledgements).
[8] For example, in a coalition.
[9] These shares will only equal the actual % shareholding if all shareholders are included in the sample group. In this Chapter, only the 20 largest shareholdings in each company have been analysed. The share used in the calculation of Gini and the Herfindahl index is therefore as a % of the sum of the shareholdings of the sample group.
[10] Ie. 0.05 for a sample of 20 fund managers/shareholders and 0.02 for a sample of 50.
[11] The largest shareholder in the Bank of Scotland in January 1996 was Standard Life with 32.4%.

There are also significant differences in the shareholder profiles of the Top 300 companies, although these have also been used to develop the profile of a 'modal' company. The methodology used is set out in Section VI.

The analysis on non-fund manager (non-financial) shareholders (Section VII) uses data which is generally of lower quality than that obtained from Citywatch. Although there are formal requirements for the disclosure of directors and other shareholdings (at 3%) set out by the Companies Act and Stock Exchange Listing Rules, in practice companies interpret these in different ways and with varying levels of diligence[12].

In Section VI, non-financial shareholders have been analysed if in January 1996 board holdings were 1% or more or other shareholders exceeded the 3% declaration level. Shareholdings have been classified as being; strategic (commercial), board, private, family, charitable, cross-holdings or government. A review of the ownership of the 110 companies with non-financial shareholders passing one of the above thresholds suggests that strategic holdings in excess of 50% tend to be associated with below average fund manager shareholdings. This appears to be because shareholdings of this size reduce the 'free float' of shares available to fund managers and other investors. Board stakes above 10% are also associated with lower than average fund manager holdings and it appears that these can also be explained by a reduction in the free float.

A review of the relationship between company size and measures of shareholder concentration which excludes the 24 companies with strategic stakes over 50% and

[12] The strength of the Citywatch analysis of company ownership is that the raw data is obtained directly from companies' share registers and is therefore is not reliant on secondary disclosure by companies. However, a high proportion of the institutional shareholdings shown in company share registers are in nominee accounts. The use of these is widespread and extremely complex as institutional shareholders typically operate a considerable number of nominee accounts and in most cases the names/designations of these cannot be directly related to either the controlling institutional investor or the underlying beneficiary. In addition, nominee accounts may be allocated to single clients (for example, an individual pension fund or investment trust) or to groups of clients (for example, all the investment trusts or private clients of the fund manager). Citywatch uses both computer programmes and a team of expert staff to monitor the use of nominee accounts by fund managers, in order to ensure that each holding on the share register is correctly allocated to the controlling institutional investor. This information is also matched against Section 212 notices issued by companies to identify the beneficial owners of shareholdings (the replies to which are a matter of public record) and the public information selectively provided by fund managers to clients and investors about their shareholdings. Keeping track of and reconciling these sources of information is very time consuming but essential if share registers are to be correctly analysed. I am therefore extremely very grateful to Citywatch for making the results of their analysis available to me.

board holdings over 10% suggests an inverse relationship between company size and shareholder concentration.

The key findings from this Chapter are that both fund manager and company factors affect shareholder concentration and that this can usefully be measured in a number of ways. For most of the Top 300 companies analysed, their top 20 financial shareholders account for between one-third and half their issued shares. Amongst these investors the Top 20 fund managers are strongly represented, 13 of which were interviewed as the second component of my research (Chapters 4 to 7) into the relationship between shareholder ownership and influence on listed companies.

II Surveys of share ownership

Large scale studies[13] of beneficial UK share ownership have been commissioned by the Central Statistical Office (CSO) annually since 1989, extending a series which began in 1963 and which was undertaken at six to eight year intervals, until the current series began in 1989. The most recent survey was published in December 1995 and was based on share register data gathered at the end of 1994 by Fulcrum Research for the CSO.

When analysing this information, it is useful to separate the information published by the CSO (now the ONS) into two separate tables. Table II.1 sets out the pattern of share ownership at six to eight year intervals for the 31 year period 1963 - 1994. Table II.2 covers the six year period 1989 - 1994. I have retabulated the results of the CSO surveys to clearly separate shares under the control of UK and overseas fund managers from those attributable to other types of investor.

The 31 year series (Table II.1) shows that the proportion of equities under the control of UK fund managers has approximately doubled from 29% (1963) to around 60% (1994) over the period. This increase has been more or less mirrored by the decline in direct private ownership from 54% to 20.3%. However, the correspondence is not exact as, whilst UK institutions have increased by 30.8%, individual ownership has declined by 33.7%. Overseas, shareholders account for some of this difference, but the 'other' category, which includes commercial cross-holdings and government holdings, has also declined (from 10.0% to 3.6%).

The research by Fulcrum and ShareTrak (which carried out the share register analysis for the 1992 and 1993 CSO surveys) indicates that a high proportion of the overseas holdings are under the control of professional fund managers and of these, approximately half are controlled by US-based investment funds. When holdings controlled by overseas fund managers are added to those for UK-based managers, the total increase since 1963 is from 36.0% to 76.1%. On the basis of the 1994 survey, over three-quarters of the shares of UK listed companies are controlled by fund managers.

[13] For the most recent survey (1994) Fulcrum analysed the beneficial ownership of 98,692 shareholdings in 207 companies.

Table II.1 30 year trend in share ownership

Beneficial Owner	1963	1969	1975	1981	1989	1994
Pension Funds	6.4	9.0	16.8	26.7	30.6	27.8
Insurance Companies	10.0	12.2	15.9	20.5	18.6	21.9
Unit Trusts	1.3	2.9	4.1	3.6	5.9	6.8
Investment Trusts	11.3	10.1	10.5	6.8	1.6	2.0
Other Financial Institutions					1.1	1.3
Total UK fund managers	**29.0**	**34.2**	**47.3**	**57.6**	**57.8**	**59.8**
Overseas Investors	7.0	6.6	5.6	3.6	12.8	16.3
Total fund managers	**36.0**	**40.8**	**52.9**	**61.2**	**70.6**	**76.1**
Individuals*	54.0	47.4	37.5	28.2	20.6	20.3
Others	10.0	11.8	9.6	10.6	8.8	3.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: CSO/ONS Surveys *Includes PEPs and employee share schemes

1989 - 1994

The pattern over the six year period 1989 - 1994 (Table II.2) shows that in 1993 and 1994 the long-term trend appears to have stabilised with respect to the proportion of shares controlled by the three largest groups; UK fund managers (around 60%), overseas investors (16%) and private shareholders (20.0%).

However, these figures almost certainly understate the level of control attributable to fund managers and overstate the role of private investors in the UK Stock Market. This is because the CSO surveys are of beneficial ownership and, for example, classify all PEP holdings as being attributable to individual investors. In practice, the majority of PEP funds are collective schemes operated by many of the same fund managers who are responsible for the management of pension funds, equity-based insurance funds, unit and investment trusts. Personal investment portfolios managed by private client stockbrokers are also included as individual holdings, although, as with PEPs, a proportion of these are managed on a discretionary basis and thus not under the personal control of the client or beneficiaries. Private discussions with Fulcrum, Gavin Anderson and the ONS suggest that reallocating PEP investments and private portfolios not under the direct control of the beneficiaries to fund managers would reduce the proportion of shares attributable to individuals to 17% -

18% and correspondingly increase the total proportion of shares controlled by UK and overseas fund managers to around 80%.

Table II.2: Share ownership 1989 - 1994

Beneficial Owner	1989	1990	1991	1992	1993	1994
Pension Funds	30.6	31.6	31.3	32.4	31.5	27.8
Insurance Companies	18.6	20.4	20.8	19.5	20.0	21.9
Unit Trusts	5.9	6.1	5.7	6.2	6.6	6.8
Investment Trusts	1.6	1.6	1.5	2.1	2.5	2.0
Other Financial Institutions	1.1	0.7	0.8	0.4	0.6	1.3
Total UK fund managers	**57.8**	**60.4**	**60.1**	**60.5**	**61.2**	**59.8**
Overseas Investors	12.8	11.8	12.8	13.1	16.3	16.3
Total fund managers	**70.6**	**72.2**	**72.9**	**73.6**	**77.5**	**76.1**
Individuals *	20.6	20.3	19.9	20.4	17.7	20.3
Others	8.8	7.5	7.2	6.0	4.8	3.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: CSO/ONS Surveys *Includes PEPs and employee share schemes

At the end of 1994, the value of the UK Stock Market was approximately £775 million. On the basis that around 80% of the market was controlled by fund managers at that time, the value of their UK equity portfolios totalled £620 million.

III Top 50 Fund Managers

Each year since 1989, Gavin Anderson has conducted a survey of the major institutional investors in the UK Stock Market. The information obtained for the 50 largest fund managers (ranked for each year by value of their UK equity portfolios) is set out in Appendix A and summarised in Table III.1.

Table III.1: Value of Top 50 fund managers equity portfolios (£ billion)

	1989	1990	1991	1992	1993	1994	1995
Largest	17.6	21.9	21.0	24.5	31.7	38.0	38.0
Top 3	45.6	51.4	54.3	58.8	72.2	82.3	89.9
Top 5	66.8	71.4	77.5	84.3	109.2	116.2	127.6
Top 10	113.2	117.4	126.8	133.8	178.5	179.8	194.7
Top 20	169.6	176.0	198.7	212.2	275.8	271.1	293.4
Top 50	257.0	267.6	307.1	331.6	408.6	418.2	453.3
Market	514.9	450.5	536.3	624.4	810.1	774.6	900.3

Although takeovers have been leading to consolidation in the UK fund management industry[14], this does not appear to be reflected in the share of the market attributable to the Top 50 fund managers in the period 1989 - 1995 (Table III.2).

Table III.2 : Market share of Top 50 fund managers

	1989	1990	1991	1992	1993	1994	1995
Largest	3.4	4.9	3.9	3.9	3.9	4.9	4.2
Top 3	8.9	11.4	10.1	9.4	8.9	10.6	10.0
Top 5	13.0	15.8	14.5	13.5	13.5	15.0	14.2
Top 10	22.0	26.1	23.6	21.4	22.0	23.2	21.6
Top 20	32.9	39.1	37.1	34.0	34.0	35.0	32.6
Top 50	**49.9**	**59.4**	**57.3**	**53.1**	**50.4**	**54.0**	**50.3**
Others	50.1	40.6	42.7	46.9	49.6	46.0	49.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Annual variations in the Gavin Anderson rankings and market share data may be attributable to the accuracy of information obtained from fund managers (effectively self-reporting), differences in timing and the way that portfolios are valued by the institutions involved. As described in Section II, pension funds are the biggest single source of investment in the stock market. The Top 3 fund managers in 1989 were Prudential,

[14] For example, the mergers of: Pearl/AMP; Scottish Mutual/Abbey National; Gartmore/NatWest; Hill Samuel/ TSB and then Lloyds/TSB; BAT subsidiaries Eagle Star/Allied Dunbar to form Threadneedle; Axa/Equity & Law; BZW/Wells Fargo; Morgan Grenfell/Deutsche Bank; Royal Insurance/Sun Alliance.

MAM and Schroders and are predominately pension fund managers. Although their rankings changed a number of times in the period 1990 - 1994, these were also the Top 3 fund managers in 1995. The increase in market share of the Top 3 from 8.9% in 1989 to 10.0% in 1995 represents a net gain of approximately £10 billion in funds under management. Correspondingly, other fund managers ranked in the Top 50 in 1989 have lost market share, an example being Henderson, which in 1989 had £4.3 invested in the stock market. This had risen to £5.4 billion in 1995, but if Henderson's 1989 portfolio had maintained its relative value it would have been worth around £7.5 billion at the end of 1995. Press reports suggest that the bulk of Henderson's £2.1 billion 'shortfall' was accounted for by the loss of pension fund management contracts (mandates) to fund managers such as Prudential, MAM and Schroders.

Chart III.3 illustrates the funds under management of the Top 50 fund managers investing in the UK Stock Market but, as suggested in Section I, this form of presentation makes it difficult to distinguish size effects (the Stock Market increased in value by 75% from 1989 to 1995) from structural changes in the relationships between fund managers.

In later Sections of this Chapter my analysis of fund manager portfolios focuses on the Top 20 fund managers. This group has been selected on the basis of their average shareholdings in Top 300 companies. Although there are a number of differences in the fund managers included in the latter group (based on Citywatch data) and the Gavin Anderson Top 20 (Appendix A), it is instructive to compare the profile of the Gavin Anderson Top 20 and Top 50 fund managers.

I have done this using Lorenz curves and through calculating the Gini values and Herfindahl Indices for the two groups of fund managers. A comparison of the Lorenz curves shown in Chart III.5 (Top 20) Chart III.6 (Top 50) shows that the Top 50 curve is considerably more concave than that for the Top 20. This indicates that there is greater inequality in the market shares of those fund managers included in the Top 50 than those only appearing in the Top 20.

The values of Gini quantify the relationship between these two groups of fund managers (Table III.4). The values for Gini do not indicate a time trend (1989 - 1995), but this is suggested by the values for the Herfindahl Index, which is more sensitive to the market shares of the largest fund managers. The values for 1994 and 1995 (average 0.0634) are higher for the period 1989 - 1993 (average 0.0593), suggesting that an increase in concentration has been taking place at the top of the fund manager rankings. This is consistent with the aggregate gain in market share of 1.1% by Prudential, MAM and Schroders between 1989 and 1994.

Chart III.3: UK Equity portfolios (£ billion) of Top 50 fund managers (1989-1995)

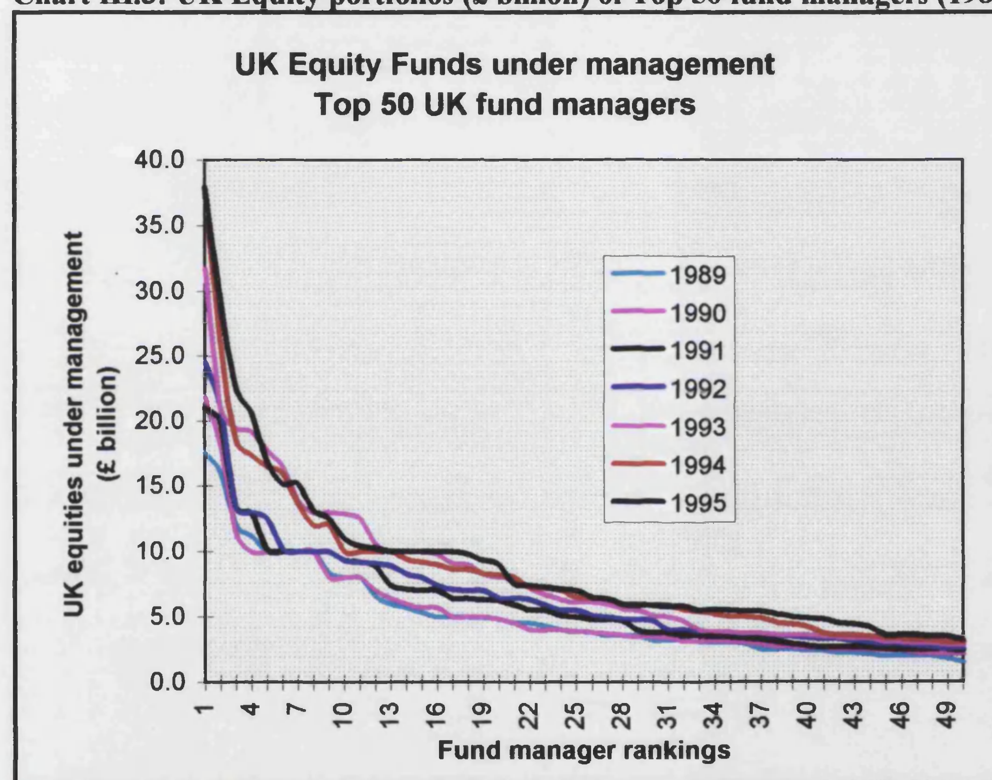


Table III.4 Top 20/50 fund managers: concentration indicators[15]

	1989	1990	1991	1992	1993	1994	1995
Gini (G_i) FM20	0.23	0.24	0.20	0.20	0.20	0.21	0.24
Gini (G_i) FM50	0.35	0.35	0.33	0.33	0.37	0.34	0.34
Herfindahl FM20	0.059	0.062	0.058	0.059	0.058	0.064	0.063
Herfindahl FM50	0.030	0.031	0.029	0.029	0.031	0.031	0.031

[15] Whereas the Gini values for the for the FM20 and FM50 groups are directly comparable, this is not true for the Herfindahl Index. For example, if all the fund managers had equal market shares, the Herfindahl Index for the FM20 group would be 0.05 and for the FM50 group 0.02.

Chart III.5: Lorenz curves for Top 20 fund managers

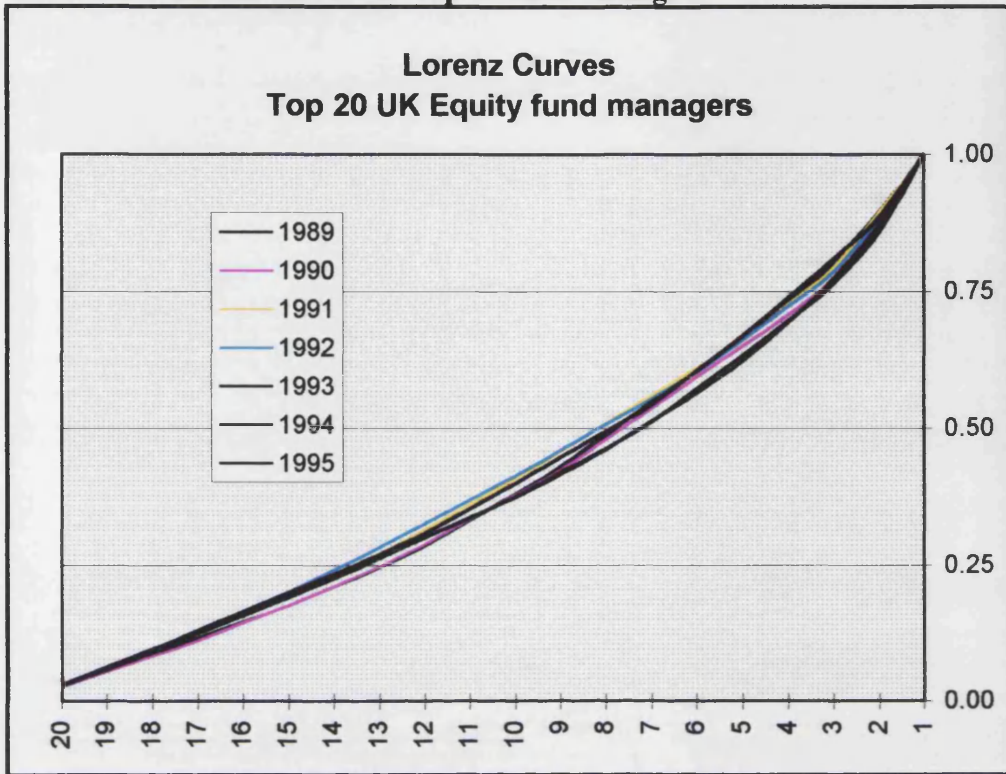
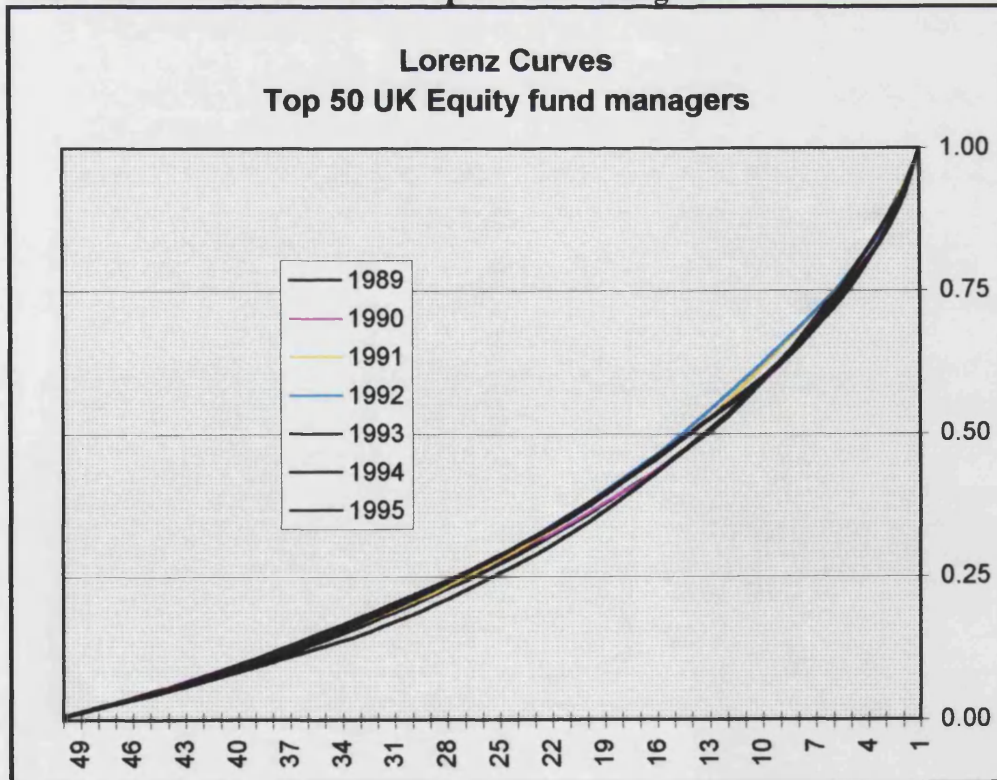


Chart III.6: Lorenz curves for Top 50 fund managers



IV Investment portfolios of Top 50 fund managers

A Profile of Shareholdings

In this Section I analyse the holdings of institutional investors using information from the Citywatch database for January 1996. A total of 34,668 holdings were analysed (Table IV.1).

Table IV.1: Summary of shareholdings analysed

Shareholdings	FT-SE 100	FT-SE 250	Total
>20.0%	2	10	12
15.0 - 19.9%	2	14	16
14.0 - 14.9%	1	12	13
13.0 - 13.9%	2	11	13
12.0 - 12.9%	5	10	15
11.0 - 11.9%	4	18	22
10.0 - 10.9%	5	20	25
9.0 - 9.9%	7	29	36
8.0 - 8.9%	5	33	38
7.0 - 7.9%	9	53	62
6.0 - 6.9%	17	67	84
5.0 - 5.9%	25	133	158
4.0 - 4.9%	54	168	222
3.0 - 3.9%	115	336	451
2.0 - 2.9%	309	679	988
1.0 - 1.9%	1,002	2,148	3,150
0.5 - 0.9%	1,902	2,444	4,346
0.0 - 0.49%	11,594	12,998	24,592
Total	**15,060**	**19,183**	34,243
ADRs	63	56	119
Sepon	98	208	306
Total analysed	**15,221**	**19,447**	**34,668**

Of these shareholdings, only 116 (0.3%) of the total were over 10% and 6.3% (2,155 shareholdings) over 1% - see Tables IV.2 and IV.3.

Table IV.2: Number of shareholdings by size

Shareholdings	FT-SE 100	FT-SE 250	Total
> 10%	21	95	116
5.0 - 9.9%	63	315	378
3.0 - 4.9%	169	504	673
2.0 - 2.9%	309	679	988
1.0 - 1.9%	1,002	2,148	3,150
0.5 - 0.9%	1,902	2,444	4,346
< 0.5%	11,594	12,998	24,592
Total	**15,060**	**19,183**	**34,243**

Table IV.3: Proportion of shareholdings by size

Shareholdings	FT-SE 100	FT-SE 250	Total
> 10%	0.1%	0.5%	0.3%
5.0 - 9.9%	0.4%	1.6%	1.1%
3.0 - 4.9%	1.1%	2.6%	2.0%
2.0 - 2.9%	2.1%	3.5%	2.9%
1.0 - 1.9%	6.7%	11.2%	9.2%
0.5 - 0.9%	12.6%	12.7%	12.7%
< 0.5%	77.0%	67.8%	71.8%
Total	**100.0%**	**100.0%**	**100.0%**

B ADRs

Of the 34,668 holdings analysed, 119 were classified as American Depository Receipts (ADRs) for which no further information on the ownership was available from the Citywatch database. ADRs are a form of share ownership geared to the requirements of domestic US investors and investment funds[16]. It appears that those companies with the highest proportion of their shares in the form of ADRs are those with a substantial proportion of their business interests in the US (Table IV.5). However, in January 1996, only ten companies had ADRs equivalent to 10% or more of their issued share capital and two-thirds (65.3% - 77 companies) had ADRs equivalent to less than 1% of their issued shares (Table IV.4).

Table IV.4: Analysis of ADRs

ADR holding	Companies	%
>50%	1	0.8%
20 - 49.9%	3	2.5%
10 - 19.9%	6	5.1%
5 - 9.9%	6	5.1%
3 - 4.9%	8	6.8%
2 - 2.9%	6	5.1%
1 - 1.9%	11	9.3%
< 1%	77	65.3%
Total	118	100.0%

[16] ADRs are registered and traded in the US in US$ and often have rights equivalent to a multiple of the underlying shares (for example, one ADR being equivalent to three UK listed, £ denominated shares). ADR programmes are typically managed by US banks on behalf of UK companies to provide liquidity to their US shareholders and US investors, some of which are only able to purchase shares with US listings.

Table IV.5: Companies with ADR holdings over 2%

	Index	Company	Holding	Ranking
1	FTSE250	Danka Business Systems	74.81	1
2	FTSE100	Vodafone Group	37.02	1
3	FTSE100	Reuters Holdings	26.86	1
4	FTSE250	Willis Corroon Group	25.53	1
5	FTSE100	Hanson	19.69	3
6	FTSE250	Medeva	16.46	1
7	FTSE100	BP	16.43	1
8	FTSE250	INVESCO	14.05	1
9	FTSE250	Nynex Cablecomms	12.24	1
10	FTSE100	Glaxo Wellcome	10.21	1
11	FTSE100	British Airways	9.26	2
12	FTSE250	Cordiant	9.26	1
13	FTSE100	ICI	9.11	2
14	FTSE250	General Cable	8.86	1
15	FTSE100	British Steel	7.76	2
16	FTSE100	BSkyB Group	5.68	1
17	FTSE250	WPP Group	4.16	3
18	FTSE100	Rentokil Group	3.71	1
19	FTSE100	Zeneca Group	3.67	3
20	FTSE250	Telewest Communications	3.65	1
21	FTSE100	Cable & Wireless	3.57	2
22	FTSE100	Grand Metropolitan	3.45	1
23	FTSE250	Body Shop International	3.30	3
24	FTSE100	National Westminster Bank	3.00	4
25	FTSE100	LASMO	2.66	4
26	FTSE250	Lonrho	2.56	2
27	FTSE250	SEEBOARD	2.27	6
28	FTSE100	Southern Electric	2.12	5
29	FTSE100	British Telecom	2.01	5
30	FTSE100	Cadbury Schweppes	2.00	6

C Sepon

Another 297 holdings were classified as Sepon (Stock Exchange Pooled Nominees). In January 1996 this acted as a holding account operated by the Stock Exchange for share transactions in progress[17]. Because of their role in Stock Exchange trading, Sepon accounts exist for every listed company, the average holding being 1.66%. Approximately half of all Sepon holdings were below 1% (Table IV.6). However, nine companies had Sepon holdings above 5% when their share registers were logged by Citywatch in January 1996 (Table IV.7). As with ADRs, these unregistered holdings have been excluded from the analysis set out in rest of this Chapter.

[17] Sepon is no longer used under the CREST system.

Table IV.6: Analysis of Sepon holdings

	Companies	%
5.0 - 9.9%	9	3.3%
4.0 - 4.9%	13	4.3%
3.0 - 3.9%	28	9.2%
2.0 - 2.9%	30	9.9%
1.0 - 1.9%	69	23.0%
Below 1.0%	148	49.3%
Total	297	100.0%

Table IV.7: Companies with Sepon holdings over 5%

	Index	Company	Holding
1	FTSE250	London Merchant Securities	8.67
2	FTSE250	Welsh Water	7.41
3	FTSE250	First Leisure Corporation	7.32
4	FTSE100	Williams Holdings	6.58
5	FTSE100	Reed International	6.10
6	FTSE250	Monument Oil and Gas	5.58
7	FTSE250	Stakis	5.33
9	FTSE250	Transport Development Group	5.03

D Fund manager portfolios

Table IV.8 summarises the portfolios of the 50 largest fund managers investing in UK equities using data from the Citywatch database. Unlike the Gavin Anderson data, this analysis is not based on portfolio values but the average size of each fund managers' holdings in the 297 companies included in the Citywatch database. The number and average shareholdings have been separately calculated for FTSE 100 companies (all of which were included in the Citywatch database) and those in the FTSE Mid-250 index (the maximum therefore being 197 companies out of 250). Table IV.8 sets out this information. The product of the number of companies in which the fund manager has stakes and the average shareholding is the weighted average holding for each index group (FTSE 100 and FT250)[18].

At the end of 1995, companies in the FTSE 100 index accounted for 75.5% of Stock Market capitalisation and those in the FTSE Mid-250 index 18.0%, a total of 93.5% of

market capitalisation (Stock Exchange Fact Book 1996). For FTSE-350 companies alone, the proportional market values were therefore 80.7% (75.5/93.5) and 19.3% (18.0/93.5)

The aggregate value of the 297 companies comprising the Citywatch database was £774.9 billion at the end of January 1996 (Appendix G), equivalent to 84.5% of market capitalisation at that time (Table IV.8) and the proportional values for FTSE 100 companies (80.5%) and FTSE 250 companies (19.5%) were very close to those calculated for the market as a whole at the end of December 1995.

Table IV.8: Value of Citywatch companies

Companies	Value (£ million)	Proportion
FTSE 100	623,585	80.5%
FTSE 250	151,293	19.5%
Total Citywatch 'Top 300'	774,878	100.0%
Stock market	917,300	84.5%

The Citywatch ratio (80.5:19.5) has been used to calculate the weighted average holding for the holdings of the largest (by average size of shareholdings) 50 fund managers included in the Citywatch database (Table IV.8). The aggregate market shares of the Largest and Top 3, 5, 10, 20 and 50 fund managers shown in Table IV.8 closely with those calculated using the Gavin Anderson end 1995 survey of portfolio values (Table IV.9).

Table IV.9 Fund managers' share of Stock Market value: Comparison of Gavin Anderson survey and Citywatch data

	Gavin Anderson (end 1995)	Citywatch (Jan 1996)
Largest	4.2	4.5
Top 3	10.0	10.6
Top 5	14.2	14.9
Top 10	21.6	22.7
Top 20	32.6	32.7
Top 50	50.3	47.9

[18] For fund managers with the maximum number of holdings in each index group the average and weighted average holdings will therefore be identical (for example, Prudential, BZW, Legal & General and Hermes).

Table IV.10 Summary of fund managers' holdings

		FT-SE 100			FT-SE 250			Weighted
Rank	Fund manager	Number	Avg. %	Weighted average	Number	Avg. %	Weighted average	Top 300
1	MAM	100	4.66	4.66	196	4.03	4.01	4.53
2	Prudential	100	3.03	3.03	197	3.44	3.44	3.11
3	Schroder	97	2.93	2.84	194	3.26	3.21	2.91
4	Standard Life	99	2.50	2.48	159	2.23	1.80	2.34
5	PDFM	99	1.84	1.82	196	2.72	2.71	1.99
6	BZW	100	1.91	1.91	197	1.95	1.95	1.92
7	Legal & General	100	1.78	1.78	197	1.85	1.85	1.79
8	Hermes	100	1.52	1.52	197	1.55	1.55	1.53
9	Threadneedle	97	1.39	1.35	94	2.19	1.04	1.29
10	Fleming	98	1.21	1.19	194	1.66	1.63	1.27
11	Gartmore	98	1.12	1.10	195	1.99	1.97	1.27
12	M&G	80	1.16	0.93	123	2.95	1.84	1.11
13	Scottish Widows	83	1.46	1.21	113	1.02	0.59	1.09
14	Morgan Grenfell	99	0.94	0.93	195	1.26	1.25	0.99
15	Norwich Union	83	1.27	1.05	122	0.93	0.58	0.96
16	AMP	89	1.04	0.93	134	1.56	1.06	0.95
17	CIN	80	1.27	1.02	55	2.01	0.56	0.93
18	Sun Life IM	88	1.11	0.98	129	1.03	0.67	0.92
19	ESN	97	0.95	0.92	154	1.08	0.84	0.91
20	Co-operative Ins.	98	0.86	0.84	179	1.16	1.05	0.88
21	NatWest	100	0.83	0.83	194	0.88	0.87	0.84
22	Sun Alliance	96	0.84	0.81	134	1.00	0.68	0.78
23	HSBC	100	0.75	0.75	196	0.80	0.80	0.76
24	Hill Samuel	98	0.76	0.74	173	0.92	0.81	0.76
25	Scottish Amicable	98	0.74	0.73	121	0.93	0.57	0.70
26	Royal Insurance	99	0.67	0.66	195	0.67	0.66	0.66
27	Equitable Life	94	0.69	0.65	137	0.90	0.63	0.64
28	Friends Provident	96	0.58	0.56	163	1.04	0.86	0.62
29	Universities SSS	98	0.60	0.59	197	0.52	0.52	0.57
30	Lloyds	100	0.55	0.55	175	0.74	0.66	0.57
31	Baring	83	0.63	0.52	118	1.19	0.71	0.56
32	Clerical Medical	83	0.56	0.46	123	1.44	0.90	0.55
33	British Gas PF	95	0.60	0.57	109	0.80	0.44	0.55
34	GRE	96	0.59	0.57	103	0.78	0.41	0.54
35	Shell PF	97	0.53	0.51	196	0.52	0.52	0.51
36	General Accident	71	0.79	0.56	71	0.79	0.28	0.51
37	BP Pension Fund	97	0.52	0.50	156	0.62	0.49	0.50
38	Axa Equity & Law	95	0.54	0.51	96	0.79	0.38	0.49
39	Sun Life Canada	71	0.63	0.45	66	1.95	0.65	0.49
40	Newton	94	0.45	0.42	137	0.71	0.49	0.44
41	Abu Dhabi	61	0.75	0.46	41	1.49	0.31	0.43
42	Baillie Gifford	49	0.74	0.36	85	1.55	0.67	0.42
43	Henderson	97	0.34	0.33	165	0.64	0.54	0.37
44	Capital	39	0.92	0.36	35	1.07	0.19	0.33
45	National Provident	83	0.38	0.32	83	0.77	0.32	0.32
46	Cazenove	93	0.33	0.31	153	0.39	0.30	0.31
47	Kleinwort	98	0.31	0.30	196	0.26	0.26	0.30
48	Fidelity	65	0.30	0.20	101	1.16	0.59	0.27
49	Singapore	86	0.29	0.25	85	0.40	0.17	0.23
50	Foreign & Colonial	84	0.23	0.19	58	0.60	0.18	0.19
All	**Average**	**90**	**1.03**	**0.95**	**142**	**1.32**	**0.99**	**0.96**

Although there is a close similarity in my analysis of the Gavin Anderson and Citywatch data, four fund managers ranked in the top 20 by Gavin Anderson (Appendix A) have significantly lower rankings on the basis of the information obtained by Citywatch from company share registers. The four fund managers are the State investment funds of Abu Dhabi, Kuwait (KIO), Saudi Arabia (SAMA) and Singapore. My analysis of the Citywatch data places Abu Dhabi in 41st place and Singapore in 49th position, with the KIO and SAMA ranked outside the Top 50[19].

When the four State funds are excluded from the Gavin Anderson rankings for the Top 20 fund managers for (Appendix A.2), there is a close relationship between the Gavin Anderson and Citywatch rankings for end 1995 - January 1996 (Table IV.10). Although there are differences in ranking positions with the Top 20, the only difference between those included in the Citywatch and Gavin Anderson Top 20 rankings is that Citywatch places Co-op Insurance in 20th and NatWest in 21st positions and these are reversed by Gavin Anderson.

Table IV.11: Fund manager rankings

Rank	Citywatch	Gavin Anderson
1	MAM	MAM
2	Prudential	Prudential
3	Schroder	Schroder
4	Standard Life	PDFM
5	PDFM	Standard Life
6	BZW	BZW
7	Legal & General	Legal & General
8	Hermes	Hermes
9	Threadneedle	Gartmore
10	Fleming	Threadneedle
11	Gartmore	Norwich Union
12	M&G	Scottish Widows
13	Scottish Widows	Fleming
14	Morgan Grenfell	M&G
15	Norwich Union	AMP
16	AMP	CIN
17	CIN	ESN
18	Sun Life IM	Morgan Grenfell
19	ESN	Sun Life IM
20	Co-operative Ins.	NatWest

[19] The differences in these rankings of the four State funds may be due to a number of reasons, the most likely being that some of the funds attributable to the four State funds by Gavin Anderson have been allocated to domestic fund managers by Citywatch.

E Size of shareholdings

Across the 297 companies in the Citywatch database, the Top 20 fund managers account for 5,128 holdings (Table IV.12), equivalent to 87.2% of the maximum of 5,940 (297 companies x 20 fund managers). This compares with an average of 77.8% for the Top 50 fund managers (calculated from Table IV.10, the average number of shareholdings being 232), confirming the tendency evident in Table IV.10 for smaller fund managers to hold shares in a smaller number of companies.

Table IV.12: Top 20 fund managers shareholdings by size (number of companies)

	% shareholdings	< 0.5	0.5 - 0.9	1.0 - 1.9	2.0 - 2.9	3.0 - 4.9	5.0 - 9.9	> 10.0
1	MAM	37	36	49	35	52	58	37
2	Prudential	50	15	36	40	93	70	2
3	Schroder	89	26	29	37	48	43	19
4	Standard Life	14	16	91	91	44	2	0
5	PDFM	142	35	39	26	22	23	21
6	BZW	2	17	181	82	26	2	0
7	Legal & General	8	19	185	79	20	1	0
8	Hermes	5	23	270	10	2	0	1
9	Threadneedle	44	38	56	23	21	7	2
10	M&G	81	21	36	11	28	18	8
11	Fleming	103	56	60	26	33	11	3
12	Gartmore	115	46	52	28	26	24	3
13	CIN	14	28	57	26	9	1	0
14	Scottish Widows	67	39	49	25	13	3	0
15	AMP	54	48	72	34	14	2	0
16	Norwich Union	91	31	49	19	10	5	0
17	Morgan Grenfell	127	59	61	25	17	9	1
18	Sun Life IM	82	49	52	20	11	3	0
19	ESN	21	106	113	9	0	0	0
20	Co-operative Ins	62	102	91	15	6	0	1
	Totals	1,208	810	1,628	661	495	282	98

Of the 5,128 shareholdings, 2,018 (38.9%) are smaller than 1% and 3,164 (61.7%) larger than 1%. (Table IV.13). There are marked differences in the profile of fund managers holdings in Top 300 companies. The Top 20 fund managers account for more than two thirds (66.9%) of holdings over 2.0% and three quarters (73.6%) of all holdings over 3.0% (Table IV.13).

Table IV.12: Summary of Top 20 fund managers' holdings

	All holdings	Top 20 FMs	Proportion
> 10%	116	98	84.5%
5.0 - 9.9%	378	282	74.6%
3.0 - 4.9%	673	495	73.6%
2.0 - 2.9%	988	661	66.9%
1.0 - 1.9%	3,150	1,628	51.7%
0.5 - 0.9%	4,346	810	18.6%
< 0.5%	24,592	1,208	4.9%
Total	**34,243**	**5,182**	**15.1%**

Whilst 12.3% of MAM's holdings are above 10.0%, no other fund manager approaches this proportion of holdings above 10.0% (Table IV.14). Other fund managers are notable for having more than 15% of their holdings above the 3% level. In addition to MAM, these include Prudential, Schroder, Standard Life, PDFM, Threadneedle, M&G, Fleming and Gartmore.

Table IV.14: Analysis of Top 20 fund managers' shareholdings

		< 1.0%	> 1.0%	> 3.0%	> 5.0%	> 10.0%
1	MAM	24.0	76.0	48.4	31.3	12.2
2	Prudential	21.2	78.8	53.9	23.5	0.7
3	Schroder	39.5	60.5	37.8	21.3	6.5
4	Standard Life	11.6	88.4	17.8	0.8	0.0
5	PDFM	57.5	42.5	21.4	14.3	6.8
6	BZW	6.1	93.9	9.0	0.6	0.0
7	Legal & General	8.7	91.3	6.7	0.3	0.0
8	Hermes	9.0	91.0	1.0	0.3	0.3
9	Threadneedle	42.9	57.1	15.7	4.7	1.0
10	Fleming	54.5	45.5	16.1	4.8	1.0
11	Gartmore	54.8	45.2	18.0	9.2	1.0
12	M&G	50.2	49.8	26.6	12.8	3.9
13	Scottish Widows	54.1	45.9	8.2	1.5	0.0
14	Morgan Grenfell	62.2	37.8	9.0	3.3	0.3
15	Norwich Union	59.5	40.5	7.3	2.4	0.0
16	AMP	45.5	54.5	7.1	0.9	0.0
17	CIN	31.1	68.9	7.4	0.7	0.0
18	Sun Life IM	60.4	39.6	6.5	1.4	0.0
19	ESN	51.0	49.0	0.0	0.0	0.0
20	Co-operative Ins.	59.2	40.8	2.5	0.4	0.4

F Weighting of shareholdings

However, any comparison between these and the other Top 20 fund managers also needs to take into account the size of their portfolios, measured by their share of the stock market, as set out in Table IV.10. These shares have been used to calculate the size of shareholdings at which they are two, three and four times overweight. These are simply multiples of the fund managers' market weightings. A holding larger than market weighting is described as 'overweight' and one below their market weighting as 'underweight'. The multiples for overweight holdings are set out in Table IV.15 below.

Table IV.15: Investment weightings of fund managers (%)

	Fund manager	Market weighting	Twice times	Three times	Four times
1	MAM	4.53	9.06	13.59	18.12
2	Prudential	3.11	6.22	9.33	12.44
3	Schroder	2.91	5.82	8.73	11.64
4	Standard Life	2.34	4.68	7.02	9.36
5	PDFM	1.99	3.98	5.97	7.96
6	BZW	1.92	3.84	5.76	7.68
7	Legal & General	1.79	3.58	5.37	7.16
8	Hermes	1.53	3.06	4.59	6.12
9	Threadneedle	1.29	2.58	3.87	5.16
10	Fleming	1.27	2.54	3.81	5.08
11	Gartmore	1.27	2.54	3.81	5.08
12	M&G	1.11	2.22	3.33	4.44
13	Scottish Widows	1.09	2.18	3.27	4.36
14	Morgan Grenfell	0.99	1.98	2.97	3.96
15	Norwich Union	0.96	1.92	2.88	3.84
16	AMP	0.95	1.90	2.85	3.80
17	CIN	0.93	1.86	2.79	3.72
18	Sun Life IM	0.92	1.84	2.76	3.68
19	ESN	0.91	1.82	2.73	3.64
20	Co-operative Ins.	0.88	1.76	2.64	3.52

Table IV.16 shows the proportion of each fund managers' holdings which are underweight (< 1.0 times) and overweight (>1.0, > 2.0 and > 4.0 times). The fund managers are ranked by the proportion of shareholdings more than two times overweight.

Table IV.16: Number and proportion of overweight holdings
(Ranked by % of holdings > 2x overweight)

	Fund manager	Number of companies	Overweight holdings (%) > 1.0 times	> 2.0 times	> 4.0 times
1	Hermes	240	77.2	**1.3**	0.3
2	Standard Life	100	38.8	**3.5**	0.8
3	BZW	145	46.8	**3.5**	0.3
4	Legal & General	184	59.0	**3.5**	0.0
5	ESN	172	69.1	**4.8**	0.0
6	Co-operative Ins.	153	55.2	**12.3**	1.4
7	Prudential	167	54.6	**15.0**	0.0
8	MAM	114	37.5	**15.5**	1.6
9	Threadneedle	83	43.5	**16.2**	6.3
10	Scottish Widows	85	43.4	**16.3**	2.6
11	Norwich Union	84	41.0	**17.1**	5.4
12	Sun Life IM	90	41.5	**17.5**	3.2
13	PDFM	96	31.2	**18.5**	9.7
14	Schroder	121	41.6	**18.6**	5.5
15	Morgan Grenfell	123	41.1	**18.7**	5.0
16	Fleming	115	39.4	**20.9**	5.5
17	CIN	86	63.7	**22.2**	0.7
18	Gartmore	123	41.8	**23.8**	10.2
19	AMP	125	55.8	**24.1**	2.2
20	M&G	94	46.3	**30.5**	13.3

The analysis set out in Table IV.16 shows that although MAM is the largest fund manager, its portfolio contains a smaller proportion of overweight holdings than other fund managers (ie those ranked nine and above in Table IV.16).

The proportion of holdings more than two times overweight provides a measure of portfolio concentration, which can be augmented by the use of the Gini coefficient. This has been calculated for each Top 20 fund manager's largest 100 and 200 shareholdings and also all their shareholdings in the 297 companies comprising the Citywatch database. Companies in which there are no holdings have been treated as 0.0% in the Gini calculation. The values of Gini for fund managers' holdings in the 297 (Top 300) companies and their largest 200 and 100 holdings are set out in Table IV.17. The fund managers have been ranked for each category of shareholdings and also an average ranking calculated. This has been used to group the fund managers into four groups and the Lorenz curves for each group of fund managers are shown in Charts IV.18 - 21.

Table IV.17: Concentration indices for Top 20 fund managers

			Gini Coefficient			Gini rankings			Average
Group	Rank	Fund manager	300	200	100	350	200	100	Ranking
1	1	Hermes	0.231	0.075	0.108	1	1	2	1.3
1	2	L&G	0.297	0.123	0.094	2	2	1	1.7
1	3	ESN	0.442	0.136	0.108	4	3	3	3.3
1	4	BZW	0.298	0.150	0.121	3	4	5	4.0
1	5	Prudential	0.484	0.206	0.117	5	5	4	4.7
2	6	Standard Life	0.501	0.241	0.213	6	6	8	6.7
2	7	MAM	0.575	0.344	0.199	8	8	6	7.3
2	8	Co-operative Ins.	0.508	0.265	0.230	7	7	11	8.3
2	9	AMP	0.632	0.362	0.209	10	9	7	8.7
2	10	Schroder	0.652	0.414	0.229	12	11	10	11.0
3	11	Morgan Grenfell	0.622	0.413	0.280	9	10	14	11.0
3	12	Fleming	0.651	0.436	0.288	11	12	15	12.7
3	13	Sun Life IM	0.707	0.480	0.279	14	14	13	13.7
3	14	Scottish Widows	0.728	0.514	0.265	15	15	12	14.0
3	15	Gartmore	0.681	0.469	0.294	13	13	16	14.0
4	16	CIN	0.744	0.542	0.213	18	17	9	14.7
4	17	Threadneedle	0.737	0.529	0.337	16	16	18	16.7
4	18	Norwich Union	0.758	0.568	0.295	19	18	17	18.0
4	19	PDFM	0.738	0.581	0.388	17	19	20	18.7
4	20	M&G	0.791	0.625	0.385	20	20	19	19.7

Chart IV.18: Lorenz curves - Group 1 fund managers (Gini values)

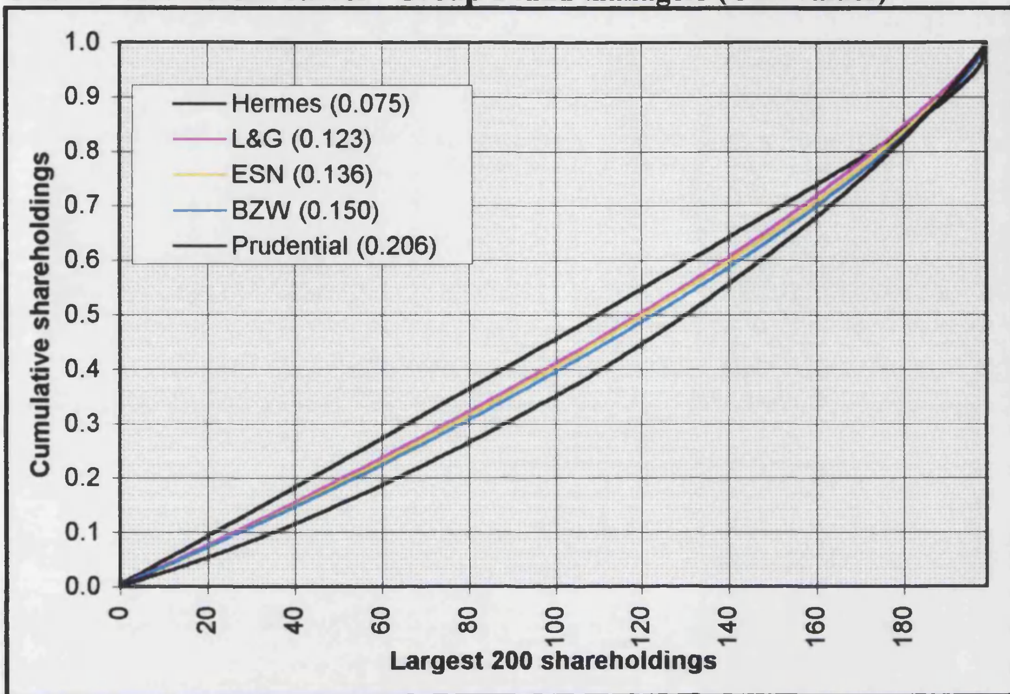


Chart IV.19: Lorenz curves - Group 2 fund managers (Gini values)

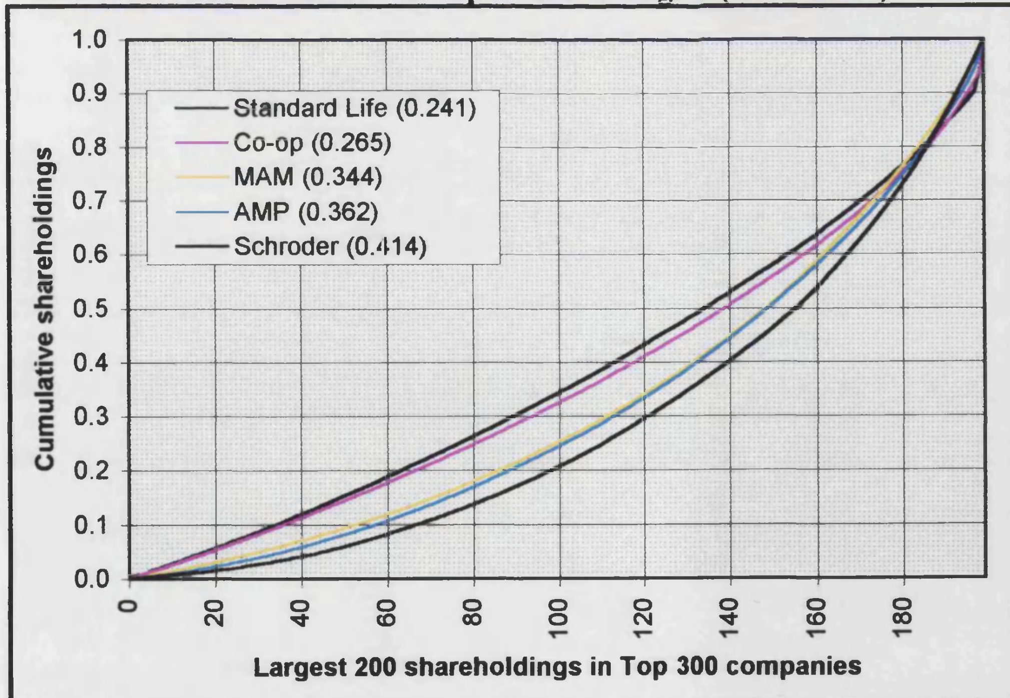


Chart IV.20: Lorenz curves - Group 3 fund managers (Gini values)

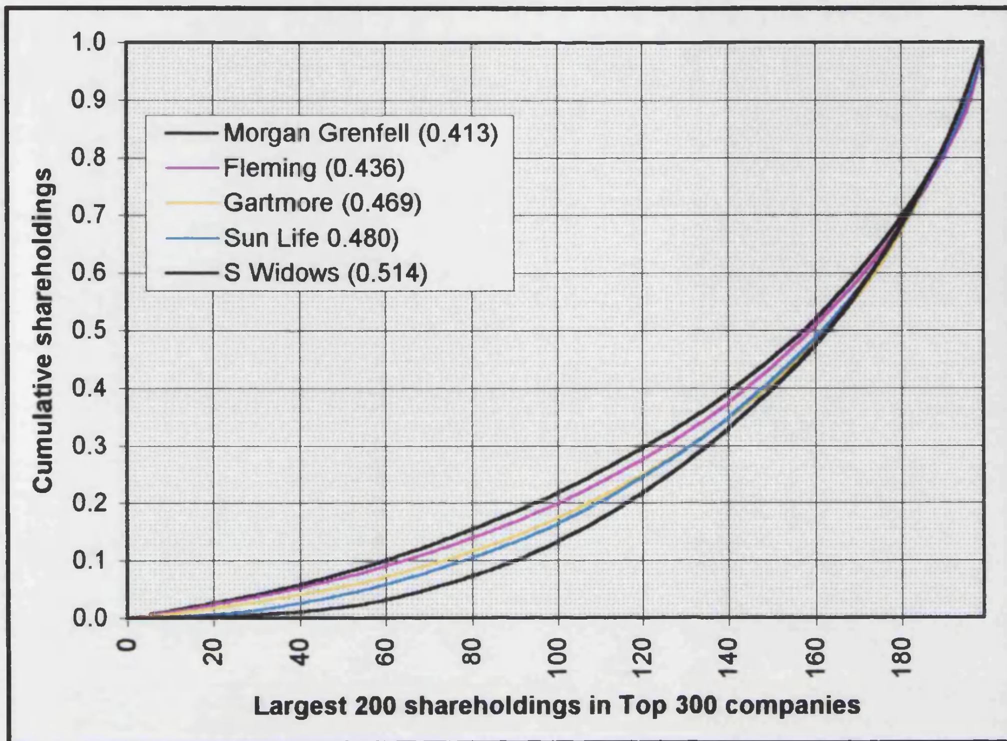
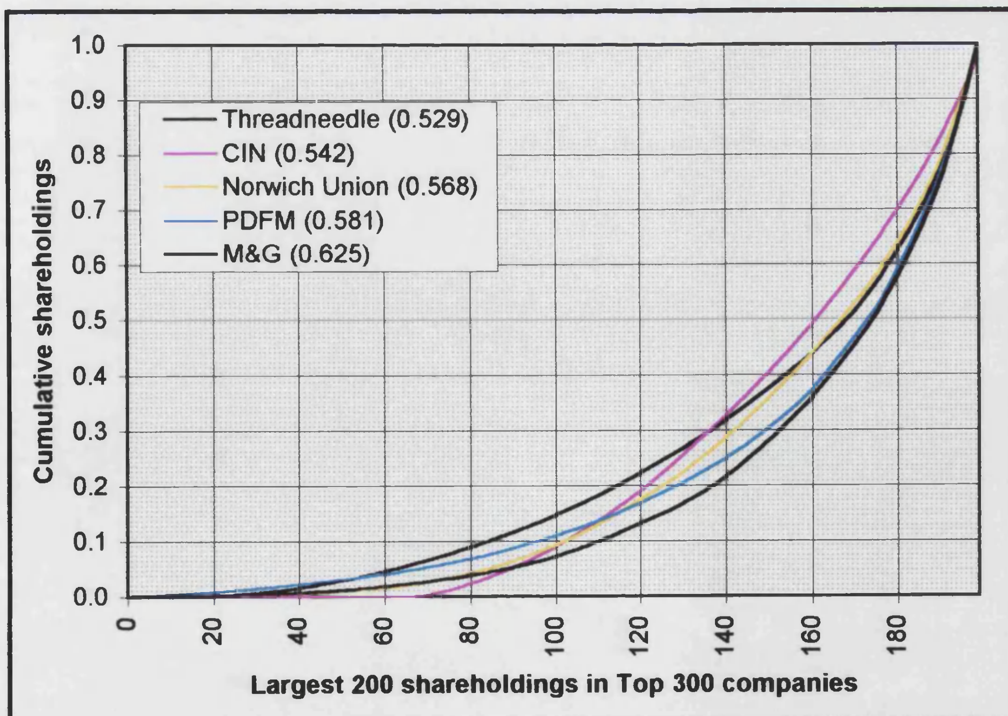


Chart IV.21: Lorenz curves - Group 4 fund managers (Gini values)



V Top 300 Companies' institutional shareholders

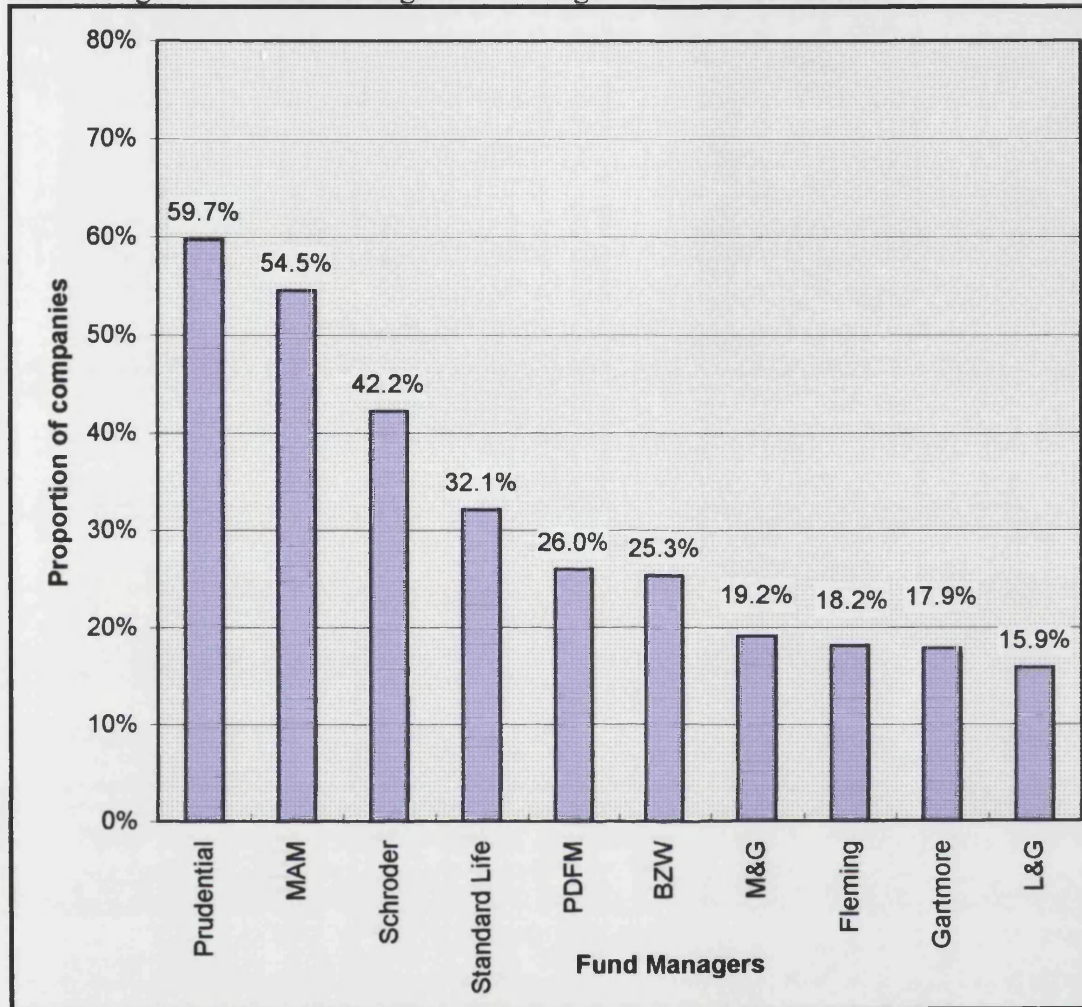
The importance of the Top 20 fund managers in the ownership of Top 300 companies is also evident when the position of these fund managers in companies' share registers is examined. A summary of the analysis is presented in Table V.1. This shows the number of times Top 20 fund managers are found amongst the five largest shareholders of the Top 300 companies. In 247 companies (83.2%) the largest shareholder is also a Top 10 fund manager and there is not a single company in which one of the Top 5 fund managers is not one of the Top 5 shareholders (Appendix B).

Table V.1: Five largest fund manager holdings in Top 300 companies

	1st	2nd	3rd	4th	5th	In top 5
Fund manager	**Largest**	**Second**	**Third**	**Fourth**	**Fifth**	**Total**
Prudential	53	47	38	23	20	181
MAM	73	34	21	20	14	162
Schroder	43	40	23	12	10	128
Standard Life	5	14	30	25	18	92
PDFM	38	15	11	8	7	79
Total top 5 only	212	150	123	88	69	642
% of total (297)	71.4%	50.5%	41.4%	29.6%	23.2%	43.2%
BZW	2	8	10	29	29	78
M&G	17	10	16	8	8	59
Fleming	5	7	18	13	8	51
Gartmore	10	18	7	10	15	60
L&G	1	3	9	18	27	58
Total top 5 only	247	196	183	166	156	948
% of total (297)	83.2%	66.0%	61.6%	55.9%	52.5%	31.9%
Threadneedle	5	15	9	9	5	43
Morgan Grenfell	3	7	6	9	7	32
Norwich Union	5	2	7	7	5	26
Scottish Widows	1	7	6	7	8	29
Hermes	0	1	10	8	13	32
AMP	1	3	6	7	4	21
Sun Life IM	1	5	4	4	5	19
CIN	0	3	3	5	3	14
Co-operative Ins.	1	1	1	1	2	6
ESN	0	1	0	1	2	4
Total	**264**	**241**	**235**	**224**	**210**	**1174**
% of total (308)	**86.3%**	**78.8%**	**76.8%**	**73.2%**	**70.7%**	**19.8%**

Although Prudential has the highest number of Top 5 positions (181), MAM is most often the largest shareholder (73 companies). This means that in a quarter (24.5%) of Top 300 companies, MAM is the largest shareholder. In 37 companies, MAM's shareholding is in excess of 10%.

Chart V.2: Proportion of Top 300 companies in which Top 10 fund managers are ranked amongst the five largest financial shareholders



VI Model of modal company

Companies in the Top 300 exhibit a wide range of Top 20 shareholder profiles. Although these could be directly aggregated to create an average profile, an alternative approach is to identify companies which most closely match the most common profile of Top 300 companies.

Table VI.1 shows the distribution of the largest shareholdings in the 297 companies for the largest and Top 3, 5, 10 and 20 shareholders. For each the modal range is highlighted. Twenty companies match the modal group for all the shareholder rankings (ie at the 1,3,5,10 and 20 levels). The profiles of these companies are set out in Table VI.2.

Table VI.1: Distribution of shareholdings

Actual	Financial shareholders				
numbers	Largest	Top 3	Top 5	Top 10	Top 20
> 75%	0	0	0	0	4
70 - 74.9%	0	0	0	0	2
65 - 69.9%	0	0	0	1	12
60 - 64.9%	0	0	0	4	15
55 - 59.9%	0	0	1	4	39
50 - 54.9%	0	1	0	8	30
45 - 49.9%	0	0	4	20	**59**
40 - 44.9%	0	2	7	44	38
35 - 39.9%	0	6	20	53	40
30 - 34.9%	2	9	31	**60**	19
25 - 29.9%	1	35	59	40	15
20 - 24.9%	8	44	**77**	34	12
15 - 19.9%	13	**93**	48	17	6
10 - 14.9%	73	69	41	9	4
5 - 9.9%	**145**	35	6	3	2
< 4.9%	55	3	3	0	0
Total	297	297	297	297	297

ChartVI.3 provides a representation of the modal profile for each of the largest 20 shareholders, which together account for 47% of the modal company's shares. Chart VI.4 illustrates the complete profile of the modal company, whilst Chart V1.5 shows the Lorenz curve for the Top 20 shareholders (plotted to 100.0 instead of 1.0) and the cumulative shareholdings, with the largest shareholder ranked 1st (using a reverse X scale to match the format of the Lorenz Curve).

Chart VI.3: Shareholder profile of modal company

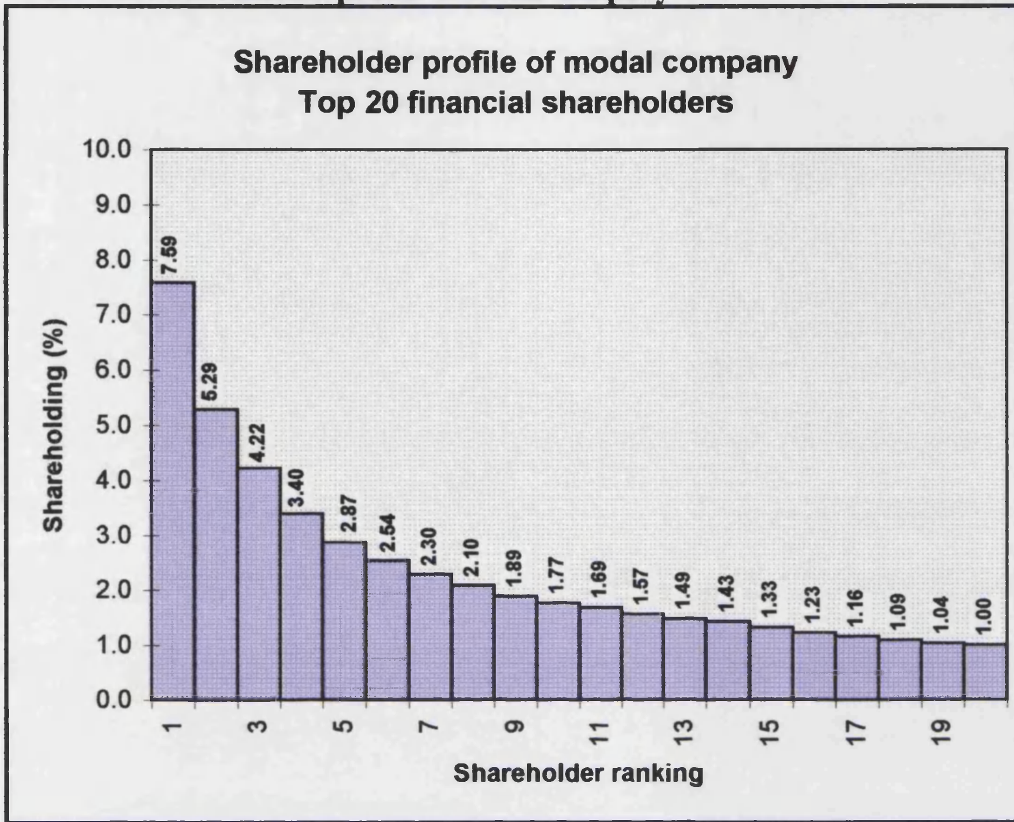


Chart VI.4: Complete shareholder profile of modal company

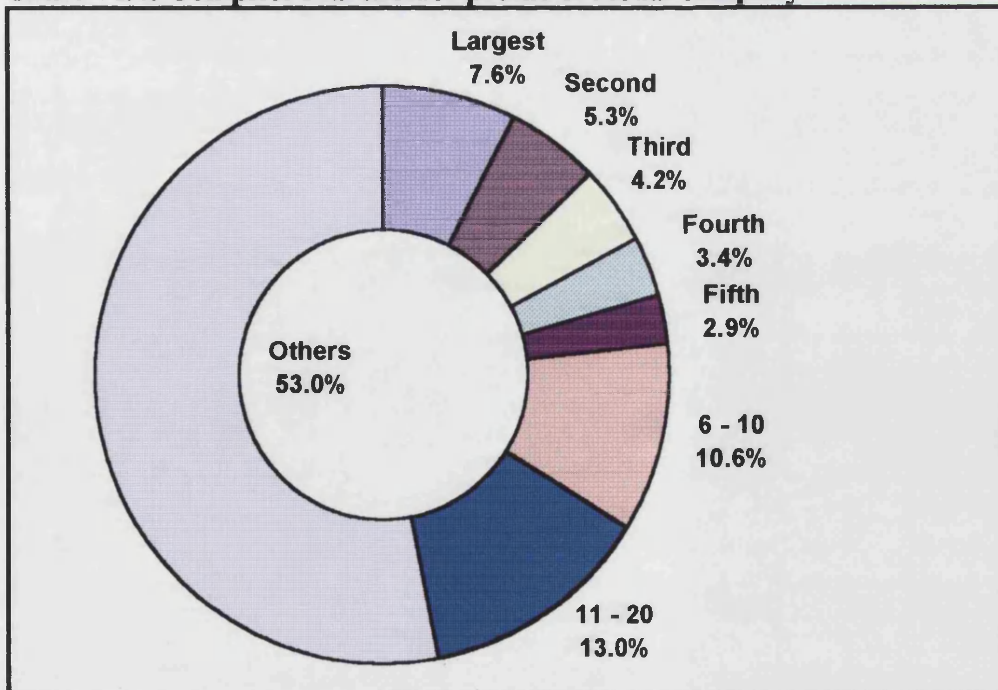


Chart VI.5: Lorenz curve for modal company

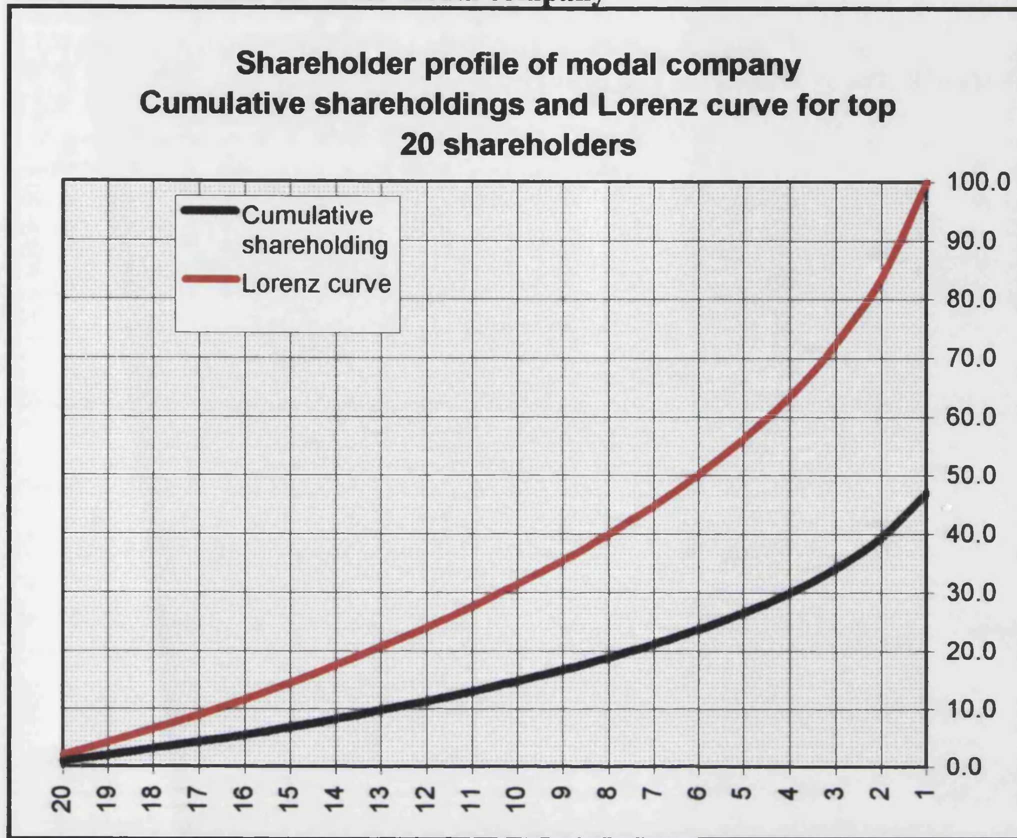


Table VI.2: Companies in modal group

	Company	FTSE Index	Largest	Top 3	Top 5	Top 10	Top 20	Gini	Herfindahl Index
1	Allied Domecq	100	7.23	17.99	22.62	32.60	45.46	0.34	0.077
2	Berkeley	250	6.07	16.46	23.06	34.23	49.14	0.36	0.067
3	Blue Circle	100	9.49	17.43	23.05	34.37	46.34	0.30	0.084
4	Courtaulds	100	6.02	17.42	24.01	34.14	48.24	0.34	0.071
5	De La Rue	100	9.84	17.89	22.52	31.82	45.28	0.38	0.087
6	EMAP	250	7.97	18.22	23.74	32.37	45.47	0.34	0.079
7	Hepworth	250	7.78	16.45	24.14	34.73	48.31	0.28	0.072
8	IMI	250	5.59	15.29	22.84	35.02	48.22	0.30	0.068
9	Land Securities	100	7.69	19.03	24.77	34.70	46.06	0.36	0.086
10	Laporte	250	6.70	17.36	23.80	35.18	48.63	0.30	0.072
11	Rank	100	6.75	18.48	24.57	35.43	48.36	0.34	0.075
12	Smith & Nephew	100	7.50	16.39	22.17	34.35	49.71	0.32	0.068
13	Southern Water	250	9.24	17.30	23.57	35.12	47.02	0.32	0.082
14	Stakis	250	8.36	17.68	24.06	34.84	47.93	0.34	0.077
15	Standard Chartered	100	6.46	15.84	22.66	32.36	45.91	0.36	0.070
16	Tate & Lyle	250	7.15	16.33	23.37	34.06	46.17	0.34	0.074
17	Thorn EMI	100	9.50	17.39	23.71	33.80	46.19	0.34	0.084
18	Wessex Water	250	7.99	16.93	23.18	33.26	45.53	0.34	0.077
19	WPP	250	6.93	16.72	23.29	33.80	45.99	0.34	0.075
20	Yorkshire Electricity	250	7.48	15.20	22.05	33.00	45.71	0.32	0.072
	Average		**7.59**	**17.09**	**23.36**	**33.96**	**46.98**	**0.33**	**0.076**

VII Non-financial shareholders

This Chapter has so far focused on the equity portfolios and shareholdings of fund managers in the Top 300 companies. In this Section, I review the position of non-fund manager shareholders. For ease of expression, these are referred to as non-financial shareholders.

The analysis of non-financial shareholdings in Top 300 companies has been based on information:

- Published in the Hemmington Scott Company REFS directory for February 1996. This contains details of all directors' shareholdings and other shareholdings over the declaration level of 3.0%.
- Included in company annual reports.
- Obtained directly from companies to supplement the above, particularly where there are ambiguities in the published information.

The analysis of the 297 companies in the 'Top 300' set out below comprises companies in which:

- The directors in aggregate owned 1.0% or more of the shares.
- Other (non-financial) shareholders owned 3.0% or more of the shares.

In 187 companies (63%) neither of these conditions were satisfied. A summary of director and other holdings is set out in the TableVII.1. Details of these holdings are provided in Appendix E.

Table VII.1: Number of non-financial shareholders

Type	No. Companies
Strategic	44
Board	36
Private	13
Family	5
Charity	5
Cross-holdings	2
Government	2
Unclassified	3
Total	110

Table VII.2 sets out the full analysis, in which private holdings and those apparently attributable to members of founding families have been aggregated, as there is not necessarily a clear distinction between these when the holdings in individual companies are examined in detail.

Table VII.2: Non-financial shareholdings (%)

Type	% of total
Strategic	14.8
Board	12.1
Private / Family	6.1
Other	4.0
None	63.0
Total (297 Companies)	100.0

A Strategic shareholdings

The 44 holdings which have been classified as 'strategic' are attributed to companies that are not institutional investors or fund managers. Many of these holdings are long-term and/or reflect the ownership of the companies before they were listed on the Stock Exchange. Companies in the latter category include Gartmore[20], Telewest Communications, Vendome, Nynex Cablecomms and General Cable. Other long-term holdings in January 1996 were those of SHV in Calor[21] and Sophus Berendsen in Rentokil[22]. In each of these examples, the non-financial shareholder controlled over 50% of the issued equity (see Appendix E.1).

An analysis of the holdings of Strategic non-financial shareholders is set out in Table VII.3, together with the average holdings of the largest and Top 3 and 5 fund manager shareholders in each of the companies in each group. It is noticeable that the fund manager holdings are substantially lower in those companies where the non-financial shareholder controls in excess of 50% of the shares.

[20] In January 1996 Gartmore, itself one of the Top 20 fund managers, was 75% owned by French banking group Indosuez, but Gartmore was subsequently acquired by NatWest and their fund management operations merged under the Gartmore identity.

[21] One of the case history companies (Chapter 9). SVH subsequently took full control of Calor.

[22] Although this stake was subsequently reduced following the acquisition of BET by Rentokil to form the Rentokil Initial group.

The simplest explanation for this is that the fund managers' shareholdings reflect the volume of shares available to them and other shareholders net of those under the control of the strategic investor. These available shares are often referred to as the 'free float'. With an average strategic holding of 63%, only approximately one third of the shares in these companies are available to other investors. If their actual holdings are expanded by the same factor (three), the fund managers' holdings are broadly consistent with those of other companies with strategic investors[23], and indeed the average across all 297 companies included in the Citywatch database.

Table VII.3: Strategic and fund manager shareholdings

Strategic Investors	Number companies	Average Holding	Largest	Top 3	Top 5
			Fund managers' holdings		
> 50%	10	63.38	3.39	7.26	9.87
20 - 50%	10	32.72	10.39	17.47	21.56
10 - 20%	13	15.32	8.57	17.75	23.25
< 20%	11	5.94	7.12	16.14	21.49
All Strategic	44	27.85	7.44	14.90	19.39
All companies	297		8.82	18.02	23.88
Adjusted > 50% (Expansion factor 2.73)			9.25	19.82	26.95

B Board holdings

Thirty six board shareholdings above the threshold of 1% are detailed in Appendix E. Of these shareholdings, 14 are larger than 10% (Appendix E.5) and 22 between 1% and 10% (Appendix E.6).

Table VII.4: Board and fund manager shareholdings

Board Holdings	Number companies	Average Holding	Largest	Top 3	Top 5
			Fund managers' holdings		
> 10%	14	31.70	6.42	12.03	15.80
< 10%	22	4.95	9.58	19.96	26.58
All Board	36	14.62	8.41	17.02	22.58
All companies	297		8.82	18.02	23.88
Adjusted > 10% (Expansion factor 1.46)			9.37	17.56	23.07

[23] The actual expansion factor to take account of the reduced free float is 2.73 (100/36.6). The adjusted figures for the Top 3 and Top 5 shareholders are several points larger than the average for companies with strategic shareholders <50% and the Top 300 company average. Testing for the significance of this difference would involve resolving a number of methodological issues which are not intended to be within the scope of the current analysis.

Although the threshold of 10% has been used to analyse these holdings, no board holdings were identified between 10.0% and 17.0%. The larger board shareholdings therefore ranged from 17% (Lord Rothermere's shareholding in the Daily Mail and General Trust) to 56.4% (Steven Rubin's shareholding in Pentland). In both these cases and eight others, the dominant board shareholder is also the Chairman.

The profile of non-financial shareholders in companies with board holdings below 10.0% appears to be broadly similar to the average of the 297 Citywatch companies. However, but the average fund manager holdings (Largest, Top 3 and Top 5) are lower when board holdings exceed 10%. This can also be accounted for by the free float effect described for large strategic shareholders (Table VII.3 and Appendix E.1). When the appropriate expansion factor is applied[24], the adjusted holdings broadly match those for the Top 300 (Table VII.4).

Making allowance for the long-term effect of substantial strategic (>50%) and board (>10%) holdings on the basis of the reduced free float of shares available to other investors appears to explain the lower than average holdings of fund managers in these companies.

C Financial and non-financial shareholdings

In 32 out of the 44 companies with a strategic shareholder the strategic shareholder has a holding bigger than that of the largest fund manager(Table VII.5). However, this dominance is only found in 20 companies when the holdings of the Top 5 fund managers are combined.

Table VII.5: Analysis of strategic and fund manager shareholdings

Strategic	Number	Largest	Top 3	Top 5
Investors	companies	Fund managers' holdings		
> 50%	10	10	10	10
20 - 50%	10	10	9	9
10 - 20%	13	9	4	1
< 20%	11	3	1	0
NFS bigger	44	32	24	20

[24] In the case of large board holdings, the expansion factor is 1.46 (100/68.3).

A similar pattern applies when board shareholdings are analysed. In 18 out of the 36 companies, the board shareholder(s) have shareholdings bigger than the largest fund manager. This dominance is only found in 11 companies when the holdings of the Top 5 fund managers are combined.

Table VII.6: Analysis of board and fund manager shareholdings

Board Holdings	Number companies	Largest	Top 3	Top 5
		Fund managers' holdings		
> 10%	14	13	11	11
< 10%	22	5	0	0
NFS bigger	36	18	11	11

Combining the data set out in Tables VII.5 and VII.6 shows that in only 48 companies out of 297 (16.2%) is there a strategic or board shareholder with a shareholding bigger than the largest fund manager shareholder. When the shareholding of the largest strategic or board shareholder is compared with those of the Top 3 and Top 5 fund managers, the numbers fall to 35 (11.8%) and 31 (10.4%) respectively.

If it hypothesised that it is a companies Top 3 or Top 5 shareholders which are the most likely source of countervailing influence to an otherwise dominant strategic or board shareholder, it would appear that the balance of power between financial and non-financial shareholders is only likely to be an issue in 10% to 12% of companies. Put the other way round, this means that fund managers are likely to be the dominant source of influence in 88% - 90% of companies if the views and actions of the Top 3 or Top 5 shareholders coincide or are actively coordinated through a form of coalition.

VIII Concentration and Capitalisation

From the analysis of strategic and board shareholdings in Section VII, it appears that large shareholdings by these two groups tend to depress the shareholdings of fund managers through reducing the free float of shares available to them and other investors. This effect appears particularly strong for strategic holdings in excess of 50% (average 63.38%) and board holdings over 10% (average 31.7%). The 24 companies comprising these two groups have therefore been excluded from the analysis of market capitalisation and concentration indices summarised in Table VIII.1[25].

Table VIII.1:
Market capitalisation and concentration indices of Top 300 companies

	Number Companies	Av. Cap. £ million	Fund Managers Largest	Top 3	Top 5	Top10	Top 20	Gini	Herfindahl Index
> £10bn	17	17,860	5.62	11.96	16.48	24.66	34.72	0.29	0.073
£5 - 10bn	22	7,083	7.13	14.01	18.51	27.07	37.60	0.32	0.085
£3 - 5bn	24	3,670	9.03	16.43	21.56	30.91	42.40	0.36	0.100
£2 - 3bn	16	2,442	8.89	16.15	21.56	30.73	42.33	0.34	0.085
£1 - 2bn	64	1,436	8.28	18.30	24.34	34.82	47.56	0.35	0.086
£500m - £1bn	53	731	9.93	20.74	27.40	37.93	50.35	0.38	0.094
< £500m	77	359	10.57	21.54	28.51	39.81	52.49	0.39	0.099
Total	273	774,878							
Average			8.82	18.02	23.88	33.75	45.37	0.37	0.092

For each index of shareholder concentration, there is a clear inverse relationship between company size and concentration. The Top 20 fund manager shareholders of companies with market capitalisations over £10 billion on average control around one-third of shares (34.72%). In contrast, the Top 20 fund manager shareholders of companies with capitalisations below £1 billion on average control more than half their shares (51.86%).

This trend can be interpreted in terms of market capitalisation tending to inhibit the size of shareholdings because of the value of the shareholdings involved. The analysis set out in Tables VIII.2 and VIII.3 supports this view as the size effect is strongest the higher ranked the shareholder. Table VIII.2 shows the average size of shareholdings, whilst

[25] Although the average Strategic shareholding in the 20% - 50% band (Table VII.3) was 32.72, this does not appear to be associated with below average fund manager shareholdings. The 10 companies involved have therefore been included in the analysis of market capitalisation set out in Table VII.1.

Table VIII.3 compares the average shareholdings of holdings of fund managers and their rankings (1, 2 & 3, 4 & 5, 6-10 and 11- 20).

Table VIII.2: Average shareholdings (%)

	1	2 & 3	4 & 5	6 - 10	11 - 20
> £10bn	5.62	3.17	2.26	1.64	1.01
£5 - 10bn	7.13	3.44	2.25	1.71	1.05
£3 - 5bn	9.03	3.70	2.57	1.87	1.15
£2 - 3bn	8.89	3.63	2.71	1.83	1.16
£1 - 2bn	8.28	5.01	3.02	2.10	1.27
£500m - £1bn	9.93	5.41	3.33	2.11	1.24
< £500m	10.57	5.49	3.49	2.26	1.27

A comparison of Table VIII.2 and Table VIII.3 shows two aspects of the size effect. Table VIII.2 shows that size of shareholding is inversely related to size of shareholding for all shareholders ranked in the Top 20 as for each group of shareholders (ranked 1, 2 & 3, 4 & 5, 6 - 10, and 11 - 20) the average shareholding declines with higher market capitalisations. This is consistent with the summary shown in Table VIII.1.

Table VIII.3 shows a second effect, that the smaller the market capitalisation the more the largest shareholders are prepared to hold compared with others. The largest shareholders of companies with capitalisations below £1 billion are prepared on average to hold eight times the holdings of those ranked 11 - 20. The ratio for companies with capitalisations over £10 billion is 5.6. These results are consistent with the relationship between market capitalisation and the size independent measures of concentration (Gini and the Herfindahl Index) shown in Table VIII.1.

Table VIII.3: Comparison of larger shareholdings with those ranked 11-20

	1	2 & 3	4 & 5	6 - 10	11 - 20
> £10bn	5.59	3.15	2.25	1.63	1.00
£5 - 10bn	6.77	3.27	2.14	1.63	1.00
£3 - 5bn	7.86	3.22	2.23	1.63	1.00
£2 - 3bn	7.66	3.13	2.33	1.58	1.00
£1 - 2bn	6.50	3.93	2.37	1.65	1.00
£500m - £1bn	8.00	4.35	2.68	1.70	1.00
< £500m	8.34	4.33	2.75	1.78	1.00

IX SUMMARY

In this Chapter, I have reviewed the ownership of UK listed companies. This provides the context for the qualitative research through interviews with 120 fund managers, companies and other groups described in Chapters 4 to 7.

The analysis of ownership shows that there are substantial and significant differences in fund managers' equity portfolios. The principle factors are the funds invested in UK shares, the number of companies in which stakes are held and the distribution of these shareholdings in terms of under and over-weighting.

Across the 50 largest fund managers analysed, the average number of companies in which they held stakes was 232 out of a maximum of 297 (the Top 300). It is evident that the number of companies in which fund managers have shareholdings is significant, but the distribution of shareholdings is probably more so. These can be analysed in terms of the distribution of shareholdings by actual size and relative to each fund manager's market weighting and values of Gini and the Herfindahl Index. The values of Gini are closely related to the shape (convexity) of the Lorenz curve, which provides a visual representation of the distribution data.

The analysis of data about the market shares of the Top 50 fund managers and the Top 20 fund manager shareholders of the Top 300 companies shows that the Top 10 or 20 fund managers play a key role in their ownership. There is a concentration in ownership and within the fund management industry which means that the Top 10 fund managers dominate the Top 5 positions in many companies' share registers.

The data provided by Citywatch has also been used to develop the profile of a modal company, the profile of which closely matches the average. These analyses show that the Top 20 fund manager shareholders of many companies control close to half their shares and the Top 10 shareholders control approximately one-third.

Concentration of ownership is inversely related to company size, both the absolute and relative size of companies' largest fund manager shareholdings are lower in high capitalisation companies.

In only 10% - 15% of companies substantial shareholdings of strategic non-financial investors and the board are larger than those of companies largest fund manager shareholders. These non-financial holdings may provide a source of countervailing power to that of their financial (fund manager) shareholders.

In 85% - 90% of companies the key shareholder relationships will be with a relatively small number of major fund managers which dominate their ownership.

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I Introduction

Factors leading to the growth of institutional control of UK listed companies were reviewed in Chapter 1, Section II (Narrowing Share Ownership) and the impact of these changes analysed in detail in Chapter 3 (Changes in UK Share Ownership).

Chapter 1, Section III (Management, Ownership & Performance) reviewed two major models of management behaviour, principal agent and managerialism, and related these to a number of studies of corporate performance and investor returns under different ownership conditions. Interest in the behaviour of managers and under what conditions they appear to act either as faithful agents of their shareholder masters (principal agent model) or as self interested appropriators of shareholder wealth (managerialism) has been widespread, and not only amongst academics. Investors have also become increasingly concerned with how best to align the interests of the employed manager with the wealth interests of the equity owner. In the USA, this concern was triggered in the 1970s and particularly in the 1980s by dissatisfaction with the widespread use of management entrenchment techniques such as the payment of greenmail and use of defensive poison pills against hostile investors. More recently, in both the USA and the UK, shareholders and investor organisations have focused their attention on boardroom salaries and compensation packages, both because of their total value and the problems involved in aligning the links between corporate performance and executive compensation.

In the UK, the Greenbury Committee (Greenbury 1995), recommended significant changes to the structuring and reporting of boardroom pay but did not support the proposal made by some shareholder groups and commentators that shareholders should have the right to directly vote on the value of directors' compensation packages at companies' AGMs.

Chapter 2 reviewed the role of voting power and behaviour as mechanisms for the exercising of shareholder power, but concluded that the range of voting opportunities available to UK shareholders was restricted, infrequent and failed to provide a mechanism for milder forms of shareholder influence on relatively routine, but still strategically important, boardroom decisions and standards of corporate behaviour.

The analysis in Chapter 3 shows that share ownership is becoming more concentrated in the UK. In addition to the net shift in legal ownership from private investors to professional fund managers, two significant changes are taking place within the fund management industry. The first is that the UK's largest fund managers are gaining market share from smaller competitors. The second is the narrowing of portfolios and concentration of investment funds on a smaller number of companies than has been the case in the past. This data suggests that active fund managers are gaining confidence in their investment strategies and are increasingly prepared to invest larger sums in fewer companies in the pursuit of their investment objectives. Although growth is taking place in indexed equity funds, this partly reflects a growing polarisation of the fund management business to either indexed funds or actively managed, relatively concentrated portfolios and away from broad-based semi-indexed portfolios.

However, it is important to note that these assessments are relative because, although actively managed portfolios typically contain shares in 100+ companies and seldom fewer than 60 companies, this is still many more than would be required to reduce company-specific risk to a de minimus level. It is often considered that a portfolio of 20 shares is sufficient to eliminate all but a very small amount ofcompany-specific risk from a portfolio. The issue for active fund managers is therefore less about the impact of company-specific investment decisions on overall portfolio performance than the increase in company specific risk that is associated with substantial stakes relative to the total value of the funds which are managed (normally described in terms of investment over- or under-weighting relative to the market or a benchmark index).

Little research appears to have been undertaken to reconcile the weakness of formal vote-based mechanisms as a source of shareholder influence with the increased willingness of the UK's largest fund managers to increase company specific investment risk, through concentrating their investment funds on fewer companies than has historically been the case.

As I concluded at the end of Chapter 2, what is lacking is a description of how fund managers bring influence to bear on companies when the need arises (for example, during periods of faltering corporate performance or managerial competence, or declining investor confidence

or increasing concern about past or planned strategic decisions), but formal vote-based mechanisms of influence or control are not available to shareholders.

My investigation of this issue is described in this (Chapter 4) and the next three Chapters (5, 6 and 7). These report the findings from the 120 interviews I undertook with companies, fund managers and others. For a description of the methodology of these interviews see Appendix B, which also includes a list of everyone I interviewed.

This Chapter describes, first the processes through which investment policy is set and investment decisions are taken by fund managers and, second, the issues that institutional shareholders take into account when setting investment policy and making company-specific investment decisions.

Section II (Investment Policy) looks at how fund managers establish broad investment policies, whilst Section III (Investment Decisions) discusses the factors involved when investing in specific companies and analyses some of the repercussions of investment decisions, in terms of the size of the holdings which may result.

Section IV (Types of Shareholder) places the preceding material in the context of companies' policies towards different types of shareholders; domestic and non-UK institutions and private and employee shareholders.

Chapter 5 looks at the way that companies manage the flow of information to investors, whilst Chapter 6 reviews practical issues concerned with voting rights and procedures.

Chapter 7 describes the way that fund managers instigate change in companies, with apparently little reliance on voting procedures or on shareholder coalitions of the size envisaged by Scott.

II Investment Policy

A Passive vs Active Fund Management

This Section looks at factors influencing investment policy in *actively managed* UK equity portfolios. However, before doing so, it is important to review some of the issues surrounding the passive management of index funds.

A.i Passive fund management: formal and shadow indexing

Indexed funds were estimated by a number of fund managers that I interviewed (in 1993) to account for 15-20% of UK equities invested by pension funds and therefore around 6% of the total UK equity market.

Such estimates of the split between actively managed funds and those which are formally indexed, are complicated by the widespread adoption of investment policies which are very close to market weighting (in terms of the proportion of the fund invested in individual companies) but which are not 'officially' indexed as an explicit investment mandate.

Such investment strategies are known as 'shadow' or closet indexing. In practice this is impossible to achieve across the whole stock market (of some 2,000 or so listed companies) and no fund manager even attempts to do so. Instead, the term is normally applied to funds which consistently show performance close to that of a market index (for example the FT-SE 100) *because* they are invested in a high proportion of the companies in that index with near market weightings.

The focus on the FT-SE 100 index is probably more pervasive amongst pension funds than many life funds, which will typically be invested across 200+ companies, in which case the reference benchmark is likely to be the FT-SE-A 350 index (comprising the FT-SE 100 and FT-SE Mid 250 indices) or possibly the FT-SE-A All-Share index for very broad portfolios.

Whether `shadow indexing' is a sound investment strategy depends on one's perspective. Larger *active* fund managers I interviewed were very critical of other fund managers who, they believed, were effectively `shadow indexers', but who appeared to be claiming to their clients to be running much more actively managed funds.

One reason for this criticism is that if an implicitly indexed shadow fund only performs as well as its benchmark index, the money might as well have been invested in an indexed fund in the first place. (Thus shadow fund managers also come under attack from indexed fund managers who would like their business).

Another criticism of shadow indexing is that active funds cost more to run and that these costs are included in the fund management charges ultimately borne by the underlying investors and beneficiaries. Costs associated with the running of index funds are much lower (relating to administration, cash management and compliance rather than fund management as normally understood: asset allocation, research, corporate monitoring, stock selection etc) and these savings need to be passed on to investors/ beneficiaries if indexed funds are to meet investors' performance expectations. In contrast, a fund which is effectively indexed in all but name will carry higher expenses and provide below index investment returns, to the detriment of investors/beneficiaries.

However, if trustees do not wish to place all their funds under a (single) active fund manager, there is the option of investing a proportion of their funds under indexed management (maybe as much as 75% or 80%) and the balance with an active fund manager.

There are indications that trustees of pension funds are becoming more aware of these issues and that this is one of the driving forces behind the rapid increase in mandates acquired by the largest active fund managers on the one hand and the growth in indexed funds on the other.

A.ii Active fund management

Active fund management is a term commonly used by fund managers and companies to describe fund managers who typically run portfolios which comprise no more than around 100 companies; actively trade these portfolios over the economic cycle; will go substantially overweight in companies they favour; may not hold any shares in companies they do not favour - even if these are major companies and widely held by other fund managers; and take a very active interest and are well informed about the companies in which they invest.

The fund managers most often identified as having this approach were the large independent pension fund managers: Mercury, UBS, Gartmore and, to a lesser extent, Newton and Baillie Gifford.

Schroders is the largest independent pension fund manager which is not seen as being 'aggressive' in its style; its reputation is closer to that of the major life companies (Prudential, Norwich Union, Legal & General, Standard Life) which, although active in their 'ownership' of companies, are seen as operating broader and more stable portfolios.

B Measuring Portfolio Performance

Measures of success in the management of UK equity portfolios clearly depend on the investment objective. If a fund is indexed, then normally the lowest cost and minimum variance from the benchmark index will be the goals. If consistent out-performance of the index is the objective of an actively managed fund, but performance only matching the index is achieved, higher costs mean that the net return to investors will be below that of the index.

In practice, the return on actively managed funds is volatile both in absolute and market-adjusted terms - few fund managers can hope to consistently out-perform the reference index. A realistic alternative may be to seek above average performance in some years but to accept that index matching is only possible in others. In this scenario, the fund manager's objective is to minimise the risk of below index performance but do better whenever possible - perhaps every two or three years. In terms of risk, this strategy is about avoiding the downside and

maximising the upside, but with the overall return more than compensating for the increased overall volatility of the fund's returns.

This kind of active management is typical of more `conservatively' run funds such as those run by in-house pension fund managers, life funds and independent pension fund managers such as Schroders.

What sort of out-performance do these funds claim to achieve? The pension fund managers I interviewed felt that out-performance of 1-1.25% was achievable with some kind of consistency. Greater out-performance (perhaps 1.5-2%) was achievable over a number of years, but sooner or later this would be offset by a year or two of low (if not under) performance, bringing the average closer to 1-1.25%.

These kinds of variances can become a crucial factor in the selection of pension fund managers. The choice of active fund manager for many pension fund trustees and their advisors is increasingly between 'slow and steady' (implying annual performance of around 1% above benchmark) and 'better in some years, but overall less consistent'. In practice, the choices of pension fund trustees, advised by specialist consultants, have been remarkably consistent over the last few years, with most new mandates going to the 'big four': Gartmore, Mercury, Schroders and UBS. Smaller fund managers which have gained size rapidly as a result of their above average performance and acquisition of new mandates include Newton and Baillie Gifford.

C Asset Allocation

Asset allocation is the process by which a fund manager sets a framework for the investment strategy of its funds. Asset allocation is most often associated with a `top down' approach to investment, by which the selection of individual companies is only made *after* detailed consideration of other issues, such as economic growth, business cycles, expected returns from different classes of investment and developments in different business sectors.

Asset allocation is widely used to provide an investment framework, although the detail and complexity of allocation models differ between fund managers.

C.i Class of asset

Equities are only one of several types of investment made by fund managers running `balanced portfolios'. Balanced portfolios will normally contain a mixture of fixed interest investments, equities, cash and property. Whether this is true for an individual portfolio will depend on the mandate under which fund managers operate. Trustees of pension funds and life funds will, for example, be responsible for deciding the asset allocation (with the assistance of consultants) if this decision is not made for them by the manager of their balanced portfolio.

Trustees will normally want to be involved in the asset allocation as this is a key decision in any balanced fund - and this will typically form part of the quarterly reporting cycle.

Over the last thirty years very significant changes have taken place in the asset allocation of pension funds. In an average balanced fund, the proportion of UK fixed interest investments has fallen from over 50% to around 6%, whilst the proportion invested in equities has increased from less than half (47%) to over three-quarters (77%).

Within equity portfolios there has been a systematic swing towards overseas investments, which in 1962 were insignificant (below 1%), but now have risen to 21% of balanced funds. In the 1970s property accounted for up to 20% of the average pension fund. Now the figure has fallen to around 7% and may well decline further, despite the fact that the value of investments may rise in the near-term in response to recent rights issues and rising property prices.

C.ii Geographic distribution

For an equity fund manager, granted a worldwide mandate, the proportion of funds invested overseas, and in which markets, can be a critical decision in determining overall investment performance. For example, investing in the Japanese market at the `wrong' time is said to have seriously affected Fleming's performance record and led to a decline in its overall fund management business.

Conversely, different timing by Gartmore of its funds' investments in the Japanese and Far Eastern markets, enhanced their overall performance and helped build the reputation of Gartmore as a bold and successful fund manager.

Not all major asset allocation decisions are market specific; a decision to shift portfolio weightings towards smaller companies and away from large capitalisation stocks can be undertaken on a worldwide basis. Similarly, a move towards healthcare or utilities, or away from defence industry-based companies could be taken in every market. In reality these decisions are complex, and also need to take into account factors such as exposure to overseas markets (estimated to be in excess of 40% for FT-SE 100 companies), economic growth in these, and currency factors.

C.iii Industry sector

The choice between industry sectors, such as healthcare, utilities and defence, introduces the third level of asset allocation. In selecting sectors in which to invest most heavily, fund managers will try and choose those which they believe will benefit from changes in the macro (national and international) economic cycles and which are expected to offer the greatest gains in value in the future.

This 'counter-cyclical' approach may be the strongest test of a fund manager's investment abilities and will also have to be supported by the nerve of its clients. Indeed, it is arguable that the success of major fund managers in getting their sector 'bets' right, often against the general investment trend, has led to the growth in the funds under their management. Several fund managers had internally researched this issue, typically suggesting that half or more of their out-performance was due to asset allocation decisions.

However, the bigger the bet, the bigger the risk of mis-forecasting the performance of a market or sector. Swings in overall investment return (volatility) are one of the indications that 'big bets' are being taken, even if the *average* overall return is higher than that achieved by other fund managers. Amongst pension fund managers, Gartmore and UBS are seen as being amongst the boldest in their making of such asset allocations although, through size

alone, changes in Mercury's allocations are seen as having a larger overall impact on the ownership of companies.

Some competitor fund managers believe that, sooner or later, one or more of the largest independent pension fund managers will get their 'bets' wrong to such a degree that their performance will suffer; sufficiently for their reputation to become tarnished and for their clients to seek other managers for their funds.

Although this may be wishful thinking on the part of competitors, and there may indeed be practical limits to the size of a single fund manager operating in the UK market, (in which case, of those fund managers generally categorised as aggressive, Mercury is the closest to the hypothesised 'limit') it is not clear that success in asset allocation will be the limiting factor. The leading fund managers I interviewed would (not surprisingly) argue to the contrary, that they are building up expertise in asset allocation which will provide *increasing* competitive advantage and that the growth in the availability of appropriate derivative instruments provides the opportunity to cost-effectively hedge asset allocation decisions, which were illiquid or too expensive in the past.

C.iv Portfolio tilting

The term 'portfolio tilting' describes the impact of industry sector or market allocations on the overall structure of a portfolio; in a sense the degree of the 'bet'. The higher the 'tilt' in a portfolio towards a particular group of companies, currencies or classes of share (eg convertibles), the more the overall performance of the portfolio will depend on the performance of these companies' shares relative to the market.

For example, a portfolio consisting of ten industry sectors, with 10% of the portfolio in each, would be entirely neutral to the market if this also represented the weightings of the sectors in the market. If a fund manager felt that the healthcare sector was set to under-perform over the next year, but that construction was due to out-perform, one option would be to sell all the healthcare shares held (to achieve 0% exposure) and double the value of construction shares held (to 20%). This would represent a huge tilt on the portfolio away from healthcare towards construction.

This, albeit simple, example illustrates the kind of sector allocation decisions that many active fund managers are now taking, often with the help of derivatives to achieve 'synthetic' tilting which allows the underlying portfolio to be maintained (but in many cases the extent of the portfolio tilt will only be of the order of 1-2%).

It is also important to recognise that portfolio management within an asset allocation framework is, and needs to be, a continuous process. For example, if the value of the construction sector goes up by 50% but all other sectors remain as they were, a portfolio with 20% in construction will outperform the index by 10% but also end up with a 27.3% exposure to the sector - far beyond the original allocation.

The checks and balances that need to operate around asset allocation are therefore complex, involving the constant monitoring of market and portfolio values, risk factors, volatility, industry trends and economic growth.

Asset allocations are normally made by a senior group of portfolio managers and/or executive directors (depending on the type and size of organisation), usually on a monthly basis. All available information will be brought together when making the key allocation decisions, and the experience of those involved will be crucial to the outcome. However, the close relationships between members of most fund management organisations allows changes to be made almost at any time in the light of new information.

Fund managers vary considerably in how closely they require their portfolio managers to follow the agreed allocation. An example given in one interview was that portfolio managers would normally be expected to bring their funds into line with the 'model' portfolio within a day or two, with a tolerance of up to 1%.

D Managing Cash Flows

Fund management, whether active or indexed, needs day-to-day management to match the cash requirements of investors or beneficiaries with the profile of the funds under management.

All portfolios are subject to inflows and outflows of funds. Even 'closed end' funds, such as investment trusts, will be in more or less continuous receipt of dividends from companies in which they have invested, against which must be set management charges, payments of dividends to shareholders and reinvestment of net income into new investments.

'Open ended' funds such as life and pension funds and unit trusts, may also receive additional funds from investors.

Responding to the investment implications of these cash flows is the responsibility of portfolio managers. One of the limiting factors within a fund management organisation is the span of responsibilities that can be held by each portfolio manager. When interviewed, pension fund managers typically thought that the practical limit was generally around 10 or 12 independent (segregated) funds. In other types of fund (particularly life funds, unit and investment trusts) the ratio will be lower - funds may well be run on a 1:1 basis by portfolio managers.

Alternatively, there may be a team of portfolio managers working on a single fund (although in the management structure one fund manager will always have overall responsibility).

The cash flows *out* of life and pension funds are in great part predictable, because they are subject to existing obligations to investors, policy holders and pensioners. Clearly market intelligence about investor behaviour can provide valuable advance information to a fund manager about likely future cash inflows and also help guide the optimal asset allocation for a fund.

D.i Unit trusts

Unit trust managers face the biggest problems in matching investor behaviour and day-to-day portfolio management. As 'open-ended' funds, investors can decide to buy new units at any time. If there are no off-setting redemptions by other investors, these new units will expand the total funds of the unit trust and the additional cash will need to be promptly invested by the fund manager if performance is to be maintained.

In practice, unit trust managers are able to net redemptions (sales) of units against purchases, but much of a unit trust's manager's time is still spent dealing with the investment repercussions of the volatile, externally based, cash flows to and from investors. These normally need to be matched on a daily basis (although there will be buffering cash balances) and shares held by the unit trust bought and sold accordingly.

Unit trust managers I interviewed quoted portfolio turnover rates of 200 - 300% in a year. These compare with a typical pension or life fund, and many investment trusts, of 20 - 25% a year or less. However, the gross rates of turnover for unit trusts are misleading: few unit trusts will be completely reorganising their entire portfolio two or three times a year, as these figures might imply. Within a unit trust, typically containing shares in 80-100 companies, there will be much lower volatility around 'core' holdings than shorter-term investments.

Dealing and management costs are also proportionately higher for very active funds like unit trusts and the pressures on the fund managers are severe. Unit trust values are quoted daily in newspapers and performance comparisons made across a range of timescales (and often in competitors' advertising).

Fund managers at life companies claimed that their investment philosophy, when managing unit trusts in-house, was very similar to that of their main life funds in terms of asset allocation and stock selection. Nevertheless, all unit trust managers will be subject to at least some of the pressures that I have outlined above.

Through 1993 and early 1994, the rate of new investment into unit trusts far exceeded redemptions and the size of the unit trust sector expanded considerably. Much of this was

invested by unit trust managers in UK equities. More dramatic increases were experienced by mutual funds in the USA, leading Henry Kaufman (previously Chief Economist of Goldman Sachs, New York) to predict that the short-term nature of much of this retail investment would increase the overall volatility of the US equity and fixed income markets, and therefore the cost of these kinds of funding for companies.

The UK fund managers of unit and investment trusts who I interviewed were of the opinion that retail investors in their funds were very different in their expectations and investment horizons. Holders of shares in investment trusts were seen as 'under-standing what investing in shares is all about' and as being much closer to the 'traditional' share owner than the unit trust investor. In contrast, investments in unit trusts (particularly those *not* linked to a regular savings plan) are seen as much more volatile.

III Investment Decisions

The 'top down', asset allocation driven, approach to equity investment, which is used by many UK fund managers, still requires the selection of individual companies in which to invest. The role of the portfolio manager is to select companies and implement buy and sell programmes within the framework of his (or her) firm's asset allocation guidelines, the resources of the fund (which may also include debt if the fund is geared) and the investment mandate.

In practice, fund managers vary widely in the degree of flexibility they allow their portfolio managers. In this Section I discuss some of the most important factors which influence policy towards stock selection and some of the issues which arise from these.

A Internal Guidelines

Fund managers operate a range of policies which seek to influence or control the presence of individual companies in their portfolios. Some fund managers have regularly reviewed 'black lists' of companies, which portfolio managers will not be allowed to hold under any circumstances. A number of fund managers I interviewed described how the Maxwell companies (Mirror Group and Maxwell Communications), Polly Peck and British & Commonwealth had been on their black lists - often placed there by senior directors, or portfolio managers or fund trustees on the basis of personal experience.

The number of companies on fund managers' black lists appears to be relatively small, but they are often placed there on the basis that 'no way would one of our directors allow any company connected with Maxwell to be bought by one of our portfolio managers'.

Possibly more widespread is the use of 'grey lists'. These are generally produced within a fund management team rather than imposed from above. Grey lists typically consist of companies about which portfolio managers have growing concerns whatever their apparent short-term prospects. Grey lists are reported as working more through peer pressure than

management diktat, and represent the result of a mixture of fundamental analysis and 'gut' feel from those with personal experience of the company or its directors.

'White' lists contain those companies which a portfolio manager must invest in, often with a minimum weighting specified (eg BAA, 0.75%). A portfolio manager will have discretion to go above this level if he or she wishes, but other parameters may also have the effect of constraining the maximum investment (eg no more than 1% in any one company).

Life fund managers and in-house pension fund managers explained that, amongst the top 30 or 50 companies, there was little question that at least some shares would be held in their funds on the basis that:

> **'some companies will never be out of our portfolio, the only question is one of weighting'**.

The degree of weighting (level of investment relative to a company's market capitalisation divided by total market capitalisation or the aggregate capitalisation of all the companies included in a reference index) they were referring to was typically plus or minus 20% (120% to 80%) or, at most, 30% (130% to 70%).

This is a far smaller variance than that allowed by the larger independent pension fund managers; who can be seen to be regularly varying their holdings between de minimus levels and over-weightings of three or four times.

A.i Percentage limits

All fund managers had established boundaries setting the maximum aggregate shareholding that they would take in an individual company. The highest level, even for the largest fund managers, was generally 15%. Beyond this level they claimed that they would feel 'uncomfortable' and that the holding would be of an 'inappropriate' size.

Holdings of this order are most common amongst smaller capitalisation companies, but there are indications that the proportion of big stakes (10% plus) in large capitalisation companies has also been increasing.

Few holdings above 15% are found in companies which cannot be explained as a result of a 'strategic' investment by another company, usually operating in a related business, or as being due to the aggregation of founder/family holdings.

A.ii Size of company

Portfolio managers are given much greater freedom over their investments in smaller companies than large, but many fund managers do not invest directly in 'small companies' at all. Smaller companies may be defined either in terms of market capitalisation or membership of a market index.

Minimum market capitalisations of £25 million or £50 million were the most frequently cited by larger fund managers. Minimum capitalisations of £250-350 million were quoted amongst smaller (non-specialist) fund managers.

Policies towards investment outside these 'small company' limits varied; some fund managers had no exposure at all. Others invested either through specialist in-house smaller company funds or through specialist funds run by other fund management groups (although there is a strong aversion to giving other fund managers fees for managing specialist portfolios).

Except in the cases of relatively specialist fund management groups, M&G being the most notable example, it is clear that smaller companies (however defined) are seen as making a minimal impact on overall portfolio performance. Even at a 15% ownership level, the contribution made is almost of no consequence to most portfolios and fund managers; with the exception of those specifically geared towards smaller companies.

A.iii Weighting

Fund managers apply widely different limits to the degree to which they will be prepared to overweight individual companies in their portfolios. This is an issue which may be influenced by company size. Smaller fund managers, who may feel uncomfortable with going significantly overweight in a large capitalisation company (which in value terms may represent a substantial portion of their managed funds), appear to find this less of a problem with smaller capitalisation companies. For example, a fund manager with a maximum over-weighting of (say) 20% in a 'Top 50' company may have a policy of not going more than 100% overweight in a company in the Mid-250 index, but will be happy to go above this level for the right company below the Mid-250.

By taking this approach, fund managers may be trying to balance out the impact of their decision-making on investment performance, because they need to invest more heavily in smaller companies to achieve the same potential contribution to fund performance as would be achieved through a much smaller stake in a larger company.

This model also assumes that the fund manager is at least as well informed about smaller companies as it is about large companies; certainly in respect of the latter it is unlikely to have any competitive information-based advantage compared with other, larger and better resourced fund managers. One of the problems associated with this approach is the risk of low correlations with (capitalisation weighted) market indices, which may not be tolerated by investors and beneficiaries even if there is long-term out-performance. (This approach to fund management is similar to that used by private shareholders who decide to invest in companies almost irrespective of their market capitalisation, but the *amount* they invest is based on how well informed they feel about the company compared to others).

Many funds have a limit to the proportion of an individual fund that may be invested in a single company. This may be imposed by the fund manager as a matter of prudence, by the trustees, or directors of a fund. Maximum proportions of 2.5% and 5% were quoted in a number of interviews.

A.iv Regulation

External regulations may also impose limits on the size of a stake that any individual fund manager may hold in companies in particular industries, examples being banking, media and defence.

The Banking Act effectively restricts the maximum single holding of a single investor to 10%. Although certain changes came into effect from 1/1/94 to the rules governing the ownership and cross-ownership of broadcast television companies, restrictions still apply to the maximum stake that may be held by certain investors.

At the time of their flotations, ownership by `overseas' investors was restricted to 15% in defence companies Rolls Royce and British Aerospace (BAe); subsequently these limits were increased to 25% and, more recently, to 49%.

A.v Divergence

The greater the freedom of portfolio managers within a fund management group, the greater divergence there will be in the returns from the portfolios they manage. Mercury, which is seen as allowing its portfolio managers more freedom than many others, is also thought to have the widest spread of investment returns.

Conversely, Schroders is seen as allowing far less flexibility and, as a result, it also has the reputation of delivering the most consistent returns across its different funds; both year-on-year and within the same year.

The divergence of portfolio returns from funds with similar, if not identical, investment objectives is substantially a function of the strictness with which asset allocation and stock selection requirements are imposed on portfolio managers, in turn reflecting the style and internal culture of the organisation. Greater freedom will allow 'star' portfolio managers to perform well, but also runs the risk that less successful portfolio managers will significantly under-perform; increasing the divergence of returns and possibly dragging down the fund manager's average performance over a given time period.

A.vi New mandates

Fund managers described the process of taking over a pension fund portfolio as normally one of rationalisation, involving the realignment of the portfolio (to match the new manager's asset allocation model and stock selections and a reduction in the number of companies in the portfolio).

The shares in a portfolio which no longer meets the target profile of the fund (which will have been agreed in principle with the fund's trustees as part of the appointment process) will either need to be transferred to another fund (with different investment objectives) or sold.

One fund manager claimed to regularly monitor changes in pension fund management mandates, as the resulting realignment of shareholdings could provide buying opportunities amongst the companies being rapidly sold out of the portfolio by the new fund manager.

A number of companies also mentioned that they had seen share stakes 'follow' a portfolio manager who had changed jobs, moving from one fund manager to another. This would not necessarily happen immediately, but does highlight the personal discretion of individual portfolio managers (particularly outside the FT-SE 100 universe of companies).

B Liquidity

One of the major concerns of fund managers is the liquidity of a company's shares. Although there are technical definitions of liquidity, fund managers I interviewed spoke more loosely of liquidity first as a broad indication of how easy it would be to buy or sell a company's shares in normal market conditions, when the shares are being regularly traded and priced, and second where there are active institutional buyers and sellers in the market and when conditions were unfavourable; in the event of a 'worst case' scenario.

The latter condition might arise, for example, if bad news had been announced about a company and other fund managers were willing to sell at increasingly lower prices in order to clear their positions. In an absence of willing buyers, trades may prove impossible to execute,

as market makers show prices at volumes which are too small to be of use to fund managers and are unwilling to take significant positions beyond the trade sizes shown in their quotes.

This is more often a problem with small companies (for which even in stable markets there may be limited institutional interest) and there is little likelihood of new investors coming into the market at a time when the news is bad and other major shareholders, who will be assumed by other investors to be better informed than themselves, are known to be selling.

Fund managers are very concerned to take liquidity issues into account when planning their overall investment strategy and weightings in different market sectors. Smaller companies are widely regarded as having lower liquidity than large companies. In the absence of other information, market capitalisation is a rough guide to likely liquidity in normal market conditions. Liquidity issues (ie constraints on selling a company's shares) are seen as one of the primary factors leading to close relationships between smaller companies and their larger institutional shareholders (ie the normal option of selling a company's shares in times of management or market under-performance or corporate distress is replaced by higher and more explicit levels of shareholder monitoring than would normally be the case).

Liquidity in some smaller company shares is so low that only one market maker is willing to quote prices. Alternatively transactions are made through the matching of individual orders through the SEATS system. Factors seen by fund managers as increasing the liquidity of shares include a spread of shareholders and share-holdings amongst institutional investors, the issuing of new shares and the strength of the London market in block trading.

The liquidity of recently floated companies was believed to fall (sometimes dramatically, particularly for small companies) after flotation. However, the preference of institutions for buying shares in the primary (new issue) market may now be changing and is almost certainly becoming more selective. One fund manager thought that the mere availability of new issues (of bonds and equities) had been a major influence on institutional investment strategies and their use of cash over the last few years; ie investment strategy was supply and not demand driven:

'Fund managers have a great tendency to buy what we are sold - it's as simple as that. It explains why we bought a lot of bonds last year but this year are buying more equities. You don't need a big theory to explain something as simple as that.'

B.i Breadth of shareholdings

The diversity of shareholders and shareholdings amongst institutional investors is seen as making a significant contribution to liquidity in a company's shares. Companies whose shares are 'tightly' held were seen by fund managers as likely to be less liquid than those with a broader spread of shareholders.

This is because a larger group of shareholders would be expected to contain a higher proportion of marginal buyers and sellers than a small 'fan club' of institutions (controlling the same percentage of shares), each of which would retain a large part of their holdings as a 'core' investment.

Conversely, companies which are not positioned in a portfolio as a long-term holding will be traded more actively. One fund manager gave the example of Shell as being a company that would always be traded in and out of a portfolio at the margin, but British Steel as a cyclical stock towards which sentiment would change steadily over the economic cycle, as therefore would the pattern of institutional holdings.

As these examples demonstrate, the relationships between liquidity and shareholder profile are extremely complex, but both fund managers and companies believe that the level of 'core' holdings by institutional investors and holdings by directors', their families and other private investors are amongst the most important factors in determining liquidity.

One company I interviewed had expected its share register to contract when it joined the FT-SE 100 index, but found the opposite to be the case. It believed this to be because indexed funds *had* to buy the company's shares and, also, fund managers who had previously paid little attention to the company were now doing so.

B.ii New share issues

The issuing of new shares (through rights issues) by already listed companies was seen as adding liquidity and marketability to a company's shares.

One company had deliberately used the issue of a convertible bond (which was also structured to be particularly attractive to European investors) to increase the proportion of its shares held by European institutions (on conversion). The conversion of bonds has made a significant contribution to the total number of shares issued by major UK companies in the last ten years.

B.iii Block trades

One of the ways in which fund managers can avoid undermining their own sell programmes is through block trading. This refers to the sale or purchase of a large number of shares in a single company. Typically at least several times bigger than the Normal Market Size (NMS) quoted by market makers, block trades are priced according to private negotiation. Smith New Court is reported as being the biggest intermediary in block trades on the London market.

From a company's point of view, block trades can reduce or even eliminate a serious imbalance in supply and demand for its shares and thus potential instability (volatility) in the company's share price. How the block is resold (intact or broken up by the broker/market maker), the identity of the vendor and that of the eventual purchaser(s) are all factors which will affect the ownership profile of the company.

When discussing the contribution of block trades to the overall liquidity of the market, it is important to distinguish between what are known as 'programme trades' in London and 'program trading' which is particularly associated, in New York, with the activities of index, quant and hedge funds.

Block trades in London normally only involve a change in the ownership of a single company; the risk to the broker is therefore company specific. In contrast, programme trades by a fund

manager involve a 'bundle' of shares in companies, all or many of which will not be disclosed to the broker. Programme trades typically take place when an institution is remodelling part of its portfolio of shares. This may occur as a result of a change in asset allocation (affecting the composition of many portfolios) or changes in portfolios which have recently been acquired for management.

C Declarable Stakes

A fund manager with UK equity funds equivalent to in excess of 3% of the total market will naturally find that a high proportion of its stakes will be above the 3% level. The Prudential (for example) has several hundred holdings above 3%, as do many of the other larger fund managers. In contrast, a smaller fund manager, with a portfolio equivalent to 1% of the market, would need to be more than 3 times overweight in a company before the stake was declarable.

Smaller fund managers are less comfortable with the idea of holding declarable stakes in companies, as may be their clients. As a result, several fund managers applied a limit of 3% to their stake in any one company. It would also appear that some pension fund trustees have included in their fund management mandates a restriction that they do not wish to hold (or be directly associated with through participation in a non-segregated 'house' pension fund) declarable stakes.

This requirement may become quite complicated to administer if a number of fund managers are acting for a single pension fund (for example an indexed and two actively managed funds), who will therefore need to be aware of each other's portfolios (remembering also that an indexed fund manager may not actually hold shares equivalent to those in the reference index, but be achieving the indexation through the use of derivatives).

The reasons for this sensitivity to holding declarable stakes would appear to be both external and internal.

C.i External factors

Trustees are wary of the balance of investment risk and reward involved in being particularly exposed to an individual company. In turn, fund managers want to avoid exposures that they know are likely to concern a fund's trustees, particularly as there may be little likelihood of gain in terms of overall fund performance. (These sort of issues will, in any case, normally form part of the fund manager's investment mandate from the trustees and be regularly reviewed with them).

Pension fund trustees are also sensitive to the public profile that their investments may have with their contributors and pensioners. A pension fund known to be a major (ie over 3%) shareholder in a failed or failing company could find this extremely damaging to the confidence of its members. Trustees understandably wish to avoid the problems that may arise if they are seen as being responsible for appointing a fund manager whose judgement has proved inadequate: whatever the underlying investment issues that might be involved or the overall returns achieved by the fund.

C.ii Internal factors

A portfolio manager who takes a larger than normal stake in a company will need to be confident that this will be recognised internally as a sound and justifiable (defensible) decision. As the size of a stake gets larger (in terms of percentage of a company's issued equity or the size of the fund) so a portfolio manager needs to be increasingly confident that the size of the stake will be justified by the expected rewards, after taking into account the risks involved.

Fund management organisations are close knit, and the internal checks and balances on investment are both based on social relationships and formalised within the organisation's reporting structures. Many fund managers feel that they are not paid to make risky decisions; but that they are paid to make sound, and therefore defensible, decisions.

D Aggregation of Shareholdings

Although all fund managers place some restrictions on the maximum proportion of companies they can hold in their portfolios (typically around 15%), the size of the aggregate holding is

not an objective in itself. One of the largest pension fund managers described this issue in the following terms:

> **'People think that we set out to have holdings that large, but in fact we don't - it's the effect of all the separate decisions our fund managers have made about the holdings in their portfolios. But we only really take a close interest in the total when it reaches 10% of a company, when the investment committee has to authorise it to go further, but the maximum is always around 15%, beyond which we would never want to go, however attractive the company.'**

One major institutional fund manager operates a 'buy list' of around 200 companies; but a company on this list would not suddenly appear in every portfolio of every manager. Instead, portfolio managers would gradually buy shares in the company, adding to existing holdings and introduce the shares to new portfolios as market conditions and the requirements of individual portfolios allowed.

Fund managers described 'buy programmes' as taking anything from two months to two years, during which time share purchases would be made at many different prices. A number of fund managers were happy buying into a falling market on the basis that the average cost of the shares was falling, increasing the gearing of the original decision when prices started to rise. However, this kind of sustained buying takes considerable nerve and as many fund managers would prefer to buy in a rising market, showing profits on earlier purchases as the buy programme progresses. Conversely, selling shares into a rising market takes conviction as profits are apparently being given to other investors.

Nevertheless, these differing investment strategies do not explain all share register movements and companies were often perplexed by the way certain fund managers appeared to buy and sell their shares with completely the wrong timing; selling at the bottom and buying at the top, whilst others followed more 'conventional' wisdom, building their stakes around a low in the share price and selling out near a peak. However, ownership, as signalled by an analysis of the share register, may not reflect the underlying position of the fund manager if derivatives are also being used to enhance or hedge equity positions.

Whilst buying programmes may take place over many months, once a fund manager had turned bearish on a share, sell programmes were reported as being much more rapidly

executed. Other fund managers seek, as a matter of course, to execute both buy and sell programmes in as short a space of time as possible - typically only one or two days, even for significant (+1%) stakes in a company.

Fund managers differed greatly in their views about their ability to 'exit' from a company under different market conditions. For many, liquidity issues were seen as putting a major constraint on their willingness to invest in a company above a certain level.

Others were bolder in their assertion that

> **'it is always possible to get out of a share if you need to'**

and virtually dismissed market liquidity and the size of their shareholdings as restricting their ability to manage their portfolios in the way they would want to.

The crux of these differences of opinion is probably one of timing; to sell a large holding just *before* a share price falls (the first may of course trigger the second) may be smart, but to try to sell when other major shareholders are doing the same thing can be a major problem.

One international fund manager had analysed its investment timing across different markets and had found that it bought and sold shares too early (ie share prices continued to fall after a buying programme had been instigated and prices continued to rise after sell programmes had been completed) but also that this was probably the best that could be achieved given the size of the stakes involved.

Companies are very sensitive to the gradual building of holdings by fund managers, which then may be rapidly sold. Mercury was seen as the most 'dangerous' in this respect. Almost every company that I interviewed which had Mercury as a significant shareholder was wary of the damage that the disposal of a substantial shareholding by Mercury could have on the company's share price. This is, of course, the opposite side of the coin of the out-performance claimed by so called 'aggressive' fund managers.

E Monitoring of Shareholdings

All but the smallest companies regularly reviewed their share register. The widespread use of nominee accounts in the UK means that the share register itself provides only limited information about the ownership of the company, as all institutional fund managers routinely hold shares in nominee accounts. These are also used widely by private client stockbrokers to facilitate the administration and operation of discretionary accounts (in which the broker makes buying and selling decisions about a client's portfolio) and also for non-discretionary accounts and dealing services (the major exception being Sharelink).

Many corporate brokers and specialist consultancies supply their clients with a shareholder identification service, which attempts to match the holdings set out in the share register to fund managers and beneficial owners. Typically the holdings of each fund manager will also be compared with their expected market weighting, based on their total funds invested in the UK equity market. These analyses can be used to identify institutions which are 'under' and 'over-weight' and inform, for example, the management of investor relations programmes or the pre-marketing of a rights issue.

To many companies and fund managers there is an anomaly in the way that institutional holdings are declared in the UK. This arises from the way that companies are able to identify their ownership but are under no obligation to disclose this information to their other shareholders; and the fact that fund managers are obliged to declare holdings above 3% to the Stock Exchange, but only if they believe that they have an 'interest' in the shares. Stakes declared in this way must also be published by companies in their annual reports.

Under EC legislation which came into effect in 1993, fund managers are now required to declare holdings above 10.0%, even if they do not have an 'interest' in the shares. Of all the major fund managers, Mercury is alone in apparently routinely (at the time of my research) taking the view that it did not have an interest in the shares it manages for its clients, under the terms of the Companies Act (1985). This is reported to be on the grounds that it does not have an interest in the shares because it is neither the beneficial owner (in common with all other fund managers) nor does it routinely hold the voting rights for the shares in its investment portfolios.

However, Mercury does not seek to disguise or hide the size of its holdings from the companies in which it invests. In normal circumstances Mercury and many other fund managers will, at 1:1 meetings with companies, update them about the size of their aggregate holding (but not the allocation of shares between individual funds). Although useful to companies, this method of disclosure has the weaknesses that it is: informal; driven by the timing of meetings, which may only take place once a year or less frequently and that the information is not generally available to other shareholders or investors.

The operation of share register analysis is normally supplemented by the issuing of 'Section 212' notices by companies (although corporate brokers will administer these as part of their service), or 'quasi' 212 letters which extract the same information about beneficial ownership without the continuing disclosure requirements of the subsequent sections of the Companies Act (1985). These continuing requirements are seen by some companies as administratively burdensome and the issuing of 212 notices as suggesting a level of distrust between themselves and their (major) shareholders.

Companies which fear a hostile takeover or stake building by another company have few qualms about issuing Section 212 notices in order to discover the beneficial ownership of their shares. However, the administration of these notices and the ability of respondents to reasonably delay reply, can prove a problem for companies rapidly seeking information about their ownership, particularly if a takeover bid is feared or in progress.

IV Types of Shareholder

In company interviews I asked what, if any, objectives had been set or agreed for the ownership of the company. In this Section I also review the views companies had about their current ownership and what, if anything, they were seeking to change.

A Institutional Shareholders

With few exceptions, companies felt that 'in an ideal world' they would not want any individual institution to hold more than around 7-8% of their shares, although in individual cases they felt 'comfortable' with specific institutions who held 10% or more. In almost all the cases the institutions mentioned in this context were either the larger life funds or M&G.

Fund managers which companies felt least comfortable with holding levels in excess of 7-8% included Gartmore, UBS and Mercury. Although the portfolio managers at Mercury were widely viewed as being very professional and knowledgeable about the companies in which they invested, the investment strategy of Mercury was seen as being very active; this is from where the 'danger' was felt to come.

Companies did not object so much to stakes (in excess of 7-8%) being acquired or built up by Mercury or other large active fund managers; the problem arose in the perception that, sooner or later, that stake of this size (or a significant tranche) would be sold, with an unknown effect on the share price.

In general, it is the potential short- to medium-term effect on the company's share price, rather than the longer-term ownership structure of the company, which is of the greatest concern to companies; except where a company felt that the movement of a stake might increase the risk of a takeover or the power of a potential bidder.

In one interview a Finance Director calculated that a 4% stake (not large for many fund managers) in his company was equivalent to two months' customer turn-over in the company's shares. Concerns about 'loose stock' appeared to be greatest with smaller

capitalisation companies. Large companies were more likely to feel that the low level of hostile takeovers in the early 1990s meant that there were fewer fears now about `where the stock ended up' if a sizable stake was sold.

A.i Ideal shareholder profiles

Companies differed about what they saw as their 'ideal' (UK) institutional shareholder profile. A minority of companies felt that it was best to have a small number each owning 'around 4%'.

> **'I want a small group of institutions, who have big enough stakes to take their shareholding seriously and who also know that they are one of a small group of the most important shareholders from my point of view'**

is how one company Mid-250 CEO expressed the benefits of a concentration in institutional ownership.

Other companies felt that a shareholder profile which matched `the market' would be ideal, one in which fund managers' shareholdings would be proportional to their total UK equity investments. However, this view was tempered by the belief that such an objective would be impossible to achieve in practice. The main constraints were seen as: the way individual institutions invest; the resources required to achieve a broader shareholder profile; and continuing concentration in the ownership and fund management of UK equities.

Around half the companies I interviewed felt that their current profile was about right, except that almost all of these *also* had concerns about individual institutions controlling more than 7-8% of their shares. Apparent satisfaction with the `status quo' needs to be viewed in light of the inability many companies feel to significantly influence where their shares are held.

B Private Shareholders

Most companies felt that they were also unable to influence the proportion of their shares held by private shareholders, or the number of private shareholders, and that the long-term decline in private share ownership was set to continue. A major reason for this was seen as being the attractiveness of collective investments such as investment trusts, unit trusts, PEPs, insurance policies and pension funds, of which the last three enjoy fiscal benefits which are not available to direct private shareholders, and all provide easy mechanisms for diversifying company specific risks when investing in equities.

In fact, many companies felt that private shareholders *should* invest through such collective investments and not directly in companies:

> **'Few private shareholders know or understand enough and [also] have enough money to sensibly invest directly in the market'**

commented a FT-SE100 company Chairman. It is a view that was held by many companies and (inevitably) by all the fund managers with whom I discussed this issue.

Many privatised companies have a very large number of private shareholders with minimum sized holdings - generally matching the allocation they received at the time of the flotation (plus any applicable loyalty/customer bonuses).

B.i Shareholder dealing services

A number of companies had run, over the last couple of years, low cost share dealing services for their private shareholders, normally for a relatively short period, such as a month. The impact of these schemes was generally found to be to concentrate ownership amongst private shareholders. Although the number of private shareholders selling shares was, in each case, greater than those buying, the number of shares involved was roughly equal and therefore the overall proportion of shares held by private shareholders remained approximately the same.

Although none of the companies professed disappointment with this result, for some the original objective appeared to have been to manage a decrease in either the number of private

shareholders, the proportion of shares held by them, or both. Generally, these schemes appear to achieve less than companies hope, although through their own and other companies' experiences there is now greater awareness of the likely outcome.

B.ii Costs

With very large private shareholder registers, companies were very conscious of the costs involved in producing and mailing annual reports, interim reports and dividend cheques. Several commented that these costs exceeded the value of the dividends paid to private shareholders with small or the smallest holdings. One company has instituted a cost reduction programme in servicing private shareholders in the same way as it has in many other parts of its business; aiming at a 15% decline each year. One saving, of not sending private shareholders a copy of the interim report, had not resulted (it was claimed) in a single comment or complaint.

B.iii Private shareholders as advocates

Several privatised companies felt that, although the numbers involved were not of their making, private shareholders provided a foundation for background awareness in the community about the company's activities, which if necessary could be channelled into wider support for its activities.

Examples given concerned planning permission and environmental issues, although only one of the companies I interviewed had actually tried to enlist shareholder support on a specific (regulatory) issue. The results of this attempt, amongst both institutional and private shareholders, were apparently negligible and disappointing. This suggests that for other companies too both private and institutional shareholders are likely to be of limited value in regulatory and political lobbying.

B.iv Private shareholders as customers

Privatised companies with large numbers of direct customers had mixed experiences when seeking to build closer relationships with their customer/shareholders. Three specific examples were:

- A regional utility generated a very high level of response to a shareholder survey.
- Promotions selling products (linked to the company's services) at `preferential' prices produced a very low response from shareholders.
- Private shareholders, who were also direct customers, were more loyal than shareholders who did not have any prior relationship with the company. The proportion of shareholders who are also customers is therefore now greater than in the period immediately after flotation.

Overall, privatised companies felt that they had far too many private shareholders in relation to the proportion of the companies owned by private shareholders and compared with other non-privatised companies. However, they also appeared to be very concerned to follow what they believed to be `best practice' in private shareholder communications and relationships, specifically with respect to their annual reports, the handling of shareholder enquiries and AGMs.

B.v Annual reports

Privatised companies in particular felt that it was very important to present information in the annual report with the private shareholder in mind.

> **'Our Annual Report is written for our private shareholders while almost everything else we do is for the institutions'**

is how an executive director of one of the privatised utilities described its approach, although others remain concerned with the high levels of costs (per copy and total) involved. This was particularly the case if the volumes involved did not warrant producing a 'short form' Annual

Report to more cost effectively meet the limited information requirements of private shareholders.

B.vi Shareholder enquiries

Many privatised companies, particularly the direct utilities, are used to handling a large number of telephone calls and letters from private individuals and have applied these techniques to deal with their private shareholders. The efficient management of shareholder queries was seen as an extension of their customer relations and call handling systems.

A second benefit was having a single focal point for shareholder queries as a way of avoiding other parts of the organisation becoming clogged with telephone calls and shareholder enquiries.

B.vii AGMs

Privatised companies feel that it is important to take the planning and management of their AGMs very seriously and devote substantial resources to the event; in one case the cost came to over £1 million, *excluding* substantial amounts of internal management time. There is a feeling in these companies that the AGM is a showcase; particularly amongst regional privatisations in terms of their local community and media. However, the initial enthusiasm for AGMs amongst privatisation shareholders appears to be declining. All the privatised companies I interviewed reported falling attendances. In response, there has been a general scaling back in the size of AGM 'events' for shareholders.

C Employee Shareholders

Almost all the companies operated executive option schemes and many also organise 'sharesave' schemes for their staff. Employee share ownership was widely supported, but was seen as a separate issue to the ownership of the company's shares by private individuals who had no prior relationship with the company. A number of companies had got close to the ABI/NAPF recommended maximum of a 10% distribution of shares to employees (over a ten year period) through a combination of their option and sharesave schemes.

A high proportion of shares acquired through the exercising of executive options are reported by companies as being sold more or less immediately. Companies commented that executive options are treated as an addition to income and are not therefore held as a continuing investment in the company. The funds released through the exercising of options by directors and senior executives were more typically used to reduce mortgages, pay for school fees or add to pension plans.

Only one company appeared to have a specific policy of wanting senior executives to hold significant personal stakes in the business. On this issue, opinions held by other companies were divided as to whether an executive (or Director) should be *obliged* (in effect as a condition of employment) to hold a significant proportion of his wealth in his employing company. This is an idea that has gained some currency in the USA but has not been developed in the UK.

The major arguments against the requirement for such stakes were described as: a dislike of coercion in respect of an individual's private finances; the problem of much lower levels of personal wealth in the UK amongst middle and senior managers; and the financial risks of placing personal wealth in the company of employment.

Arguments in favour include the closer alignment of personal and corporate goals *beyond* the exercise date of the original option. Many directors with significant personal stakes in the company they work for have held these since the foundation of the company, or since their own company was taken over. Relatively few have joined a company and *then* invested significant private wealth into the company through the acquisition of shares. However, one of the CEOs I interviewed had done just that, and felt that he was

'far tougher as a share-holder than a CEO'

but that the circumstances involved were unusual.

Nevertheless, this example highlights another issue, one that separates the way staff acquire shares through `sharesave' and similar schemes, and the operation of executive options, in

which the executive places no money at risk until the option is exercised (and even then only briefly through the use of special broking services). In contrast, sharesave schemes require staff to contribute on a regular basis, normally through payroll deduction. The continuing cash commitment made by employees (admittedly some of whom will almost certainly also be directors and senior executives) through these schemes is of quite a different kind to the operation of executive option schemes.

Despite the widespread support and implementation of executive options and employee sharesave schemes amongst the companies, there is little independent evidence that corporate performance is enhanced through their operation. In fact the opposite may be the case, since it appears that companies do not fully cost or value the net impact of such schemes on shareholder wealth (the balance between possible short-term improvements in performance against long-term equity dilution), although shareholders are becoming increasingly concerned about the operation of executive option and other incentive schemes.

D Foreign Shareholdings

The third category of non-UK fund manager shareholdings I discussed with companies were those held by overseas fund managers.

In general, only the FT-SE 100 companies had significant foreign holdings. Two, (SmithKline Beecham and Shell) had two classes of share, one of which was primarily held by UK domestic institutions, the other by US fund managers (and in the case of Shell, also by Continental investors).

The range of foreign shareholdings amongst the FT-SE 100 companies ranged from up to 40% to a de minimus level. Outside the FT-SE 100 there were few significant overseas investors; a level of 5% or less appeared to be typical for a Mid-250 company. Definitions of foreign shareholdings are complicated for two reasons.

First, many non-UK institutional investors acquire their shares through the London market. This is typically the pattern with major US funds, which prefer to hold shares traded in the most liquid market. Even UK companies with American Depository Receipts (ADRs) find

that a high proportion of their US investors hold ordinary shares (ie those traded in the London market) because of the liquidity issue. Secondly, many foreign owned fund managers manage their UK equity portfolios through London offices (in the case of Templeton, Edinburgh) and the decisions about these holdings will be taken in the UK. Meetings between companies and these fund managers will typically be held in London.

When companies refer to `foreign' holdings they *generally* refer to the location of the portfolio manager making the investment decisions about their shares, rather than the legal domicile of the fund or its underlying investors. US institutions hold the highest proportion of foreign holdings of UK listed companies. To service these investors many large UK companies visit the USA at least once a year to meet their shareholders and other US institutions known to invest in UK equities. A small number of the companies had an executive based in New York to liaise more closely with US fund managers than is possible from London.

D.i US investors

Amongst the largest companies I interviewed, there is only a weak relationship between proportion of sales and shares held in the USA. The ratio is always less than one and more typically 0.5 or less (eg 40% of sales in US, less than 20% of shares held by US institutions). It appears that the smaller the company (measured by market capitalisation or sales revenue) the lower this ratio and that shares will tend to be held amongst a relatively small group of US institutions which have a particular focus on non-US/UK companies. However, the pattern is idiosyncratic; a number of UK utilities are seen as particularly attractive to US investors, not because they have sales in the USA, but because the regulatory environment in the UK is seen as offering higher investment returns, particularly to US funds specialising in, or tilted towards, utility stocks.

Currency risks are higher for US fund managers investing in UK companies as the portion of their sales in the US falls. UK companies selling/operating worldwide are therefore less likely to be held in US portfolio than more focused Anglo-American groups, in which US exposure and US$ revenues will also be much more visible to US investors.

I found that large UK companies, with a relatively high proportion of their worldwide sales revenue in the USA, generally wanted to increase the proportion of their shares held in the USA, although the prospect of achieving a match (ie a ratio of 1:1) was seen both as unrealistic and as unnecessary. Medium-sized (Mid-250) companies had few ambitions of this kind, although one, with extensive defence interests, felt that a higher proportion of US shareholdings, assisted by a New York listing, might help generate a more favourable relationship with the US Department of Defense when seeking business.

Although around 100 UK companies are listed on the New York Stock Exchange, only one (Shell) is included in the S&P 500 index. This is one of the factors driving Shell's shareholdings in the USA as S&P index funds will have to hold the shares.

In contrast, and although the logic appears somewhat convoluted, *not* being included in the S&P 500 was not seen as a disadvantage amongst those companies with whom I discussed this issue, on the basis that a portfolio manager could afford to take more of a risk with a non-S&P 500 stock, precisely because it was not included in the index.

US listings were seen by those companies who had them as providing important credibility and a link with US investors. It also means that accounts had to be filed with the SEC which met US accounting and disclosure standards and which therefore better met the information needs of US analysts and fund managers than their UK reports and accounts.

The reputation of US fund managers as 'long-term' investors is mixed; some companies saw them as being loyal shareholders, others as short-term and volatile. A CEO of a FT-SE 100 company commented about his previous experience of two of the US's largest fund managers during a hostile takeover bid:

> **'once your shares are in their hands you've had it. You only know that at the end of the day they will win and you will lose'**.

Despite the lack of a consistent view about the 'loyalty' of US fund managers to UK companies, UK companies with experience of dealing with US analysts (buy and sell-side) generally hold them in high regard, believing that they focus on the core business issues with

greater precision and more directly than UK analysts. A FT-SE Mid 250 Finance Director saw this as a great advantage:

> **'US analysts and investors are much more interactive and you can use this to get your message across in the way you want; it can be much more difficult in the UK where the response is usually much more muted'.**

Nevertheless, US fund managers, as well as a number of UK companies, also pointed out that even when dealing with US investors in the United States, UK listed companies are bound by UK disclosure rules. The amount of information they can give US investors and analysts is sometimes less than expected, giving the impression that UK companies have something to hide. This can create the perception amongst US investors of increased company specific risk - even without taking into account currency risks involved when investing in a non-US company with substantial non-US$ earning streams.

Other UK companies had considered listing in the USA but had not done so. In a number of cases the costs and logistics involved in a US listing were seen as offering very few benefits, for two reasons:

Firstly, US institutions preferred to buy in the London market, and those that were prohibited from buying foreign listed securities were unlikely to buy shares in the company anyway.

Secondly, the only advantage to listing in the USA would be if the sector was consistently more highly rated in the US than the UK, but opportunities for investor arbitrage in secondary markets mean that this is seldom the case for long for larger companies and sectors that are well established in both markets. (The raising of *primary* market capital for new ventures and technologies, and the reported difficulties of doing this in the UK compared with the USA is a separate issue).

D.ii Continental & Japanese investors

Japanese investors were not seen as long-term holders of non-domestic shares, even if these were specifically issued to Japanese investors, for example through a special placing at the time of a listing in Tokyo. It appears that listings in Japan and other European markets

(Zurich, Frankfurt, Paris, Amsterdam) are regarded by companies much more as providing greater visibility to: local fund managers; the business community generally (which may include customers); and in political and regulatory circles, than being essential to the investor relations or shareholder strategy of the company.

> **'From a shareholder point of view there is no point in us being listed in Tokyo - the holdings there are now minimal, but if we pulled out it would send completely the wrong signals'**

is how the Investor Relations Manager of one of the largest FT-SE 100 companies described the reason for maintaining a Japanese listing.

V Summary

This Chapter sets out key aspects of the fund management process, distinguishing between the setting of investment policies and company-specific investment decisions. In reviewing these it is important to remember that fund management organisations are not a homogenous group and that there are also important differences between the types of fund they control. For example, pension funds represent the largest single source of investment in the London Stock Market, accounting for around one third of total market capitalisation. The beneficial owners of these funds are current and future pensioners of the employing/funding organisations, but control of the pension funds is (or should be) arms' length and in the hands of trustees who have defined fiduciary duties which, in general terms, can be described as legal responsibility for the safe keeping and sound investment of the funds for which they are responsible.

There is growing awareness amongst such trustees, and the various consulting organisations that advise them, that the active management of equity portfolios is only a sound investment policy if fund performance compensates for the costs and risks involved. The fact that broadly-based equity portfolios, possibly containing shares in several hundred companies, rarely consistently out-perform market indices has led to a realignment of investment mandates (reviews often take place on a three or five year cycle) and a consequent polarisation of investment mandates towards either genuinely low-cost indexed funds or active fund managers who manage relatively concentrated equity portfolios.

There are substantial problems in comparing the investment performance of different types of fund and public awareness of the performance of funds other than unit trusts, investment trusts and some pension funds is relatively limited. The performance of many types of insurance funds is all but impossible to ascertain on even an annual basis, reducing fund manager accountability.

Despite important differences between the ways in which different types of fund are managed and the skills of individual portfolio managers and fund management groups, many of the disciplines they follow (or attempt to) are rather similar.

In this Chapter I have set out the principle factors influencing both the setting of fund policies and company specific investment decisions. This analysis emphasises that the investment strategies of institutional fund managers are portfolio based and depend on a wide range of economic, industry, country-based and market assessments *before* company-specific issues are taken into account. There are exceptions (generally known as 'stock pickers') to the 'top down' management of equity portfolios but this is the most pervasive approach to fund management and even stock pickers will take these factors into account at some stage in their assessment of a company they have picked from the 'bottom up'.

The evidence from this Chapter is that fund managers take into account a great many factors and sources of information when assessing whether they should invest in a company, increase or decrease the size of an existing holding or disinvest altogether. Many of these factors are internally driven within the fund management organisation and by the very business of fund management itself.

Descriptions of the relationships between shareholders and the companies in which they invest clearly need to take these issues into account, as most definitely neither shareholders as a whole nor institutional fund mangers should be regarded as a homogeneous group.

The differences between fund management organisations are crucial to understanding why and how different institutional shareholders seek to influence the companies in which they invest and no model of shareholder influence can be complete without taking these issues into account.

Chapter 5 Information Flows

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I Introduction

Having reviewed key aspects of the process of fund management in the last Chapter, I now turn my attention to the flow of information between companies and shareholders.

Over the last ten years, this flow has increased hugely. Following the 'Big Bang' in 1986, many previous practices, which may be described with hindsight as limited and somewhat arcane, were gradually replaced by more frequent, direct and organised communications between companies and shareholders.

In this Chapter I review this process and the emergence of a defined group of 'best practices' in investor relationship management. These cover a wide range of issues, but the biggest and most important change has been the establishment of regular meetings between companies and their major shareholders; generally taking place at least once a year.

Nevertheless, not all the fund managers I interviewed believed that such contact with companies is useful or that it would have any significant impact on the performance of their portfolios. Others believe that such contact is vital to the process of fund management, as personally assessing the executive directors of the company is crucial input to the investment decision.

The fund managers which hold the latter point of view tend to be larger and more aggressive in the management of their portfolios than other investors. How well fund managers know and assess the senior managers of a company influences their attitude towards the exercising of ownership rights.

In Chapters 6 and 7 I look at contrasting ways in which these ownership rights may be expressed and used. Chapter 6 looks at the exercising of formal ownership rights, including voting and attendance at shareholder meetings. Chapter 7 looks at the informal use of shareholder power to influence and if necessary control companies in which the fund manager remains a shareholder.

II Improving Communications

The companies and fund managers I interviewed showed great consistency in their belief that, over the last five years, there had been a huge improvement in the quality of communication between companies, their shareholders and other investors. Over this period many companies have developed policy frameworks for the conduct of their communications and contact with investors, particularly institutional shareholders.

Many companies described the traditional `brokers lunch' as having rapidly died out at the end of the 1980s.

> **'Nobody would ask any difficult questions. All that would happen is that they** [the fund managers] **would go back to their offices after lunch and place orders with the broker'**

is how a senior fund manager described what he knew to be common practice in the years leading up to and more briefly after the 'Big Bang' in October 1986.

The combination of the Big Bang and the Stock Market crash the following October focused the attention of brokers, many under new ownership, on the most profitable parts of their business. In the new UK and US financial conglomerates that emerged from the Big Bang, post-crash profits from broking alone were dwarfed by those to be made in market making and corporate advisory work. As a result, analysts started to shift their focus from the interests of their external clients (fund managers) to their internal clients: the market makers and corporate finance departments.

The conflicts of interest which started to develop were increasingly visible to fund managers, who realised that more and more of the information and investment advice they were receiving from analysts reflected internal vested interests.

> **'Before I pretty much used to buy what the brokers told us to, now you can often tell the state of a market maker's book by what his analyst says'.**
> (Large life fund portfolio manager)

In many fund managers' eyes, the role of brokers' analyst as a reliable intermediary was becoming systematically compromised by changes in the organisations they worked for, and analysts could no longer be trusted to have their client's (the fund managers) interests at heart.

'Institutions turned from being clients to being customers'

is how one fund manager described the sea change that went through the market in the mid to late 1980s.

Two other important and associated changes started to take place at this time:

Firstly, the growing amount of direct contact between fund managers and companies; once started this process was seen as mutually beneficial to both sides. It has now reached the stage where many companies will see their top 20 or 30 shareholders at least once a year, without the direct involvement of a broker.

Secondly, the development of in-house analysis skills and resources by fund managers, in many cases by individual portfolio managers taking responsibility for a number of business sectors. Some fund managers operate a dual role analyst and portfolio manager matrix structure. This appears to be more common than maintaining separate in-house, buy-side analyst teams, whose role is to support the investment decisions of portfolio managers with more objective and possibly better quality information than that arriving from brokers. Whilst this may generally be achievable, it is more likely that the *most* skilled analysts in each sector lie outside fund managers' organisations and that fund managers will therefore continue to depend on these external 'stars' for investment ideas and advice.

The distinction between the role of the portfolio manager and buy-side (institutional) analyst disguises a much broader shift towards increased self-sufficiency in fund management organisations, which also became more professional and systematic in the management of their portfolios during the late 1980s.

Whilst fund managers were establishing closer links with the companies in which they invested and starting to by-pass their traditional dependence on brokers and their analysts, companies were also finding it increasingly important to keep their shareholders informed in an organised way.

They did so partly out of fear. In the late 1980s the number of takeovers of listed companies rose dramatically and there was growing concern amongst an influential, but largely informal, group of company Chairmen and CEOs that the apparent 'short-termism' of institutional investors was, at least in part, caused by a lack of contact with and detailed knowledge about the companies in which they had invested.

At the same time, research amongst fund managers showed that there was a positive link between a portfolio manager's familiarity with a company and their favourability towards the company as an investment.

> **'Investor relations really took off in the City when companies realised that they simply had to get their act together when dealing with the institutions, or risk being taken over'**

is how a director of a large independent pension fund manager described the genesis of many of the investor relations practices and protocols which are now almost universal amongst listed companies. However, their development was gradual and fund managers were not well disposed to companies:

> **'who suddenly decided to start talking to us because they thought that they were about to be taken over'.** (As above)

When such problems arose for companies they probably did so for at least one of the following three closely connected reasons: a relatively low level of initial information and understanding of the company, its markets, operations, objectives and strategy; the lack of prior relationship between the company's management team and portfolio managers - a lack of personal familiarity; and lack of confidence in the quality and credibility of new information that was being provided by company management.

The Investor Relations manager of a FT-SE 100 company described a takeover in 1989 in the following terms:

> **'Up until 1989 we had hardly bothered with our shareholders. Just before we made our takeover bid for the other [listed] company we started having one-to-one meetings with institutions.**
>
> **Institutional support for the takeover was organised at the last minute; subsequent feedback showed that fund managers had found the meetings very un-informative and the whole process badly handled. After that experience we realised that we had to start doing things properly'.**

During the second half of the 1980s there emerged a growing consistency in the way companies approached the management of shareholder relationships and therefore about the key elements and protocols of any 'standard' investor relations programme. Such programmes require two types of resource: the time of senior management to meet with institutional investors; and support to arrange these meetings and handle day to day liaison with fund managers, analysts and the media.

Many larger companies appointed dedicated managers to provide the necessary support, although their position in the organisation varied; from being located with Corporate Affairs, to reporting directly to the Finance Director, or Company Secretary.

Other companies, without the requirement for a dedicated manager, treated the investor relations role as part of another job (eg Chairman, Finance Director, Corporate Affairs or External Relations Manager/Director, or Company Secretary). In many cases an external investor relations consultancy was also appointed to provide support and a broader experience than would be available from within the company alone.

During the 1980s, investor relations gradually 'came of age' and principles of 'best practice' in various circumstances (results announcements, rights issues, bids and defences) rapidly consolidated from 1986 onwards. Not all companies adopted these at the same rate, but the appointment of internal resource (either dedicated or part-time) and the use of specialist external agencies, combined with the regular movement of people between agencies and companies and board-level networking through interlocking directorships, led to the

widespread and rapid adoption of a new model for the management of company investor relationships.

III Managing Investor Relationships

In this Section I look at the management of investor relationships from the point of view of both companies and fund managers. Fund managers vary greatly in the kind of relationship they seek with companies and how much emphasis they place on 'quality of management' as an investment indicator. Analysts are an important source of 'hard' information for many fund managers, but US analysts and fund managers think that their UK counterparts are too concerned with 'soft' investment issues such as 'quality of management'.

I then look at the role of NEDs as agents of fund managers in their monitoring and governance of companies; the relationship appears to be more distant than that assumed by the Cadbury Committee. However, I start with a review of how companies organise the flow of information to shareholders and the financial community.

A Financial Calendar

The backbone of a listed company's 'financial calendar' investor relations activities consist of the announcement of interim (half-year) and preliminary (full-year) financial results, issuing its annual report, and holding an AGM.

Large companies normally have two results (interim and prelim) meetings each year, attended by institutional investors, analysts and sometimes the media as well (although not necessarily at the same time). Smaller companies typically only hold meetings when they announce their prelim results and those large companies announcing results quarterly will not normally hold meetings for the first and third quarters.

Providing that a public announcement is made when any *other* price sensitive information is released, such information may be released at any time. In practice, listed companies report that they normally try to avoid making price sensitive announcements during the 'close periods' which precede the announcement of their financial results, even though there is no formal Stock Exchange requirement for them not to do so.

Many companies also reduce to a minimal level the amount of contact they have with shareholders, analysts and the media during these periods. This is generally done to avoid the risk of an accusation of `leaking' price sensitive information during particularly sensitive periods of their financial year. Instead, announcements which would otherwise be made are usually 'held over' to be included with financial calendar results announcements. One of the reasons for this is to combine 'good news' items together to maximum effect or offset poor news (eg last year's results) with some `good' news (eg what we are now doing about them); both examples of news management.

Outside close periods many companies run and take part in programmes of meetings with institutional investors. In terms of the relationship between the institutional ownership and influence over companies, the most important of these are 1:1 meetings held between companies and their major shareholders. The scheduling of these follows each company's financial calendar, meetings normally starting within a week of the release of the company's half and full year results, although the majority of annual meetings with shareholders (the normal interval) take place after the latter.

Although `traditional' brokers' lunches were described by many of the fund managers and company directors that I interviewed as being `a thing of the past', some are still held. However, they have been substantially replaced by small meetings to which a number of the broker's institutional clients will be invited. Several of the companies I interviewed had also taken part in multi-company brokers' seminars based around particular industries or investment themes; brokers mentioned as having organised such events included Hoare Govett, SG Warburg and SBC.

B Company Objectives

The companies I interviewed all had very similar objectives for their investor relations programmes, reinforcing the view that a consistent set of practices were widely adopted in the late 1980s and early 1990s. These objectives can be summarised as:

Firstly, to ensure that investors, analysts and the media are well informed about their company. By `well informed', companies generally mean:

- What the company does.
- Its past performance.
- The company's objectives.
- Its strategy for meeting these objectives.

Secondly, to create opportunities for portfolio managers and buy-side analysts to meet directors (and sometimes other senior executives).

Thirdly, to deal with specific issues which are of particular interest or concern to fund managers and analysts.

Investor relations effort and resources are normally only targeted at a company's largest shareholders (typically the top 20) with any degree of intensity. Fund managers outside this group will be seen less regularly and the relationship will be much weaker. Some companies, usually with support from their broker(s), also target larger fund managers without holdings, to encourage a wider spread of ownership in the institutional sector. Existing shareholders may also receive particular attention if they are seen as being underweight in the company's shares (revealed by comparing their holding with their overall investment in the UK equity market).

B.i 1:1 Meetings

In a 1:1 meeting, two or three directors of a company, normally consisting of the Chairman, CEO and Finance Director, will typically meet up to half-a-dozen portfolio managers and the buy-side analyst (if there is one) at a fund manager's office.

Although the level of contact between fund managers and a company is largely driven by the latter's financial calendar and investor relations programme, few companies will refuse to meet with fund managers at other times, whatever the size of their holdings, if specifically asked to do so. In practice fund managers seldom ask for meetings outside the normal annual pattern, unless there is a particular reason to do so, for example, by the company making an 'unexpected' announcement.

However, in these situations the company may well have already contacted its major shareholders ('best practice' in investor relations management suggesting that it should do so), to see if they would like a briefing in advance of the formal announcement. Fund managers who accept this invitation will normally become insiders and unable to deal in the company's shares until the public announcement is made.

Whether or not the invitation is accepted depends on whether a fund manager is prepared to be locked into the company's shares, based on its expectation as to whether the performance of its funds will benefit from such a constraint. This will also partly depend on whether or not the fund manager thinks it knows what the expected announcement (and therefore the inside information) will be about. On this issue one portfolio manager commented:

> **'we usually know what companies will want to talk to us about before they even ask to come and see us'**

When such 'one-off' meetings occur, they will normally take place only with a company's largest shareholders, typically the top five or six at most. These are the only shareholders that are likely to consider that in the long run the information they will receive, in relation to the size of their stake, will be more valuable than the potential short run cost of being made insiders. The exceptions to this rule are index funds, for whom the value of information about specific companies is investment neutral, but in any case only the largest index funds are likely to be contacted by companies, or their advisors.

Overall, the fund managers involved in these exercises will tend to be the largest - because they are more likely to have large holdings and therefore will also be the shareholders with whom the company is already in most regular contact. Companies can also be wary of how *they* deal with fund managers:

> **'It's no good asking fund managers for their views about what you should do; they will see it as a sign of weakness.'**

(Finance Director FT-SE Mid 250 company)

> **'It's very important not to give specific commitments or promises: but it is very important to let them know what you are generally thinking and what your strategy is.'** (CEO FT-SE 100 company)

Fund managers also commented on the difference in dealing with small and large companies. They expected large companies (by which they generally mean the top 350) to `know the rules' when dealing with institutional investors and not, for example, to give them price sensitive information without warning. Smaller companies were seen as prone to do this; particularly those whose Chairmen or CEOs have no outside experience of dealing with institutional investors (for example through being NEDs of larger companies).

B.ii Response to feedback

Companies report that fund managers are becoming increasingly direct in their line of questioning in 1:1 meetings (which were frequently reported as being polite but `robust'), through which their major areas of concern become very clear. Few directors admit that these meetings have any significant impact on the way they run their company. Those that did tended to come from smaller companies and those which realised that future institutional support, in the shape of funding rights issues, would depend on the board effectively addressing the issues raised by the fund managers.

Most companies appear to respond, at least initially, to negative feedback from major shareholders with plans to improve the quality of their presentations and the way information is provided. The problems are seen as cosmetic rather than as substantive; the quality of communication rather than a management issue. The Chairman of a FT-SE Mid 250 company commented:

> **'no fund manager has ever raised an issue which we haven't already thought of and been through.'**

Statements of this kind, and the views expressed by directors of many of the other companies I interviewed, defend the independence of the company from its shareholders and the right of the company's directors *not* to take their views on board.

This perceived right to distance the management of a company from the demands of its shareholders may be rational and *not*, as one might suspect, an example of managerial self-serving - after all, managers are invariably better informed than shareholders. Nevertheless, when planning changes in the company which will require shareholder approval or finance

there is little doubt that directors are very much more concerned to have the support of their major shareholders and will listen to them more closely.

In situations such as these, Chairmen, CEOs and other directors with experience of regularly meeting with institutional shareholders, did not disagree with the proposition that 'feedback' (as a mechanism for informal influence) from fund managers formed part of the backcloth against which the board directed the company.

The final *formal* sanction shareholders have against the board of a company is to withdraw their support for the directors, vote against the proposals of the board, and refuse to authorise increases in authorised or issued share capital or commit their investors' funds to rights issues.

Few company boards wish to test the resolve of their major shareholders to this extent, even if they are aware that the views and negotiating stance taken by the company's major shareholders may not be that widely held amongst others. However, the fact that institutional shareholders are widely seen to 'vote together' on many issues and occasions (when they think it really matters that they should do so) renders the board of a company almost powerless when confronted with organised institutional opposition to its proposals or continuance.

This is consistent with my finding that companies appear to rank the importance and *potential* influence of institutional shareholders on the basis of the size of their shareholding. Other important factors include the length of time the fund manager has been a significant shareholder and their respect for key portfolio managers, analysts and/or directors working for the fund management organisation.

C Fund Managers' Objectives

Regular contact with a company's management team should mean that fund managers are well informed about a company's business strategy and the key factors and risks involved. In their meetings with companies, fund managers will also want to update their understanding and knowledge of:

- Their company's plans in progress and those planned for the future (R&D, product/ service launches, major contracts etc).

- How these relate to the previously stated strategy and objectives of the company (fund managers are particularly wary of managers who `do not stick to their knitting' and attempt to diversify into activities and competitive environments outside their mainstream business areas).

- The expected benefits to the company's shareholders (although fund managers will not ask for and indeed will refuse to be given information about near-term earnings or dividends which could be construed as price sensitive or inside information).

Each of these types of information can be thought of as `hard' inputs into the investment decision. Much of this material, if not all, is likely to be already in the public domain, although not all will have been specifically directed at the financial sector.

Many company announcements about product development, marketing initiatives, new contracts, capital investment etc will only go to the trade press as they are not judged to be price sensitive by the company (ie of de minimus importance to investors). The issue for the informed investor is therefore that of understanding how all these pieces fit together rather than the availability of new information itself.

Fund managers also use meetings with companies to assess the 'soft' investment criteria of the quality of management. They can only do this reliably across a number of meetings and over a period of time; one of the reasons why, in the 1980s, companies apparently often found it difficult to establish credibility or to feel that they were building shareholder 'loyalty'

from a single meeting, or even after a year or more of starting to meet their major shareholders `regularly'.

Fund managers said that they used the following factors to assess quality of management:

- How well do the managers know their business?
- Do they know their markets?
- Have they got a clear sense of direction and strategy?
- Are they working for themselves or their shareholders?
- How credible are they?
- Do they do what they say they are going to do?

These assessments are mostly made through personal contact and at 1:1 meetings, when a fund manager's line of questioning can test issues in a way which they believe would be 'inappropriate' (from both their own and the company's point of view) at meetings involving other fund managers, analysts or the media.

Other sources of hard information, which fund managers described as important when assessing a company and its management team, include the fund manager's own market and economic intelligence and its ability to put an international perspective on a company's performance and the management team's ambitions and business strategy (the 'credibility' factor).

None of the companies I interviewed mentioned, without prompting, that the fund managers *they* saw were also very likely to be meeting with their competitors, suppliers and customers. In contrast, fund managers report that the information obtained in these *other* meetings is very useful because it enables them to judge whether deteriorations in performance are due to exogenous, market-based factors or endogenous management failures; assess whether managers are taking full advantage of the opportunities available to the company and have the necessary competence to do so; and put in a market context statements made by directors and other senior executives of the company about their customers, competitors, trends in the company's key markets, and the likely impact of these on the company's future performance and business prospects.

The larger pension fund managers gather this information on a world-wide basis. A director of one of the UK's largest pension fund managers gave this account of a meeting with the CEO of a FT-SE Mid 250 company:

> **'We knew his markets were in trouble in the US because I had recently seen his biggest US competitor, which was having problems and between them they have around half the market. There was no hint of any problem when I had a meeting with the company; they only finally admitted there *was* a problem when the prelim results came out a couple of months later'.**

Over time, fund managers therefore accumulate a mass of information about companies, their activities, strategies, customers and competitors and the *sensitivity* of the company's performance to market and economic forces. This provides them with a continually updated database of information about companies, augmented by and placed in the context of their assessment of the management teams.

In addition, investments in smaller companies (below the FT-SE Mid 250) are often handled by specialist portfolio managers. They are used to dealing with the managers of smaller companies, with whom they will often have closer and more frequent contact than their colleagues dealing with large companies.

Except in the kind of circumstances reviewed in Chapter 7, fund managers were consistently of the view that their role in meetings was *not* to tell companies what to do. Many fund managers were very adamant on this point, putting forward arguments which included: their expertise is in managing investment funds, not operating companies; they do not have the credibility to tell company management what to do; they do not have the time or resources to get involved with companies.

Although it is clear that most fund managers have few reservations about making their views *known* to companies when they feel the need to do so, the relatively low level of contact between companies and many of the small and medium sized fund managers means that company directors get very little feedback from these shareholders about the way they are seen to manage their business.

Because companies focus the limited senior management time which is available for investor relations activities on the company's largest shareholders, a second outcome is that smaller institutional shareholders tend to have much less personal contact with a company's directors, particularly the CEO.

Personal judgement about `quality of management' was therefore seen as a less important factor when assessing a company for investment by many of the smaller fund managers that I interviewed. This might be expected to have a potentially damaging effect on their investment performance, and therefore to be of considerable concern to them. In fact, it is the opposite which appears to be the case. It is clear that the views fund managers hold about the value of personal contact vary considerably. My interviews with fund managers suggest that they can be described in terms of three 'types' on the basis of their beliefs about the value of direct contact with company management. I have called these types 'contact seekers', 'pragmatists' and 'sceptics'.

C.i Contact seekers

These fall into two categories. The first includes major fund managers with active stock picking investment strategies (particularly the major pension and life fund managers). They have a strong belief that assessing the *quality of management* is one of the most important contributors to an investment decision. The second comprises smaller fund managers with active investment strategies who believe that regular contact with company managers is an efficient way of keeping informed about a company. Their focus is more on *information*, and getting this first hand, about the company's activities, markets and strategy, rather than 'quality of management'.

C.ii Pragmatists

'Pragmatic' fund managers have a more detached view of the value of close contact with company managers. Unlike 'contact seekers', they do not believe that regular close contact with company directors is always necessary to assess their quality as managers. In many cases actions (or rather, company performance) speak louder than words. These fund managers place relatively more emphasis on other sources of information, not least companies' Annual Reports, which they believe reward 'forensic' examination. Two comments summarise the position of this group:

> **'We have these meetings because companies want them; it's not clear how many we would have if companies didn't ring us up to arrange them.'**
> (Major life fund manager)

> **'There is no point in meeting the Chairman or Chief Executive of a FT-SE 100 company because their impact on the business is minor; it's all the managers beneath them who are doing the work and who will make the difference. Meeting smaller companies is completely different; there you know that the person you are meeting really runs the business.'** (Unit trust manager)

C.iii Sceptics

These tend to be smaller life and pension fund managers who believe that close contact with a company is either detrimental to investment performance, a risk sometimes expressed in terms of:

> **'getting too close clouds the investment decision'**
> (Smaller life fund manager)

or adds no real benefit to investment performance.

This view is also held by a number of in-house pension fund managers. It could be argued that 'sceptic' fund managers are making a virtue out of a necessity; they have adapted their investment strategy to deal with the lower level of contact they have with company management, a result of the way companies organise and prioritise their investor relations programmes.

A second factor is that all fund managers, but particularly pension fund managers, are more conscious of performance than they have been in the past. (This is at least partly a function of increasing levels of comparative information being available and used by fund trustees, professional advisors and also retail investors.)

With increasing external performance measures and internal cost pressures, 'sceptic' fund managers are looking more closely at their own internal resources, the allocation of these to different types of investment decision and the impact these decisions have on investment performance.

Sceptic fund managers are those which have come to the view that the value of close management contact is limited because the time and effort involved is disproportionate to the reward. The biggest impact on the performance of their funds is that of asset allocation: fund managers typically suggested that half or more of their performance is based on asset allocation.

It is clear that fund managers who have undertaken and believe this kind of analysis will seek to focus a substantial part of their internal analytical resources, investment expertise and experience to asset allocation decisions. They will therefore tend to see stock selection and direct company contact as second and third order priorities respectively.

> **'The top down approach, if done properly, makes stock selection almost the simplest part of the process. At the end of the day, if your asset allocation and industry sector weightings are right and by the time you've taken a couple of other factors like currency into account, there won't be that many companies to choose between - and it probably won't make much of a difference which one you choose anyway.'**
> (Life fund manager)

C.iv US perspective

The US fund managers I interviewed felt that UK institutions placed excessive emphasis on 'quality of management' as a criteria for investment. They were seen as paying insufficient notice to 'stochastic' factors when making stock selections, or timing buy or sell programmes; eg information about company and market prices, volumes, volatility, price and earnings momentum and other factors.

UK companies with US investor relations programmes also report US fund managers as very much more 'numbers based' than their UK counterparts. This was one of the two main differences that companies commented on between the UK and US investment communities.

The second was the very strong focus on key business issues. 'Business drivers' was a term repeatedly used by US fund managers when being interviewed, but it hardly occurred in any UK interviews. One US buy-side analyst, with a major US fund manager and with close personal experience of dealing with UK companies (as an investor) and UK brokers (as a client) felt that UK analysts:

> **'often seem to be focusing on the latest news story rather than the parts of the company's business that are making the biggest profits and where the real growth lies'**.

It is arguable that the combination of a focus on 'numbers' and the key 'business drivers' in the USA has both led, and been supported by, the widespread use of computer modelling. This, in turn, has allowed the development of longer-term forecasting (typically five to seven years ahead) by US analysts, compared with the UK where few analysts are reported as forecasting more than two years ahead.

Several UK companies thought that the longer forecasting horizons of US analysts also led US institutions to take a longer-term view of their investments. This is partly because the extended time frame enables them to take a view about the performance of a company *across* an economic cycle, whereas UK analysts are more concerned with companies' positions and prospects within the *current* cycle.

When confronted with this viewpoint, UK fund managers were more dismissive than their US counterparts about the benefits of longer forecasts, on the grounds that investment decisions were still taken by US fund managers on the basis of what is expected to happen in the next year or eighteen months and not much longer, and that the accuracy of models deteriorates sharply over longer time periods. US models are sufficiently unreliable beyond a two year time horizon for the additional information to be almost valueless in terms of investment decision making.

On the basis of my interviews with both fund managers and analysts it appears that the use of `quant' modelling is growing amongst UK sell-side analysts. This output is probably being focused most towards the requirements of `quant' based portfolio managers, who are able to successfully integrate company specific forecasts and analyses within their broader asset allocation and hedging strategies.

From the point of view of companies, the widening use of `quant' techniques to aid equity portfolio management is a mixed blessing. Although analysts and fund managers will potentially have a more stable framework in which to analyse companies, there is an increased risk that the models will produce similar results and trading signals in response to the same input information; for example, eps momentum, sales growth forecasts based on the same standard industry data sources, or balance sheet benchmarks. As companies, through their investor relations and shareholder information programmes, seek to ensure that all analysts are as fully informed as possible about the company's business profile, key markets, profit and growth drivers, so the risk of convergence in analysts' financial models increases.

D Brokers & Sell-side Analysts

Brokers' analysts are an important audience in investor relationships because of their direct links to: market makers and institutional sales forces, when these are part of the same financial conglomerate; fund managers as institutional clients; and sometimes also the media.

Investor relations managers and directors find that dealing with the information needs of sell-side analysts takes a substantial part of their time; routinely dealing with five - ten calls a day

amongst the largest companies (but many times that number following announcements by the company or when there is important news about the company's industry/markets).

Awareness of the need to avoid giving away price sensitive information to analysts was a point of concern to many of the companies and *all* the investor relations managers/directors I interviewed.

The Investor Relations manager of a large FT-SE 100 company described the situation as:

> **'Walking on a tightrope - you have to be very close to the centre and know almost everything that is going on in the company, but at the same time, the way you have to use this information is often by *not* telling them things. At the same time you cannot afford to mislead them in anyway, although this may often appear to be only a matter of semantics.**
>
> **For example, you cannot say 'no announcement will be made'. Instead you have to say 'no announcement has been made', even when you actually know that an announcement is going to be made in five minutes' time. Ignorance is now no defence against misleading investors, but analysts understand the rules of the game as well as we do and don't blame you afterwards.'**

In all the interviews I conducted with companies, a great deal of caution was expressed about the way that information should be provided to investors and analysts, but particularly the latter. There was concern that increased attention to information disclosure issues would lead companies to become much 'tighter' in the disclosure and availability of information, and that this would lead to lower stock market 'efficiency' and in turn eventually to more volatile share prices.

The full-time Investor Relations managers I interviewed claimed to now be focusing a significant part of their time on the need to clarify and explain information provided by the company to investors; not in providing new information. However, there is always risk at the margin and, for example, most Investor Relations managers were well aware that all their telephone conversations with analysts were taped (by brokers' internal compliance/ surveillance units).

D.i Forecasts

The relationship between analysts and companies becomes particularly difficult when brokers' profits forecasts are involved. A significant problem for companies is seen as how to deal with analysts' forecasts which are known to be inaccurate and `out of line' with their own. Two techniques are commonly used:

Firstly, to suggest that the errant analyst compares his/her forecast with that of other analysts; with a view to guiding them to compare their forecast with those of analysts who have not made the same mistake(s) or incorrect assumptions.

Secondly, to go through the analyst's assumptions and correct those where a factual error has been made and the information is already in the public domain.

But investor relations managers cannot afford to be seen to be 'marking' analysts' forecasting models or `massaging' figures in the right direction (which was often described as having been common practice in the 1980s, often undertaken by Finance Directors on the basis of a `nod and a wink').

D.ii Profit warnings

In the more closely defined and monitored regulatory environment which now exists, the more restricted fine tuning that now has to be used by investor relations managers and finance directors can only work to a certain degree.

It cannot deal, for example, with gross discrepancies (perhaps of more than 5%) between the internal expectations of companies and those of the market (eg those made by sell-side analysts; fund managers' own forecasts are not in the public domain).

Companies now believe that if analysts are seriously out in their profits forecasts (eg by more than 5%) they have no alternative but to issue 'trading statements' or 'profit warnings', particularly if expectations are running too high.

Most companies felt that there were relatively few analysts, out of all those covering their sector(s), who really understood their business. One company had to make a 'downbeat trading statement' at its AGM because the only analyst who really understood the sector was on maternity leave. A similar problem can arise when analysts 'go over the Chinese Wall' to work with corporate finance departments/ merchant banking units (see Chapter 6), but profit warnings and trading statements are seen by companies as very blunt instruments for dealing with the problem of analysts making misguided public forecasts.

Companies which felt *less* vulnerable to these problems were those:

- Publishing quarterly results, instead of only announcing at the interim and prelim stages. Quarterly results provide a faster and more consistent flow of information about the company's performance and trends in the industry sector(s) in which it operates, helping reduce the variance in analysts' forecasts, investor uncertainty and risk.

- Which were in industries with high sector visibility, such as oil, where reliable information about the major 'drivers' on their profitability are readily available.

- Which are focused in their business activities. Conglomerates and those operating across a number of markets/industries felt that it was difficult for analysts to understand how each business was doing *and* get the mix of their business right when forecasting the overall performance of the company.

Those companies which felt *more* vulnerable to misleading forecasts from analysts included those in capital goods industries, where the timing of orders, deliveries and payment terms could have a major impact on the financial results in any given period, and sectors where there was considerable uncertainty about earnings right up until the end of the financial year (for example: merchant banking, where a single transaction can have huge impact; and retailing, where the annual sales cycle is very uneven).

E Corporate Governance

E.i Non-Executive Directors

When interviewing company directors and fund managers I was interested in discovering if non-executive directors (NEDs) provided a link between the company and shareholders. This issue was raised in the Cadbury Report, but in my interviews I found little evidence for direct relationships between institutions and NEDs, except when the position of the NED was also Chairman of the company.

Fund managers claim that they broadly support the recommendations of the Cadbury Report that: the roles of Chairman and CEO should be separated in a company; and that NEDs should act as a check and a balance on the activities and plans of executive directors and therefore the company.

Amongst larger companies I found no evidence that NEDs were acting in any specific way as representatives of fund managers. However, fund managers specialising in smaller companies (M&G was quoted in several interviews) were believed to have regular contact with directors they had 'placed' on the Boards of companies in which they held significant (eg +10%) stakes.

Apart from the Chairman (who may be executive or non-executive), fund managers consistently expressed their wish to work only with executive directors and to deal with issues and problems in as straight-forward a way as possible. Many of the fund managers with whom I discussed this issue were uncomfortable with the idea of using NEDs as sources of information or as go-betweens. They felt that to involve 'third party' NEDs in a dialogue would send confusing signals to the executive directors and senior managers, and run the risk of becoming excessively complicated and time consuming.

The only circumstances in which a NED might be used as a go-between is if the Chairman/CEO was a combined role - and the person occupying it was the problem. Many NEDs I interviewed felt that their role was relatively limited and generally over-estimated by Cadbury; the 'policeman' role envisaged for them by the Cadbury Committee was not

practical or credible. In contrast, they felt that the main contribution by NEDs to a Board was to question the assumptions of the executive directors and act as a catalyst for new ideas and developments.

The practical limit to the NEDs role was seen as being set by the executive directors, who controlled almost all the information received by the NEDs and thus the 'agenda' of board discussions on any particular issue. Equally, NEDs did not wish to have an 'intermediary' role with shareholders on the grounds that they do not know enough about the company to represent its interests to institutional shareholders without the support of executive directors and to do so would be 'going round the back' of the Chairman and executive directors, about which they would feel very uncomfortable - except in the most unusual circumstances.

The view of NEDs of their limited *external* role complements the preference of fund managers to deal only with company chairmen and executive directors. Nevertheless, fund managers support the *internal* board role for NEDs set out in the Cadbury Code. In many cases they will know at least some of a company's NEDs through the executive positions they hold on the boards of other listed companies.

E.ii Cadbury

Companies expressed broad support for the recommendations of the Cadbury Report and the Cadbury Code. Many companies believed that either they already complied with the Cadbury Code or would do shortly; several were in the process of establishing their Audit Committee when interviewed.

Smaller companies were inclined to express a belief that Cadbury was really more relevant to larger companies than small companies; but few expressed any opposition to the Code as such and it was felt that the vast majority of companies would have no problem with complying with almost all aspects of the Code.

Several of the more 'entrepreneurial' Chairmen and CEOs felt that Cadbury was designed to constrain companies, rather than help drive them forward.

> **'Successful companies are often led by people with a huge amount of drive and vision; they sometimes get things wrong and sometimes break the rules, but that's where the real growth has to come from - its sometimes difficult for the institutions to realise that. They risk throwing the baby out with the bath water'.** (Chairman/CEO of a smaller company).

The majority of the fund managers who I interviewed felt that Cadbury provided a useful reference framework to use *if* governance-type issues became a concern to them, but some expressed reservations and felt that the Cadbury Code offered very little of substance. One life fund manager commented:

> **'Cadbury is like motherhood and apple pie; there's really not much in it that you could disagree with'**

and this general reaction to Cadbury was also made by other life and pension fund managers (large and small). Others felt that the Cadbury Committee had been established for the wrong reason: no code could have stopped 'criminals' such as Maxwell and Nadir. Yet more felt that such behaviour would be less likely in future, providing that other members of the board, and NEDs in particular, were doing their job properly; but they also felt that the real issue was effective *monitoring* by shareholders.

IV Summary

In this Chapter I have reviewed the flows of information between companies and their shareholders. The distinction between the public disclosure of information (for example, through the Stock Exchange Announcements Office or in a company's annual report) and what takes place when companies are in direct contact with major institutional investors is very important to an understanding of shareholder influence and mechanisms of shareholder control over UK listed companies.

Since the mid-1980s, direct contact between companies and institutional shareholders has increased dramatically. Both sides report substantial benefits from improvements in shareholder communication practices and the professionalisation of investor relations as a management activity. As a result, the role of brokers has changed and brokers are no longer regarded as crucial to the relationships between companies and their major shareholders, either from the point of view of logistics or the processing of company and market information by their analysts.

Although brokers remain facilitators of company shareholder relationships, particularly those involving smaller institutional investors, and the distribution of the vast output of the City's sell-side analysts is a substantial business in its own right, many of the larger fund managers have established their own in-house (buy-side) teams of analysts. The advice and output of these analysts (who may also be portfolio managers in their own right) is tailored to the specific requirements of (other) portfolio managers, with whom they work closely and by whom they are seen as impartial. In contrast, many fund managers believe that the advice and reports that they receive from brokers' analysts are compromised by the needs of market makers, in-house proprietary trading units and corporate finance departments, all of whom typically work alongside sell-side analysts, particularly in the large integrated brokers which dominate the London market.

One-to-one meetings between companies and major shareholders have to stay clear of information that might be deemed 'price sensitive' for both directly regulatory reasons and because many fund managers have a strong aversion to be being made 'insiders'. Instead, strategic and broader business issues are discussed. This gives fund managers a good feel of both the company's business and the capabilities of the management team. Assessment of

management competence is a key factor in evaluating companies for investment for many of the fund managers that I interviewed.

However, these meetings are not all one way. Through the line of questioning adopted by a fund manager's analysts and portfolio managers a company will quickly become aware of how well informed a particular fund manager is about the company and key areas of concern. In turn, fund managers may use these meetings to try to send specific messages to companies about their concerns - and they expect companies to keep to any commitments they have made in these meetings.

Although many companies also believe that good investor relations is a two-way process and that it is important to constructively use the feedback they obtain from fund managers, in practice the signals that they receive from fund managers can be and are interpreted in different ways. In some circumstances, company managers may choose to completely ignore the feedback they get in one-to-one meetings with their major shareholders, although more frequently this information is used to modify their investor relations programmes, but not the objectives of the company, its strategy or its day-to-day management.

Equally, many fund managers do not wish to be seen to be telling a management team how to run their company and will therefore adopt a relatively low-key approach, unless they have particular concerns and wish to raise the level of influence that they have over the company.

Nevertheless, and as I describe in Chapter 7 and the Composite Case History which forms Chapter 8, meetings between companies and fund managers are a crucial vector for informal shareholder influence. This influence is likely to be mild if a company performs well and its management team is seen by shareholders as competent and to be making sound strategic decisions.

Companies identified the factors that would increase shareholder influence as being the level of shareholding, the length of time the investment had been held by the fund manager and their respect for their opposite numbers in the fund management organisation.

These are crucial factors in determining shareholder influence, but do not depend on groups of shareholders working together in structured or even semi-structured coalitions. Nor are these issues directly related to the role of NEDs on companies' boards which, except in some smaller companies, are independent of the ownership structure (supporting Scott's earlier finding that in the UK ownership and director networks are not interlocked).

Finally, the exercising of shareholder influence as a result of closer relationships between companies and their major shareholders appears to be substantially independent of the issue of voting power, which is reviewed in the next Chapter (6).

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I Introduction

Chapter 4 (Fund Management) described the key processes of fund management, whilst Chapter 5 (Information Flows) reviewed certain aspects of the relationships between companies and shareholders, distinguishing between the formal and informal exchange of information. Chapter 5 also highlighted the opportunities that one-to-one meetings provide for major institutional shareholders to send signals to corporate managers about particular areas of concern, either explicitly (discussed more in Chapter 7), or implicitly through their line of questioning and response to information provided by managers at the meetings.

This analysis provides a framework against which to review the attitudes of fund managers to their formal ownership rights as shareholders in a company. From the point of view of this study of shareholder 'Ownership and Influence', the most important of these rights is the possession of voting power, which (with few exceptions, because UK listed companies widely adhere to the principle of one share one vote) is proportional to the number of shares held. The voting power attached to a shareholding normally rests with the legal owner of the shares (ie either the fund manager or private shareholder), but in some cases voting control may be held by the beneficiaries or their fiduciaries (for example, pension fund trustees).

As the fund management industry is relatively fragmented (although slowly becoming less so as a result of the trend to concentration described in Chapter 3), institutional shareholders have long felt the need to coordinate their interests, for example to influence legislative and regulatory changes. During the 1970s and early 1980s there was also a growing need to coordinate their actions and interests in respect of their holdings in individual companies.

Section II of this Chapter (Shareholder Protection) reviews the role of bodies which represent the interests of fund management organisations and which are concerned with maintaining the ownership rights of institutional shareholders. Up until the mid-1980s, two of these organisations (the Association of British Insurers [ABI] and National Association of Pension Funds [NAPF]) were regularly involved in establishing company specific Investor Protection Committees (IPCs) to coordinate and represent the interests of institutional shareholders when dealing with companies and their banks and financial and legal advisors. Although IPCs were normally formed only in response to, often severe, problems arising at individual

companies, in certain situations they can be seen to be broadly equivalent to the shareholder coalitions described by Scott.

It is also important to recognise that IPCs were normally only organised by the NAPF and ABI in response to impending or actual corporate collapses (or in some cases controversial financing, merger or takeover proposals) and that they therefore did not provide a mechanism for milder forms of shareholder influence or continuing relationships between institutional investors and the vast majority of listed companies.

IPCs were therefore formal shareholder coalitions developed by institutional investors through their representative bodies specifically to dealing with 'problem' and sometimes severely dysfunctional companies. Operating under the umbrella of the ABI and/or NAPF, which also provided administrative and secretariat support, IPCs provided a framework for investor cooperation and coordination which overcame many of the practical, free rider, moral hazard and other problems that would normally be encountered when trying to coordinate the interests of competing organisations.

Despite these apparent advantages, IPCs were increasingly seen as slow, unwieldy and bureaucratic by the UK's largest fund management organisations, which in the mid- to late 1980s started to have much greater and regular direct contact with companies and (in particular) their executive directors.

Section II reviews the declining involvement of institutional investors in IPCs and how IPCs have been replaced by more informal relationships firstly between companies and their major shareholders, and secondly between the UK's largest fund management groups.

Improved communications, increased confidence in the value of regular direct contact and the cumulative direct acquisition of information about companies, led to both closer personal relationships between companies and their major shareholders and a continuity which had previously been lacking. These changes meant that fund managers were subject to fewer 'out of the blue' corporate collapses and rapid and unexpected deteriorations in companies' finances. Against this background and supported by general improvements in corporate performance during the mid- to late 1980s, relationships between companies and institutional

investors also became more sensitive to each others' concerns. Compared with this new and emerging model of best practice in the management of investor relationships (described in Chapter 5), IPCs appeared very blunt and increasingly unsatisfactory instruments for the representation of shareholders' interests.

The same concerns are voiced by institutional shareholders about the use of voting rights (Section III), particularly at AGMs and other shareholder meetings (Section IV).
Section III reviews the attitudes of institutional investors to the use of their voting rights, the reasons why, for example, AGM voting averages only one-third of issued capital and the wider concerns that many fund managers and some companies have about voting behaviour.

Despite pressure from organisations such as the ABI and NAPF to vote their shares,
fund managers are still reluctant to exercise their rights to attend shareholder meetings. Instead votes are usually cast by proxy and not in person by a member of the fund management organisation - for reasons discussed in Section IV.

Finally, Section V reviews some of the conflicts of interest that may exist between companies, their shareholders and advisors. In certain circumstances these conflicts undoubtedly inhibit the exercising of shareholder rights and less formal modes of influence.

II Shareholder Protection

This Section reviews the role of four of the key organisations (NAPF, ABI, ISC and PIRC) involved in coordinating the policies and actions of investors, before discussing broader issues of shareholder rights.

A Shareholder Organisations

A.i NAPF & ABI

The two leading organisations, representing the interests of institutional fund managers as *investors*, are the National Association of Pension Funds (NAPF) and the Association of British Insurers (ABI). The NAPF has amongst its members many of the UK's largest companies and their pension funds (only some of which are managed in-house), but it is a smaller organisation than the ABI, which represents and supports insurance companies in many aspects of their business, not just fund management. A number of the UK's largest insurance companies, which also have pension fund interests, belong to both organisations.

Most companies included in my research had little or no contact with the ABI or NAPF. That contact which had taken place had generally involved larger (FT-SE 100) companies and was restricted to seeking the approval of changes to, for example, the terms of preference or convertible shares or share option schemes. In most of these situations the `service' provided by the ABI and NAPF, in coordinating the responses of their members, was seen as efficient and easy to deal with.

In a number of cases, all relating to share option schemes, matters had become more complicated because the companies concerned had proposed the use of performance measures other than share price (for example, eps growth). Many of these issues were subsequently dealt with in guidelines published towards the end of my programme of interviews.

A.ii Institutional Shareholders' Committee

In contrast to the company and fund manager-based membership of the ABI and NAPF, the Institutional Shareholders' Committee (ISC) is an umbrella body for other organisations involved in investor protection, shareholder rights and related issues. There are no direct 'corporate' members of the ISC, but both fund managers and companies may be members of the organisations which comprise the ISC (and some fund managers may be members of several).

The membership of the ISC includes the ABI and NAPF, the Unit Trust Association (UTA), the Association of Investment Trust Companies (AITC), the Asset Management Committee of the British Merchant Banking and Securities Houses Association, and the Bank of England in an advisory/observer role. The ISC's membership encompasses a very high proportion of the UK fund management industry, but did not (at the time of my research in 1993) include PIRC, which represents a number of public sector pension funds in the UK and USA, or any body specifically representing the interests of charities.

The role of the ISC has changed significantly over the last few years, with the coordination/spokesman role, particularly the publication of policy statements, becoming more complex and difficult as the less controversial and broader matters have been dealt with, and the interests of the different member bodies and those of their own memberships have diverged on more specific issues.

A.iii Policy development

In terms of the creation of recommendations and policies for investors and codes of conduct for the management of shareholder relationships, the main roles of the ABI and NAPF, sometimes jointly, and on other occasions in conjunction with the ISC, have been to: produce general policy statements as guidance for their members and companies; coordinate the interests of their members when dealing with issues of shareholders rights and the negotiation of changes to these rights; coordinate their members' interests when dealing with more complex matters of corporate rescue, reconstruction and re-financing.

In support of these goals and to help introduce consistency in the application of their guidelines, the NAPF and ABI have produced a number of discussion papers and policy statements about shareholders' rights and responsibilities. These have increasingly focused on 'Cadbury' type governance issues, for example:

- Directors' remuneration, employment contracts and share schemes.
- The composition of boards and the re-appointment and selection of directors.
- Voting on shareholder resolutions.

Both the NAPF and ABI have a significant number of fund manager members which *are themselves listed* on the Stock Exchange. In the NAPF's case there are also listed company members representing the interests of their pension funds.

A.iv PIRC

Pensions & Investment Research Ltd (PIRC) is an independent company which represents a significant number of UK and overseas local authority public sector pension funds.

The NAPF, ABI and PIRC support their members with 'corporate governance' information services about major UK companies, identifying, for example, where shareholder resolutions do not meet their own guidelines or those of the Cadbury Code. PIRC is also focusing resource on identifying companies' political and charitable contributions and environmental policies.

An additional dimension to this issue is that many local authority pension funds are managed by independent fund managers, which may themselves be quoted companies and members of the NAPF or ABI.

For many local authority pension funds, the voting power of their shareholdings will lie with their fund managers, as part of their investment management mandate, rather than with the fund's trustees. As PIRC provides voting recommendations to its members as part of its information service, it is likely that the trustees of public sector funds will increasingly seek to

use their voting power directly, on a company by company basis, rather than automatically leaving all voting decisions to their appointed fund managers.

B Response of Companies

Amongst many of the companies that I interviewed there was a growing frustration with the growth of corporate governance `interest groups' (of which PIRC is seen as one) and the demands that groups of shareholders and their representatives are putting on companies for additional information and meetings, in addition to sometimes seeking changes in corporate policies on issues as diverse as defence contracts, the employment of minorities and environmental issues.

Even in large companies the resources available to deal with these requests are limited and, in the current climate, further policy statements and standards produced by politically inspired shareholder groups are seen as providing diminishing returns, either through unnecessary repetition of principles which are already included in the Cadbury Code, or by making growing demands on companies, to which they are likely to become increasingly resistant.

The growth of `corporate governance' and the demands it is making on management time was particularly strongly felt by Finance Directors, who are also responsible for the implementation of changes in financial reporting standards. The combination of the Cadbury Code and new accounting standards were seen by companies as making huge improvements in the accountability of their boards to shareholders and the accuracy of information provided to shareholders in financial statements. In contrast, fund managers and analysts are more sceptical that either the Code or the introduction of additional accounting standards will make that much of a difference to the quality of the information they receive:

> **'At the end of the day, if companies want to hide information from shareholders they will succeed in doing so. In fact, the information in Annual Reports is probably worse now than it used to be. New** [accounting] **standards may have increased the amount of information available, but companies are also getting better at hiding the things they want to. Only by crawling through the notes have you even a hope of working out what they might be trying to hide. The job of the analyst has got more difficult not easier, despite appearances to the contrary.'** (UK Analyst)

Nevertheless, companies report that fund managers are starting to use the Cadbury Code as a framework through which to address governance issues, but only about those with which they are particularly concerned (for example, joint Chairman/CEO roles or limited representation of NEDs on the board or on certain board committees).

B.ii Cadbury 'II'

Companies were also concerned about the development of recommendations by the 'Cadbury II' Committee, which at the time of my interviewing programme was expected to start work in the Summer of 1995, but is now expected to start work in the Autumn of 1995. They are resistant to further changes in Stock Exchange-backed 'corporate governance' standards, both because of the resources required and the risk of unrealistic expectations about how much these initiatives may lead to changes in corporate or board behaviour or improvements in performance.

Opinions were divided as to whether there should be a 'reduced' Cadbury Code, for companies below a certain size threshold (say below the FT-SE Mid 250 Index), or for those whose shareholders vote (perhaps annually) that the company can follow a reduced code.

The Cadbury Committee resisted calls for this kind of arrangement, but in practice the focus of organisations like the ABI, NAPF and PIRC is strongly towards the UK's largest listed companies. The information services they provide to members are unlikely to cover more than the top 250 or 350 companies; for the very practical reason that these account for 80-90% of Stock Market capitalisation and an even higher proportion of many institutional investment portfolios. Below the top 350 companies it is likely that, for most investors, effort expended on company specific governance issues provides fast diminishing returns in terms of overall portfolio performance.

C Investor Protection Committees

Up until the mid-1980s, the ABI and NAPF report that they were regularly involved in establishing company specific Investor Protection Committees (IPCs) to coordinate and represent the interests of institutional shareholders when dealing with companies and their banks and financial and legal advisors. Operating under the umbrella of the ABI and/or NAPF, which also provided administrative and secretariat support, IPCs provided a framework for investor cooperation and coordination which overcame many of the practical, free rider, moral hazard and other problems that would normally be encountered when trying to coordinate the interests of competing organisations. IPCs were formal shareholder coalitions developed by institutional investors through their representative bodies specifically to dealing with `problem' companies and can therefore be regarded as broadly equivalent to some aspects of the shareholder coalitions described by Scott.

However, they failed to provide a mechanism for milder forms of shareholder influence, regular contact or continuing relationships between institutional investors and the vast majority of listed companies. In addition, IPCs were increasingly seen as slow, unwieldy and bureaucratic by the UK's largest fund management organisations, which in the mid to late 1980s started to have much greater and regular direct contact with companies and (in particular) their executive directors.

The formation and running of IPCs is not a matter of public record and it is likely that, as of 1995, only a few are in operation. Those that do exist are likely to be involved in coordinating the interests of shareholders, banks and other debt-holders and balance of interests between these groups. An example of a company surrounded by this kind of grouping is Eurotunnel, where cash flow problems and massive debts have regularly threatened to overwhelm the interests and rights of different shareholder groups.

The NAPF and ABI maintain their interest and involvement in the maintenance of shareholders' rights and improvements in corporate performance through standing committees concerned with issues of corporate governance. Unlike IPCs, these are not

company specific. The ABI also has a number of sub-committees which are responsible for the development of policy in areas such as directors' contracts and share option schemes.

Both organisations may also create ad hoc committees to address specific issues raised about particular companies, but these do not operate on the same basis or level or for the same duration as IPCs. Instead many of the issues considered by the ad hoc groups will be relatively technical in nature (for example to approve a change in the rights attaching to a particular class of share).

How are these ad hoc committees formed and how do they operate? The process normally starts either because a company believes that working through the NAPF or ABI will be preferable to dealing with each of its major shareholders separately, or because one of these shareholders feels that the best way of dealing with a problem would be through an organised group of investors, but they do not see their *own* organisation taking a leadership role in this.

Once the ABI/NAPF have identified the need for an ad hoc committee, they will normally consult the company's top three or four shareholders (possibly more, if the shares are widely held amongst institutional investors). Before the first meeting of the IPC the internal support team at the ABI/NAPF will have established the company's position on the key issues. Other roles of the support team may include: administration of the committee's meetings and activities; liaising and meeting with companies; keeping other shareholders informed, as requested/required; and minimising the workload of the fund managers' involved in the committee - although there will always be some (and even that is often too much according to a number), when 'a few phone calls' will achieve the same result.

This point of view expresses an apparently growing dissatisfaction with the intermediary role taken by the ABI and NAPF. Whilst this may be useful to smaller institutional investors, major fund managers give the impression that they see the role of intermediaries (such as the ABI, NAPF and also brokers) as increasingly irrelevant to their interests.

D Personal Networks

There is also a belief amongst senior fund managers that, from the shareholders' point of view, it is far better to deal on 'important matters' *directly* with a company. I found that, on substantive issues, companies reported that they also increasingly want direct contact with their shareholders and not to work through an intervening committee process.

However, criticisms of the case committee approach by some fund managers, on the grounds that the operations of the ABI and NAPF have become too cumbersome for dealing with companies where action needs to be fast, in order to secure the best interests of shareholders, need to be put in the context of the past value of IPCs to the *same* fund managers. There is little doubt that their past participation in IPCs has enabled a group of senior fund managers to develop their own personal networks and protocols for dealing with a whole range of issues: it is almost inevitable that these will work faster than a committee.

Although these relationships are now substantially removed from the archetypal worlds of 'old boy networks' and London clubs, fund management remains a relatively small and close knit community in which successful portfolio managers are able to build their careers through moving from one organisation to another and getting to know their colleagues and competitors in different situations over a number of years. The process by which successful portfolio managers reach the top of the tree may be more meritocratic than in the past, but at the same time operation of these 'behind the scenes' personal networks is neither transparent nor accountable to other shareholders.

The ability of these networks to operate, through a powerful combination of past experience, precedent, personal relationships and confidentiality, is probably the major reason why IPCs are now significantly less common than they were in the 1980s. There are two further reasons:

Firstly, as guidelines are produced by the NAPF, ABI, ISC and other bodies, companies are more easily able to structure and present their proposals to shareholders in terms covered by these guidelines. Secondly, fund managers claim to be taking a more proactive role in

identifying potential problems within companies; before they require the attention of a grouping of a company's major shareholders (whether informally or through an IPC).

E Shareholders' Rights

E.iRights issues

The normal mechanism through which listed companies raise additional equity capital is the rights issue, in which each existing shareholder receives rights to subscribe additional capital to the company in direct proportion to the number of shares already held.

Thus, if existing shareholders take up their rights (by subscribing to all the new capital that they are offered), the ownership profile of the company will not change. Many fund managers claim to more or less automatically take up rights issues, unless there are specific reasons why they do not wish to invest further in the company. A shareholder who does not wish to invest further capital can sell and transfer its rights to another shareholder.

The acquisition of additional rights, and their subsequent exercise, therefore provides shareholders and other investors with a way of increasing their investment in the company, should they wish to do so. Another method is through sub-underwriting an issue, which provides fund managers with fees and therefore lowers the cost of any additional investment.

E.ii Pre-emption rights

Pre-emption rights preserve shareholders' proportional ownership of a company, even when new shares are issued to raise additional capital and are considered an important ownership right by fund managers. One of the reasons for this is the ability they give to fund managers to influence company policy through control of its equity capital. Informally, this control is exercised through their ability to reject a rights issue *before* any formal announcement. Pre-emption rights therefore prevent a company sidestepping the concerns of existing shareholders when it raises new capital.

Fund managers will normally insist on the preservation of their pre-emption rights, but under ABI/NAPF guidelines companies are (normally) allowed to:

- Distribute up to 10% of new shares to staff through option and sharesave schemes over a ten year period.

- Issue up to 5 or 10% of their shares through 'placings'. These are normally used to finance acquisitions. In many cases a placing will effectively put the additional shares in the hands of many of the same fund managers who would have subscribed (and underwritten) a rights issue. From the point of view of companies, placings are less expensive to organise than rights issues, as investor risk, underwriting costs and professional fees are reduced.

The preservation of pre-emption rights and the requirement that companies must seek the approval of their (major) shareholders for a placing outside the normal guidelines, are powerful mechanisms through which fund managers can control the ambition, risk and funding of listed companies.

Several fund managers commented that their resistance to certain companies' proposals for rights issues had stopped the companies from making what would have been disastrous acquisitions in the USA in the late 1980s. This vindicates the view of many fund managers that their selective use of pre-emption rights, to *prevent* rights issue-based equity funding, helps constrain managers' ambitions to those projects which are most likely to enhance shareholder value.

Companies do not always share these views, particularly those which feel constrained by the 'conservatism' of UK fund managers towards companies in the high technology, computer, communications and bio-technology sectors. These typically require large amounts of capital to help fund R&D, marketing programmes and projects with long pay-offs, for which existing shareholders may be reluctant to subscribe.

III: Voting

For many shareholders, institutional and private, the right to vote on shareholder resolutions is one of their key rights as part-owners of a company.

A Board Control

Shareholders can, however, only vote on resolutions which are put to them by the board of directors. The voting *agenda* is therefore set by the company, its directors and the board in pursuit of their own interests and not, in normal circumstances, by the shareholders.

Issues put to shareholders are therefore almost entirely predictable and are driven by a combination of the Companies Acts, companies' Articles of Association and the Stock Exchange's listing requirements. The approval of accounts; re-appointment of directors (generally by rotation), the (re-) appointment of auditors, approval of executive and employee share schemes and the right of the company to repurchase its own shares, being the most common. These are normally voted on at a company's Annual General Meeting.

Other resolutions presented to shareholders may include the creation and issuing of new shares to raise additional capital (rights issues) and the approval of a takeover of or merger with another company.

A.i Shareholder resolutions

For shareholders to propose a resolution of their own, a group must first organise to show that at least 100 support the resolution, or that they represent at least 5% of the company's equity. Only then *must* a board accept the resolution, but a further barrier is that all costs associated with the additional resolution must be borne by the proposing shareholders.

It is therefore not surprising that the fund managers I interviewed could not recall a single instance when a group of shareholders had organised themselves in this way and obliged directors to propose a resolution against the will of the board.

This is in contrast to the situation in the USA, where it is not unusual for resolutions to be successfully proposed by shareholders. Once approved by the Securities & Exchanges Commission (SEC), the board of a US company is obliged to treat a shareholder proposed resolution in almost exactly the same way as one prepared by the board itself. Crucially, the cost of circularising shareholders is borne by the company, not the shareholder(s) proposing the resolution.

In the UK, an institutional shareholder has no reason to become involved in this expensive, cumbersome and adversarial process when, behind the scenes and in private discussions with a company's board, its brokers and merchant bank, pressure can be put on a company in ways which avoid public discussion of the fund manager's proposals, external costs, and do not require any other shareholders to be involved. One life fund manager summarised the situation as:

> **'why bother to force a vote when the mere threat of one will bring a company into line'.**

B Voting by Institutions

In the late 1980s and early 1990s institutional investors were subject to public criticism for failing to cast their votes on even those issues most routinely put to shareholders. The public perception of this apparent abandonment of ownership rights became a matter of some concern to the key institutional shareholder groups (NAPF, ABI and ISC), who believed that the reputation of their members and that of the fund management industry was being undermined, particularly amongst directors of listed companies, with whom they were regularly dealing.

The NAPF, ABI and ISC therefore initiated a campaign to encourage fund managers to use their voting powers. Based on the unpublished results of the 1993 ISC Voting Survey (using detailed returns from some 20 major companies) this campaign appears to have been relatively successful. The ISC Survey showed that, amongst the companies included, the

proportion of votes cast on shareholder resolutions had increased from around 25% to 35% between 1990 and 1993.

Institutional investors are not short of advice as to how they should establish voting policies or vote their shares at the AGM's of individual companies. The ABI, NAPF and PIRC all provide information or specific recommendations to support the voting decisions taken by their members. However, amongst these three organisations, there is not always a consensus about how shares should be voted to best represent the interests of the beneficial owners. Mallin (1995) suggests that the issues which institutions and their advisory organisations are most likely to regard as contentious are those 'which might result in a deterioration of shareholders' rights, or too much power being vested in a particular individual, or excessive rewards to management'.

Thirty seven of the major UK listed companies surveyed by Mallin provided details of the votes cast by their largest 20 shareholders. The results can be broadly compared with the earlier surveys carried out by the ISC across 20 companies. This found that 70% of insurance companies ranked in the Top 20 voted their shares; the Mallin survey gave a figure of 77.6%. A greater increase was found amongst pension funds, from 44% (ISC, 1993) to 72.4% (Mallin), showing that formal voting processes and procedures amongst the UK's larger pension fund managers have caught up with those of the insurance sector. However, the *average* voting level of 35% across a larger sample of companies and shareholders suggests that smaller institutional shareholders (those ranked outside the Top 20) and many private shareholders are not voting at all. In other words, voting control effectively lies with those fund managers which already have closest contact with companies, through the prioritising of investor relations programmes to companies' 'major' shareholders, and greatest informal influence behind closed doors.

In addition, the UK's largest active managers of equity portfolios are those institutions most likely to have disclosable stakes (of above 3%) in listed companies. Mallin found evidence of a connection between the disclosable stakes of institutional investors such as Prudential and Standard Life and the overall level of voting in the companies in which they held those stakes. This suggests that not only are those declarable stakes being voted, but that the presence of these large 'lead' investors on a company's share register encourages others to vote as well.

However, it is not clear how declarable stakes held by fund managers such as Standard Life, Prudential (and MAM) are associated with ownership by other institutional investors or the size of the company.

The UK's biggest institutional fund managers are large organisations in their own right, and therefore have the resources to fund the systems and infrastructure to support the organised voting of the shares they control. It is clear that the major UK pension fund managers have now found this worthwhile because of the near doubling of their voting between the 1993 ISC and Mallin surveys. The most likely source of pressure for change has been from the beneficial owners of the shares they manage. Services such as those run by the ABI, NAPF and PIRC provide a ready source of information to pension fund trustees and others about voting issues. This improved information flow has undoubtedly had a significant impact on the voting behaviour of the UK's largest pension funds, insurance companies and other institutional investors generally - which are those fund managers most often found in the Top 20 of companies' share registers.

Smaller fund managers are likely to have found it more difficult to systematise their voting procedures and mechanisms for seeking guidance from the beneficial owners (if this is required) before voting on contentious issues. Two other voting barriers identified by Mallin are, first the perceived value of voting by fund managers whose stakes are small and secondly, the widespread use of nominee accounts. These were cited by 31% of companies as presenting a significant problem in the voting process. At the very least, the use of nominee accounts can slow down the distribution and return of voting papers to the point at which the requirement for filing 48 hours before the AGM is missed and this is a particular problem for private shareholders.

In most cases nominee accounts can be directly related to the investing institutions, and many brokers, investor relations specialists and independent services exist to match nominee accounts against the legal owner (the fund manager) and beneficial owner(s) (for example, a company pension scheme) of a particular block of shares. Additional delays can occur when a fund manager does not have authority to vote shares on either some or all the issues being put to shareholders. In many cases fund mangers have established either the right to vote on all issues or for all those for which they plan to support the proposals being made by the board.

In my own interviews I asked fund managers who claimed *not* to routinely vote on shareholder resolutions why they did not do so. With the exception of Mercury (which I discuss below) fund managers normally control the votes for the shares they hold in portfolios on behalf of their clients. This control will normally be included in the management mandate granted by the trustees (in the case of life and pension funds and unit trusts) or the directors of the fund (in the case of investment trusts).

These mandates may give total discretion to the fund managers in their use of voting rights but it appears that, even if this is the case, fund managers will normally seek the trustees' (or directors') approval before voting *against* the recommendations of the board of directors of a company in which they are invested.

Thus, where the fund manager *supports* a board's recommendation, the logistics of casting votes should be relatively simple, although in practice the detail of administering voting rights for an actively traded portfolio can be both complicated and time consuming.

Voting *against* a board's recommendations therefore normally requires that the fund manager writes to the trustees of each of the funds it manages, in which the particular company's shares are held, to explain its recommendation to vote against the board. Replies are administered and chased (normally within a relatively short time period) and additional questions from trustees dealt with; replies are then collated and aggregated into a final vote. An aggregated vote may not all be one way; a number of fund managers reported that it would not be exceptional for them to submit a proportion of their votes *for* and the balance *against* resolutions proposed a company.

For a pension fund manager with a hundred or more clients, the logistics of communicating with trustees, chasing them for their decisions and administering the whole process can approach what was described in one interview as 'nightmare' proportions, particularly when there is little time available.

Fund managers who had looked at this issue estimated the cost of administering a single shareholder vote at around £80-100, the equivalent of up to £10,000 for a manager

responsible for 100 funds. If each portfolio contains the shares of an average of 150 companies, the minimum costs that will be incurred in exercising a single shareholder vote for each company will be of the order of £1.5 million a year (on the basis of one set of resolutions being proposed at the time of each company's AGM).

From the fund managers' point of view, these costs either have to be absorbed internally, reducing the profitability of their business, or included in their fund management charges. An added problem, if the costs are to be included in the charging structure, is that the administration of a vote is independent of the number of shares in a holding or portfolio. The total costs involved are therefore independent of the aggregate number of shares controlled by the fund manager. The outcome is that:

Firstly, to maintain equity between clients, smaller clients will be charged a higher proportion of their fund value for the administration of their voting rights than clients with larger funds. Secondly, clients of smaller fund managers will tend to be charged more than those of larger fund managers.

It is therefore not surprising that the fund managers who will incur the highest costs in organising voting rights, because of the large number of separate (segregated) pension funds under management, have been amongst the slowest to do so. Unless the process can be systematised, for example by the fund manager controlling votes in all circumstances with no formal or moral requirement to refer to fund trustees or directors, the costs involved in doing so may be unjustified in all but the most exceptional circumstances; a takeover for example.

But from the point of view of trustees, beneficiaries, investors and directors of investment trusts, if *all* voting rights were to be given automatically to a fund manager, one of the key rights of equity ownership will have been lost. In any case, not all fund managers believe that they need to or even should control the voting rights of the shareholdings they manage on behalf of their clients. The director of a large pension fund manager commented:

> **'we have been appointed by our clients as managers of their money, *not* as owners of companies'.**

C Declaration of Holdings

There is a second aspect of voting power, set out in the Companies Act, which relates to the declaration of shareholdings. This only requires fund managers to declare their holdings above 3% *if* they control the votes for these shares. In practice, most fund managers declare their holdings above 3%, even if they do not necessarily control voting rights in all circumstances. However, one of the UK's largest fund managers, Mercury, does not routinely declare holdings above 3%, on the grounds that it does not control the votes for these shares.

From Mercury's point of view, non-declaration of holdings is entirely consistent with its highly focused objective of fund management for the benefit of clients and *not* on its potential responsibilities as a part- owner of many UK listed companies. Indeed, it could be argued that Mercury has grown to become one of the UK's largest fund managers partly because of its dedication to portfolio management and its avoidance of expending scarce management resource on time consuming ownership issues, beyond those directly relevant to its role as a portfolio manager.

C.i Voting dilemmas

However, conflicts do sometimes arise when pursuing this strategy. Although Mercury had (in 1993) the policy of not declaring share-holdings above 3%, on occasions voting powers will be required to discharge its responsibilities as a fund manager. Thus, in the Granada/LWT take-over Mercury will have had to go through the process of seeking voting powers from each of its clients; firstly, to vote its Granada shares to make the *offer* to LWT shareholders and authorise the rights issue necessary to fund the acquisition, and secondly to vote its LWT shares to *accept* the bid.

The complexity of this situation, in which Mercury was effectively making a strategic decision about the structure of the UK television industry, was seen by other fund managers as a function of Mercury's size in the UK fund management industry (a problem of success rather than failure) and more specifically, due to its policy of taking large stakes in companies it most favours ie its aggressive style of fund management.

D Companies' Views on Voting

Why do companies want their shareholders to exercise their voting rights? After all, if a board's proposals are not controversial and fund managers are known to be supportive, the costs of administering votes will be unnecessary to the outcome. Three reasons were put forward by companies for their concern that shareholders, particularly institutions (being the largest shareholder group), should vote: to establish a regular pattern of voting amongst supportive fund managers; to ensure that shareholder resolutions, requiring a certain proportion of total votes to be cast, were passed; as being symbolic of the quality of ownership their institutional shareholders felt towards the company.

D.i Establishing a pattern of support

In the past, many UK companies appear to have been happy with relatively low levels of voting by their institutional shareholders. However, there is also growing awareness that, over the last five years or so, US institutions have been increasing the use of their voting power, both on `routine' matters requiring shareholder approval and more forcefully to promote strategic and boardroom changes in major companies.

In the 1980s US institutions were focused on domestic companies, but in the early 1990s their influence started to extend out of the USA, to markets and companies in which they had significant investments. UK companies became aware of this developing interest both directly through meetings with their US shareholders and because a number of large US public sector funds joined the UK-based shareholder group PIRC.

As institutional investors have become more concerned about corporate governance issues, their willingness to use their voting power to seek change has increased. Although in the UK, neither fund managers nor pension fund trustees are obliged to vote, it is likely that companies will increasingly want them to do so, in order to establish supportive voting blocks in the event that another group of shareholders will oppose a board resolution or support a hostile bid.

However, the public profile of adversarial shareholders can often appear far greater than their actual (direct) voting power or support amongst other shareholders. A wise board will want to be well informed about the views of its shareholders and will generally prefer not to put forward a resolution rather than run the risk of a public defeat. In any case, a board will also normally be aware of its position in advance of a shareholders' meeting through its possession of proxy votes for and against each resolution.

D.ii Minimum voting requirements

There are times when companies need a certain proportion or number of shares (out of the total issued share capital) to be voted, rather than only to establish a simple majority of those cast at a shareholders' meeting.

These situations may arise when a particular class of shareholder, for example holders of convertible shares, needs to approve changes to the terms of the issue. A number of the companies I interviewed described the exceptional effort required to obtain the required number of votes (perhaps representing a minimum of two-thirds or three-quarters of those issued) to approve such changes, even when it was entirely clear that the change was in both the investors' and company's interest.

Numerous phone calls were required to persuade fund managers to vote; they appeared to be extremely reluctant to make the effort or to organise their clients' votes to ensure that resolutions were successfully approved.

'Fund managers vote when *they* think its important or in their interest to do so, but they are not necessarily so keen when it's only in the company's interest - despite the fact that you'd think that this should amount to the same thing. If you are a small company it can be difficult to get them to focus on you, make any sort of decision and get the paperwork sorted out. I had to get quite tough with a couple of our major shareholders to get them to vote and on time - which is crazy when it's actually in their interests to do so.' (Chairman, smaller company)

D.iii Shareholder commitment

The third reason for companies seeking increased voting by fund managers is more of a moral issue. Directors and senior executives are not infrequent witnesses to the way that, on the one hand, institutional investors use their powers 'behind the scenes' to force management or strategic changes in companies but, on the other hand, typically show low levels of voting and public support for companies, for example through attending and participating in AGMs.

Some directors are strongly of the view that fund managers should always use their voting power and through doing so publicly (for example at AGMs) declare their role in the *ownership* of companies. Although in theory laudable, one of the practical problems with this approach is the need to distinguish between: voting by the show of hands; the voting power of individual fund managers; and the use of the proxy system, through which voting is anonymous.

IV: Shareholder Meetings

Every listed company, in common with all other registered companies, is obliged to hold an AGM at which specified items of business must be transacted. All shareholders are entitled to attend the meeting, at which three of the most important activities are:

1 The board giving an account of its management of the business in the preceding financial year.

2 The right of shareholders to ask questions of the board.

3 Shareholders voting on resolutions put to them by the board.

Section I of this Chapter reviewed the kinds of resolutions that boards put to shareholders at an AGM. Similar resolutions may also be put to shareholders at additional Extraordinary General Meetings (EGMs) during the course of a year. For example, EGMs may be held to approve a rights issue or a takeover, when the timing does not coincide with that of the AGM. Two features of these meetings are that very few shareholders attend compared with the size of the share register and those that do so are overwhelmingly private shareholders and not institutional investors, particularly at AGMs. Normally EGMs are very sparsely attended by both types of shareholder, most votes being cast by proxy.

Proxy votes are often described as being 'in the Chairman's pocket', but in practice they are seldom needed by the board of the company to support the resolutions it has put before shareholders. This is because if, by a show of hands, the majority of shareholders *present* at the meeting support the resolution this is normally sufficient to pass the resolution.

Only if one or more of those shareholders present demand a formal poll will a vote take place weighted by size of shareholding. In these circumstances, proxy votes held by the Chairman and others, plus those votes cast by shareholders present, will be counted and determine the outcome. Companies report that this happens very rarely, but that the number of occasions when a full shareholder vote is taken (of those present or represented at a meeting) is increasing.

A Concerns about Confidentiality

By not attending shareholder meetings fund managers are not required to vote by the show of hands or to disclose their voting intention in any other way - nor to run the risk that they may need to justify their position in public to other shareholders.

A problem for fund managers with a close knowledge of a company is that the binary choice, of voting for or against a shareholder resolution, lacks subtlety when dealing with the company, its board of directors and what are likely to be complex management and strategic issues. Fund managers, when they have the interest and resources to do so, far prefer to deal with companies on a one-to-one basis and to be able to make their views known to the company privately. This also enables them to respond more directly to the information provided by directors. In Chapter 7, I describe this process as being largely conducted 'behind closed doors'.

Conversely, few company Chairmen would appear to welcome the implications of a major shareholder speaking out, or voting against a resolution, at a shareholders' meeting. Although one doubted whether:

> **'many fund managers would actually have the guts to stand up and be counted if this meant that they were going to be faced by an aggressive CEO'**

That said, many companies feel that major shareholders should attend AGMs and other shareholder meetings as a demonstration of their commitment to ownership of the company's shares; a similar issue to that put forward by companies about voting itself. Those few fund managers who do attend AGMs often do so as `guests' of the Chairman, taking the role of observers and not shareholder participants.

B: Risk of Investment Jeopardy

Just as directors run risks if their proposed resolutions are defeated, so fund managers fear that their voting behaviour may give a dangerously misleading impression of their underlying confidence in a company or its board of directors.

If a major shareholder with 3%, 5% or more of a company was known to have opposed a directors' resolution, the conclusion may be drawn by outsiders (and relayed through investor information services and the media) that the institution concerned is likely to dispose of all or part of its holding in the near future. These expectations may, in turn, undermine the share price or increase volatility. If the fund manager concerned was planning to institute a sell programme, it is more likely that it would be selling into share price weakness rather than strength.

In these circumstances, the exercising of voting rights as *shareholders* would conflict with the *investment role* of fund managers and their fiduciary duties to investors in their funds.

When significant shareholdings are voted against the proposals of incumbent management, the potential for misunderstandings is considerable and will be exaggerated if institutional voting decisions are disclosed (and perhaps justified as well) in the public forum of a shareholders meeting. The risks are seen by many fund managers as outweighing any public benefits, but the issue of who resources this additional involvement is also significant.

C Resource Constraints

Although a number of senior fund managers support the principle that AGMs and other shareholder meetings should be more useful to both companies and shareholders, how this increased involvement is to be resourced remains an unresolved problem.

On a purely practical basis, although many companies hold their AGMs in London, where many fund managers are also located, the time involved in preparing for meetings, travelling to them, attending and participating, and subsequent internal reporting would be considerable. A minimum time commitment of half a day would be likely to be typical - yet none of the

senior fund managers I interviewed would have anything like this time available on a regular and consistent basis; certainly not across a typical portfolio containing at least 100 companies. Time is seen as one of the key resource constraints on fund management teams, particularly in the April-June quarter when the majority of prelim announcements are made, annual reports published (containing a mass of additional information for forensically inclined analysts) and AGMs held.

For many fund managers, the choice would appear to be either to send a relatively junior member of the fund management team or for nobody to go at all - the current situation. Many senior fund managers would feel uncomfortable sending more junior members of their team to a shareholder meeting, because they themselves would also need to be closely monitored and their freedom of action carefully defined and controlled.

If the intention was to take a public stance on a substantive issue (ie. opposing or criticising management) the more senior fund manager would almost certainly wish to attend and take a personal role. If the role was merely to observe, what value would there be in this unless some valuable information was disclosed?

If this happens, the AGM is not the forum for the first announcement, as not all shareholders would (under Stock Exchange disclosure requirements) have simultaneous access to the same information. To force all shareholders (or their proxies/ representatives) to attend would require additional legislation and place resource constraints on the fund management industry, which it is currently not placed to handle.

Alternatively, this could give rise to a new class of activist intermediary. The problems here are of moral authority, agent control, cost and the creation of an additional link in corporate ownership.

There seems to be no easy way out of this conundrum. If fund managers are to spend more time at public shareholder meetings, the value of their time will need to be funded by their clients. If this funding is not available, attendance will incur additional and irrecoverable overheads. This may lead to a reduction in the quality of fund management services, as

valuable internal resources are switched from an implicit to an explicit monitoring role, through increased public participation in shareholder meetings.

V: Conflicting Interests

In the preceding Sections of this Chapter. I have described some of the ways fund managers may exercise their power as shareholders of listed companies; through working together as members of investor organisations (Section I) and voting (Section III), although *not* by taking part in AGMs and other shareholder meetings (Section IV).

This Section reviews three types of constraint operating on fund managers, which serve to limit their freedom of action as shareholders.

A Pension Fund Managers

Pensions funds are either managed in-house or independently and externally by third party fund managers. Sources of business for these independent fund managers will either be in the public sector (for example local authorities) or private sector; the bulk of the latter business coming from quoted companies and the remainder from the unquoted sector. Three key elements of pensions fund management as a business are:

Firstly, that the largest quoted companies tend to have the largest pension funds, although some of the largest *funded* schemes are (or were) public sector based; coal (CIN), the Post Office (Postel), British Rail, and electricity (ESN), each of which have well over £5 billion in assets. However, other major public sector pension schemes are *unfunded* and therefore do not have any invested assets, liabilities being met out of current Government receipts. Major unfunded public sector schemes include those for defence and health service employees, and the state pension itself.

Secondly, funded schemes will normally be invested broadly across the UK equity market, typically in 200 or more companies (although some of these investments may be indirect investments, through specialist smaller company or overseas funds, for example).

Thirdly, that the independent pension fund managers have multiple clients, whilst in-house fund managers have only one.

With this pattern of ownership it is inevitable that the larger independent managers will control portfolios which hold shares in client companies. But as a pension fund manager, what are the issues involved when considering whether to intervene as an investor in the affairs of a company which is also a client? Clearly a corporate client, although strictly speaking only the *indirect* source of pensions fund management business (because in law the fund and its trustees are independent and separate legal entities from the company) will not appreciate coming into conflict with the manager of its own pension fund.

Fund managers with whom I discussed this issue argued that each case would have to be treated on its own merits, but claimed (as one might expect, in the view of their fiduciary responsibilities) that the balance of factors would always be towards the interests of *all* the funds in which the company's shares were held.

In these kind of circumstances, pension fund managers will clearly prefer to *sell* a company's shares rather than come into conflict with the board of a client company. However, fund managers will also not want to be put in a position where selling a client company's shares (in order to avoid a potential conflict of interest) may help undermine the company's share price at what may be a critical time for the company.

Pension fund managers try to avoid this problem by not building up significant stakes in client companies where conflicts may arise. Holdings in client companies will therefore tend to be more cautiously managed than others, placing implicit constraints on the structure and holdings of their portfolios.

B Corporate Finance Departments

A second source of sensitivity for fund managers occurs when the corporate finance arm of the same financial conglomerate is involved in a transaction involving a company held in the fund manager's portfolios.

This is not the same issue as the regulatory requirement for 'chinese walls' between the corporate finance departments, broking arms and the fund managers of financial

conglomerates. Instead, the problem, raised in a number of interviews, is more to do with client expectations than the regulatory environment. It occurs when the decision of the fund management organisation is seen as not supporting the interests of a client of the corporate finance unit. For example, the voting of shares held in a target company *against* a bid by a client of the corporate finance department.

In these situations there is the risk of confusion on the part of the bidding company, as to whether `its' bank is totally supporting its bid for the target. The same issue may arise if a corporate finance client wishes to raise funds through a rights issue, but the fund management arm will not provide additional funding because it does not believe that this will be meet its fiduciary duties to its own investment clients.

One fund manager described this problem as:

> **'more trouble than it is worth. Experience has shown us that it often would be better if our funds didn't hold *any* shares in corporate finance clients rather than have to deal with the misunderstandings that sometimes occur when we sell shares.'**

The same fund manager felt that the buying of shares in a client company of the corporate finance department ran the opposite risk - of being misunderstood as indicative of 'support' rather than an objective investment decision.

On this issue, it should be noted that although merchant bank SG Warburg (SGW) remains majority shareholder of Mercury Asset Management, the successful separation of the two companies (each of which has a Stock Exchange listing) is indicated by the lack of conflict that companies and other fund managers see between the two organisations. Neither companies or fund managers expect that Mercury or SGW would necessarily support the activities of the other (as recent events have shown) - but this *is* seen as a problem in other, integrated groups, as is the taking of proprietary positions alongside those of fund management clients.

C Interlocking Directorships

In Chapter 5, I described the limited role of NEDs in acting as a link between companies and shareholders. There are, however, many cross-linkages between companies through parallel/multiple directorships. In addition, in many listed companies both NED and executive directors act as trustees of the company's pension scheme.

An example of the conflicts that may arise is when a fund manager, on behalf of all its *investment* clients, decides to vote its holdings against the share option scheme of a company, a director of which is also a trustee of one of the pension funds managed by the fund manager.

Pension fund managers are sensitive to overlapping roles and coincident relationships of this nature when considering contentious or adversarial action against an under-performing company, or the sale of a large block of shares. Not least because their actions may need to be accounted to company directors and pension fund trustees common to both; as in the example above. Particularly sensitive are issues of executive remuneration, the terms of share option schemes and the compensation paid to directors and senior managers for loss of office. One of the benefits from shareholder organisations (such as the ABI and NAPF) establishing a common code for contentious issues such as these, is that some of the potential conflicts can be diffused (or at least depersonalised) by reference to independently established standards.

VI Summary

It appears that institutional fund managers do not behave as shareholders 'should', according to models which rely on voting and other formal powers as a source of shareholder control. I have described in this Chapter how, for the most part, they are reluctant voters and seldom, if ever, attend AGMs. They have also reduced their dependence on the role of intermediaries. Brokers and the activities of organisations such as the ABI and NAPF are markedly less important now than they were ten years ago.

Rather than relying on formal mechanisms of shareholder control, companies' major shareholders want to meet and deal directly with management. With regular contact and the building of personal relationships, formal systems of control are less important than direct influence.

In the past, IPCs were used by institutional shareholders to represent and coordinate their interests at both industry level and in response to problems within specific companies. These too have been all but been abandoned, underlying the determination of major fund managers to deal directly with the management of the companies in which they hold investments.

In the past, some aspects of IPCs resembled the coalitions of shareholders proposed by Scott, when he considered how shareholder influence would be brought to bear on companies where there was no significant minority shareholder (with a stake in excess of 10%). However, the resemblance is limited because IPCs were essentially crisis-driven by companies' deteriorating finances, a collapse in management or ill-considered takeovers or mergers, and often a combination of these.

IPCs were therefore the exception rather than the rule and were often confrontational with incumbent management. They did not provide the basis for continuing, non-confrontational relationships between companies and shareholders, in which issues of concern would be discussed and could be dealt with *before* they became a problem on the scale which would have previously triggered the establishment of an IPC.

The evidence from this and earlier Chapters is that companies' major shareholders place little reliance on their formal powers and rights as shareholders. Instead, the nexus of power lies

within one-to-one meetings with companies. These are 'off the record' and subject only to the legal constraint that the fund manager must suspend dealings in the company's shares (or at least 'ring fence' those portfolio managers and analysts attending the meeting) if it is given (deliberately or inadvertently) price sensitive information by the company.

The importance of these meetings to the exercising of shareholder influence is fully appreciated, the reasons for fund managers' relative lack of interest in voting and total ambivalence towards shareholder meetings (in any but exceptional circumstances) becomes clearer.

Voting power remains a latent source of shareholder control because this is only needed at as 'last resort'. In practice few companies have chosen to directly confront the voting power of their institutional shareholders. The balance of power in company shareholder relationships therefore lies in informal influence rather than the regular use of direct voting control.

Chapter 7 Instigating Change

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I Introduction

From the account of company shareholder relationships given in Chapters 5 and 6 it is clear that informal mechanisms of shareholder influence are routinely far more important and significant to shareholders than formal voting powers or the opportunity to attend shareholder meetings.

In this Chapter, I review the actions of shareholders and the issues they consider when they need to instigate strategic or management changes in a company. In these situations, the mechanisms shareholders use to influence companies change significantly, but develop from the informal relationships described earlier.

The instigation of strategic or management changes by institutional shareholders may typically be triggered by:

- The announcement of poor financial results for the *current* period below market forecasts, particularly if related to business activities or risks not previously disclosed or discussed with fund managers.

- A bearish trading statement or a profits warning about *future* performance, particularly if these indicate that a prior deterioration in the company's performance has not been arrested over the timescale expected by the fund manager on the basis of previous discussions with management.

- Plans being announced which contradict previous statements made or assurances given by the company to the fund manager.

It is more likely to be the *discrepancy* between expectations and assurances, on the one hand and actual events on the other, than the shorter-term availability of new information per se, that is likely to trigger the serious consideration of intervention by fund managers. This underlines the significance of the adage that 'the market does not like surprises'.

Many more interventions will be considered than are ever instigated. Among major fund managers, with a history of intervention, the ratio is possibly as high as ten to one, indicated by the number of companies which may be of 'concern' at any one time, compared with the number where some kind of specific action is being taken.

The material contained in this Chapter is based on material from many of the interviews I undertook (see Appendix I). In some of these interviews 'off the record' accounts were given of recent corporate situations in which the fund manager (or company) had been involved. In order to capture this additional material, I have created a case history, based on the different accounts given to me. This case history forms Chapter 8, and should be read as a composite account and not a disguised case history of one company alone.

This Chapter is organised into four main Sections. Section II (Taking Action) describes the ways in which institutional investors work with companies and advisors to instigate the changes that they believe are necessary. These may include instigating changes to improve corporate performance or significantly influencing corporate strategy, financing or investment decisions, and board membership, the roles of executive directors and other senior managers. Institutional shareholders prefer to instigate such changes informally and confidentially 'behind closed doors'.

Through this process 'lead shareholder' will normally emerge, who will usually also be the largest institutional shareholder in the company. The costs of taking this role include management time and usually also becoming an 'insider' with access to privileged information which precludes dealing in the company's shares. The role of the lead shareholder, the ways in which they work with companies and other shareholders, and the constraints under which they operate are described in Sections III (Role of Lead Shareholder), IV (Implementing Changes) and V (Constraints on Involvement) respectively.

II Taking Action

In the face of a corporate deterioration, fund managers will normally seek to become better informed about the company's situation so that they can identify the cause(s) of the problem, clarify their own position, and evaluate the courses of action open to them. They will then seek to send 'signals' to the company about their concerns, either directly through one-to-one meetings, via the company's broker or merchant bank, or, very rarely, briefing the media.

A Meetings with Management

The first step would normally be to meet with the directors of the company to discuss the situation; companies will normally also want to do this in order to ensure that their (major) shareholders are as well informed as possible about the circumstances that have arisen. At this meeting the fund manager may be reassured about the nature of the problem and that no further action (on its part) is required - at least for the time being, or remain concerned about the company's current performance or future prospects, or be dissatisfied at the quality of information it is receiving from the company or the performance of the company's directors.

> **'We met the Chief Executive a couple of times after the results were announced, but we became increasingly unhappy with his performance and the quality of information we were getting - it was becoming very clear that things were not going to change unless we did something.'** (Life fund manager)

B Company Chairmen

A second source of information about a company's management team is the Chairman, who may well be seen alone by a fund manager in order to help it determine whether the problem arises because of the competence of the management team (endogenous factors), or the characteristics of the particular business sectors in which the company operates, about which the fund manager may believe it is under- or mis-informed (exogenous factors).

At this point the Chairman (even if he has been involved in prior meetings with the fund manager) may believe that it is (still) the quality of communications between the company and

fund manager that is causing the problem, and seek to correct this as rapidly as possible through, for example, arranging further meetings and briefings.

Particular problems arise for the fund manager if the Chairman and CEO are the same person (the separation of the positions being a key recommendation of the Cadbury Committee) or share the same weaknesses in their management of the company or in their relationships with the company's major shareholders.

In these circumstances the fund manager may seek contact with a NED of the company, but only *if* the fund manager feels unable to make a clear assessment of the company's circumstances in its own right.

C Corporate Brokers

A second mechanism for fund managers to send *signals* to a company is through the company's corporate broker, which acts both as a financial advisor and as a conduit of information between the company and its shareholders and investors ('the market') on a wider basis. Some corporate brokers (notably Cazenove) are seen by fund managers and their corporate clients as particularly good in this role, with sensitive antennae to the mood of the market towards a company, but as important is knowing what to do with the information obtained.

To operate effectively for their clients, brokers need to be particularly responsive to feedback from major shareholders. Conversations between broker and fund manager may well be short and 'coded', but both sides should understand the issues at stake. Inevitably, not all brokers do get the message with the directness intended. If this happens, and the fund manager *remains* concerned about the company, the fund manager is likely to be much more direct in voicing its concerns, or may go to the company's merchant bank if it feels that the circumstances demand this.

The company's broker should be particularly concerned if similar signals are being received from a number of major institutional shareholders. These will also need to be placed against the background of analyst (and to a certain extent media) comment about the company and its

business sector(s) and in the light of the additional information the broker has (on a privileged basis) about the company.

D Working 'Behind Closed Doors'

At this stage the role of informal networking between senior fund managers may start to become important. This network is close and the communication channels are always available for informal 'soundings'.

Senior fund managers I interviewed expressed a strong preference for *not* working through the NAPF or ABI committee systems as they saw them as being too slow and cumbersome.

> **'In half a dozen phone calls I can find out everything I need to know'**
> (CEO of pension fund manager)

Fund managers are firmly of the belief that their negotiations with companies are better held in private, 'behind closed doors' than in the public domain. The reasons are that: decisions are taken faster; many options may be explored, but shareholder uncertainty is controlled as negotiations are confidential; legal liabilities are minimised and costs controlled until negotiations are concluded; a cooperative approach can be more easily maintained, minimising conflict between the board of a company, individual directors and the company's major shareholders.

The informal networks that exist between fund managers are important in helping them clarify their positions, partly through judging the position of other fund managers in terms of their assessment of the problem(s) the company is facing (are their own beliefs and judgements about the company shared by other large shareholders?); the likely nature of any external, shareholder based, intervention that might be necessary; the role of individual fund managers in this intervention.

D.i Divergent interests

If other fund managers *do not* share its concerns, the fund manager may elect:

- To do nothing, but wait to see whether the situation improves.
- To reduce its exposure to the company through selling all or part of its holding. Many of the small and medium sized fund managers that I interviewed believed that it is never a good investment decision to hold onto shares once a company's performance has significantly failed to meet expectations. These fund managers felt that to delay the inevitable decision to sell would only result in lower overall investment performance, through increasing the likelihood that the shares would be sold into a weakening market and by delaying the opportunity to switch the funds into a company with better prospects.
- To on its own seek to instigate the changes it believes are necessary. This is only likely if the holding is either substantial (ie in excess of around 8%, depending on the size of company), or if the stake held is significantly bigger (by perhaps 3 - 5%) than that of any other shareholder. In practice, these two criteria are likely to coincide.

D.ii Common interests

It is, however, much more likely that there *will* be a consensus amongst a company's major shareholders that there is a problem. This does not necessarily mean that awareness of the problem will be confined to this core group alone as a considerable amount of information may already be in the public domain and subject, for example, to comment by analysts and the media. Instead, the key to the consensus lies first in the informal agreement amongst members of the core group that action needs to be taken, and secondly on the likely nature of any solution.

A fund manager which is a member of the core group of shareholders and which takes part in this consensus building has two options. It can take the lead in instigating change in the company. This is most likely if the fund manager is a company's largest shareholder or, if it is not in this lead position the fund manager can support another which does takes the lead role.

III Role of Lead Shareholders

One of the most significant findings from my interviews was the apparently common occurrence for *just one* fund manager to take the lead in dealing with a company, its financial advisors (broker/merchant bank), and bankers. The lead role is normally acquired informally after discussion with other major shareholders of the company. Normally, but not always, this 'lead shareholder' will also be the largest shareholder.

In specific situations, and probably arising more often with larger companies, these responsibilities may be shared amongst a company's largest shareholders (but still not normally more than three or four), however one fund manager will normally still take the lead in dealing with a company, enabling the company's major shareholders to speak with a single voice.

Many small and medium sized fund managers recognise that the small size of their shareholdings means that they will only ever have a very limited ownership role and that their influence on companies will not be significant. Instead, other fund managers will almost always have larger stakes and it is the views of these managers which will shape events, not their own.

The relationship between lead and other shareholders depends on the absolute and relative sizes of the shareholdings involved. A lead shareholder with a stake significantly larger than other investors in the same company will be able to operate more independently than one whose shareholding is only slightly larger than others.

Shareholders outside the core group of a company's top three or four shareholders may choose to make their views known to the company or, alternatively, remain at arms length to the activities of the lead and other major shareholders which comprise the core group. Those which remain distant from the process are likely to see their role as strictly limited to fund management and:

'not trying to tell managers what they should be doing or trying to run their companies for them' (Pension fund manager)

In addition to believing that they should not get involved in the affairs of individual companies these arms' length investors are also likely to see the `extended' ownership role sometimes taken by other fund managers is misguided.

A Smaller Companies

It was also reported by fund managers that they are *less likely* to get involved in instigating changes in smaller companies than with large companies, unless they were definitely the largest shareholder. This focus occurs because smaller companies tend to have more concentrated share registers, in which fewer fund managers will have significant stakes, (but these stakes will tend to be larger in % terms than those held in larger companies) and the value of stakes held in smaller companies is lower than those held in large companies; the reward in terms of the impact on the performance of investment portfolios will therefore tend to be lower.

Purely on a cost/benefit basis, smaller companies are more likely to find themselves dealing with a single shareholder; a situation in which all the agency costs of dealing with that company will need to be absorbed by a single fund manager, justified by the size of its stake.

'It's only worth getting involved if we have a significant stake' (Life fund manager)

was a comment typical of many fund managers' views about smaller companies.

The institutions involved in intervention will, in any case tend to be the larger fund managers. The smaller the fund manager the more likely it is that *another* fund manager will have a bigger stake. Exceptions to this general rule arise when a fund manager specialises in smaller companies (like M&G), and is therefore more likely to have the largest stake in a company than fund managers with larger UK equity portfolios.

As discussed in Chapter 6 (Section I: Shareholder Protection), the role of formal committees to coordinate the response of major shareholders to the problems of individual companies has declined to negligible levels over the last ten years. Formal groupings are organised, but their

purposes are more specific and often short term *unless* a company's ownership amongst institutional investors is such that no single fund manager has a particular interest in leading an informal grouping of other shareholders.

B Position of Other Shareholders

Other shareholders do not lose any *formal* ownership rights through a lead role being adopted by the another shareholder. For example, there was no suggestion in any interviews that voting rights would be transferred to the lead (or another) shareholder. However, the course of negotiations with the company will clearly be mostly shaped by the lead shareholder, which will also be under an informal `networking' obligation to keep other major shareholders, particularly those in the core group, informed as much as they require.

Clearly, the adoption/acceptance of a lead shareholder strategy by other shareholders requires that they have confidence in the ability of the lead shareholder to act in their best interests. Institutions which were described as amongst the 'safest pair of hands' in such situations include Prudential, Norwich Union and Legal & General, although Gartmore and Standard Life were also mentioned in a number of interviews as reliable 'lead shareholders'.

Although other major shareholders may not always entirely agree with all aspects of the strategy adopted by the lead shareholder in dealing with a company, they will normally be kept informed of progress and possibly also have the option of voting on the final outcome, particularly if this involves divestment, financial restructuring or a rights issue.

Depending on the company's circumstances, major shareholders may also agree informally to maintain their holdings to avoid creating a bear market in the company's shares, which may hinder any reconstruction. However, shareholders outside the core informal 'support' group may well sell anyway and cause the share price to slide. Most fund managers have a strong desire to leave their options open, as to if and when they sell shares in a company.

IV Implementing Changes

The desire for investment flexibility will be much higher than normal when a company is known to be under financial pressure or in the process of being restructured by another group of shareholders. This is one of the reasons why speed of action is seen by fund managers to be very important in dealing with distressed companies.

A Need for Speed

The smaller the number of parties involved, the faster issues can be discussed, agreed and decisions can be made by the company, its advisors and major shareholders. From the company's point of view, and that of their advisors, dealing with a single lead shareholder also minimises communication and coordination costs and gives a clear focus and decision point in the negotiating process.

Although to outsiders, fund managers can appear very slow in their response to companies 'getting into trouble' this perception can only refer to activities that are in the public domain. An 'outsider' can only guess when fund managers start to apply pressure on management (of the kind described in the composite case history which forms Chapter 8).

Fund managers with a history of corporate intervention felt that they were getting much better at identifying problems at companies before they became major. This was contrasted with cases in the 1980s when, despite long periods of corporate decline, no action had been taken by shareholders against the boards or management of companies like Distillers.

B Reducing Shareholder Uncertainty

When a company undergoes some kind of restructuring under the influence of its major shareholders, most other shareholders will lack information about the progress of negotiations and therefore about the likely outcome.

The 'behind closed doors' approach normally adopted by some of the UK's leading fund managers, and the wish of many others not to become 'insiders', means that there will only be very limited and incomplete information available to them. Such uncertainty may lead to wildly different valuations by analysts, uninformed shareholders, and other investors (eg debt holders) in the company, on the basis of their different expectations about the likely outcomes.

The volatility in share price that may result and accompanying speculation can rapidly undermine the flexibility of fund managers in dealing with the company; covenants may be breached and banks may become uncooperative in negotiations about the company's future. (One of the benefits of a share suspension is that equity market-based problems of this kind are eliminated for a period.)

C Avoiding Publicity

Fund managers with experience of corporate rescues and reconstructions felt that one of the very worst outcomes was for information about their negotiations with individual directors and about the future of the company to become public knowledge - until a final course of action had been agreed.

As media stories about disputes between boards and shareholders sometimes indicate, the issue becomes not whether directors will stay with the company, but the terms on which they will leave. However delicate discussions may be in private, the situation inevitably becomes adversarial once personal views and positions become public knowledge, hardening negotiating positions. Several described the process in terms of 'never again', so time consuming, adversarial and removed from the core fund management activity had events become.

Although to be seen to be 'getting tough' with under-performing companies might be thought to enhance the reputation of certain fund managers amongst the general public, from the point of view of the fund management side of these organisations, any potential *retail* benefits are seen as insufficient to offset the additional costs and time involved.

Despite these problems, fund managers are quite prepared to 'go public' if they feel that there is no other option. The threat to do so is normally the final *informal* sanction that fund managers are able to exercise over the boards of companies. Whilst there is a sense of '*pour encourager les autres*' when a fund manager takes a public and adversarial position against incumbent management, their arrival at this point is a complicated process and not one which is undertaken lightly.

V Constraints

A Internal Resources

Fund managers recognise that getting involved in a company's affairs can be very time consuming and may, at the end of the day, produce no overall result better than if the fund manager had remained a passive investor, or, alternatively, sold its holding at the first sign of trouble. As more and more time is incurred dealing with a company, senior managers found their role increasingly difficult to justify to their colleagues. Few directors or senior portfolio managers can justify the time and expense involved in becoming closely involved with a company, to either their investors, internal management peer group, or shareholders in their fund management business.

The effective use of portfolio and senior managers' time is therefore a key consideration when deciding whether to try to instigate change in a company, explaining quite simply why the fund managers most often associated with intervention are also amongst the UK's largest.

For smaller fund managers, the issue is clear: the time commitment involved is simply not available. The role falls to larger fund managers, who have more experience of negotiating with the boards of companies, banks and professional advisors and other shareholders - one of which will, in any case, almost certainly have the largest shareholding.

B Becoming an 'Insider'

One of the costs of becoming closely involved with a company undergoing change is that the fund manager becomes an insider, because privileged information is acquired about the company's affairs. Having this information is crucial to sensible discussions and negotiations with the company and its advisors but, whilst this information is not generally known, dealing in the company's shares would be a criminal offence.

If only one fund manager is involved in negotiations with a company, only their client portfolios will suffer this constraint. The benefit to *other* fund managers is that, although they

lose a negotiating position with the company, they retain full flexibility with regard to their shareholdings in the company.

The cost to the lead shareholder of this arrangement is that all their portfolios are locked into the company's shares; unless an internal ring fence has been established around the negotiating team. However, a potential dis-benefit of a ring fence is that portfolio managers *outside* the fence but within the same fund management organisation may sell the company's shares, actually *reducing* the proportional benefits captured by the fund manager's own portfolios and clients.

Given all these constraints, why are some fund managers more likely to commit management time to the rescue/reconstruction of a company than others? If size was the only factor, major fund managers such as Mercury, Schroders, UBS and Gartmore would be expected to be much more frequently involved in corporate change than they and others report.

C Tax Considerations

Tax is probably the biggest single factor. Pension fund managers are able to buy and sell shares without tax liabilities being incurred by their funds. This is not true for life companies, which are constrained by tax liabilities on their life funds (Capital Gains Tax (CGT)), without the benefit of indexation or private investor style annual capital allowances, and also on their general funds (Corporation Tax).

The lack of an indexation allowance for life companies is particularly important; in many cases their core equity holdings have been held a long time and are worth far in excess of the original purchase price. The sale of one of these holdings may mean close to one-third of the current value of the stake being lost through CGT liabilities.

One outcome is that if a life fund manager expects a share to fall in value by less than a third, maintaining the holding is preferable to selling because if dividends are maintained the yield on the share will increase substantially while if all the 'bad news' is discounted in the lower share price then there is only 'upside' left in the new price.

These factors apply to all UK life funds. It is therefore not surprising that life fund managers are more often seen as 'long-term holders' and are more likely to be involved in the instigation and control of management and strategic changes in under-performing companies.

Of the larger life companies, the Prudential and Norwich Union are the two most strongly associated (in the minds of many companies and fund managers that I interviewed) with 'high profile' and public confrontations over the management of particular companies. The Norwich Union is strongly associated with the 'Tace' case of a few years ago. At the time of interviewing in 1993, the Prudential was publicly involved in determining the future of the Chairman and Chief Executive of Spring Ram.

D Underlying Investment Strategy

The broad portfolios of life funds, typically of 200 or more companies also mean that, if they disinvest from a company, the choice of alternative investments is more restricted than it would be for more narrowly based portfolios. Although this is true of any fund, one life fund manager put this in terms of investing in UK equities as a 'zero sum game'.

The significance of this remark was that the logical outcome of a policy of always disinvesting when companies 'got into trouble' would result in lower overall corporate performance in the UK (or at least in the listed sector). Although it should always be possible to find other companies in which to invest, this becomes a strategy of diminishing opportunities as the range of suitable candidates for investment becomes restricted, and the number and proportion of unsuitable companies (due to their continuing poor performance) rises.

With large, diversified funds, major life fund managers see themselves as investing in 'UK plc', where consistently 'running away' from companies in trouble will result in a pool of fewer and fewer 'good' companies in which to invest, reducing the overall return to investors in the long-term.

In making these judgements life fund managers are focusing on *absolute* rather than relative performance; on the real returns to their policy holders rather than fund performance against market-based benchmarks, as is the case with pension funds.

In contrast, the views of pension fund managers are company specific. There is no sense of a 'moral crusade' - and often the very opposite. These fund managers feel little or no obligation to try to improve the economic performance or welfare of `UK plc' or even of listed companies in aggregate.

In contrast to the wider perspective adopted by some of the largest life fund managers, the focus of the independent pension fund managers is almost exclusively on the narrower interests of clients and the owners of the fund manager (in that order), not on becoming members of 'the good and great' or of 'the City establishment'. With their broader portfolios life fund managers consider it almost inevitable that at least some of the companies in which they invest 'will go wrong' - in which case corporate intervention may be necessary.

Pension fund managers with more focused portfolios are more likely to see their holding of a company which 'goes wrong' as a failure of their investment strategy (was the original research and investment decision of sufficient quality? Was sufficient attention paid to any warning signs?).

Even the most successful fund managers cannot have a 100% track record of successful intervention, but the large independent pension fund managers that I interviewed claimed far lower rates of active intervention in companies' affairs than the larger life companies (typically fewer than ten a year compared with the life companies' 20 or 30).

E Position of Indexed Funds

Legal & General (L&G) and Postel (since renamed Hermes) are regarded as two of the leading UK indexed fund managers. Both also have active funds under management, although the proportion of active funds is higher for L&G.

The interest of L&G and Postel in the *relative* performance of companies in their indexed funds appears inconsistent with the very concept of indexation. In pursuing interventionist policies with under- performing companies, L&G, Postel and other index fund managers will

incur internal 'agency' costs which, even if successfully expended, will do nothing to improve the performance of their indexed funds against the mandated benchmark index.

For index fund managers there are two potential benefits from their shareholder interventions: absolute (real) improvement in the performance of their indexed funds - although (nominal) performance relative to other indexed funds will not be enhanced; and improvement in the performance of their *actively* managed funds which hold shares in those companies subject to successful intervention.

Moreover, if their active funds are *overweight* in these companies, then a relative improvement in performance of the active funds may occur. This result is analogous to what might be called the 'CalPERS effect', in which the benefit of pro-active involvement in a company's affairs is spread amongst all the funds under management. In CalPERS' case this can be thought of as internal 'free riding', although other investors will also clearly benefit.

Compared with L&G, Postel, one of the largest investors in UK equities of which a high proportion are indexed, is seen as having a greater interest in the overall performance of 'UK plc' than individual companies. This may be explained most simply by the higher proportion of its equity funds which are indexed.

Broad based initiatives are, however, difficult to implement. Just before my programme of interviews started in 1993, the Chief Executive of Postel sent a letter to Chairmen of FT-SE 100 companies about his concerns over directors' contracts running longer than two years. Initial public support from other fund managers for this initiative appeared to be muted, but it is possible that Postel's purpose was a wider one - to give notice to the country's largest companies that Postel would be 'minded' to vote against resolutions which it felt acted against the interests of shareholders.

Whilst matters such as directors' contracts are clearly linked to wider concerns about corporate governance, the *ownership* issue is that the UK's largest indexed fund manager has given notice to companies that it will actively seek to exercise its ownership rights in areas which have previously been seen as uncontroversial by many UK fund managers.

VI Summary

In Chapter 3 I analysed the shareholder profile of a 'modal' Top 300 company and found that the largest holding was 7.6%, those ranked from two to five averaged 3.95% and those ranked from six to ten 2.1%. This progression continues through the share registers of the companies which I have analysed; those holdings ranked between eleven and twenty averaged 1.3%.

The top five shareholders of a modal Top 300 company control close to a quarter (23.4%) of the shares and those in the top ten just over one-third (34%) (see Chapter 3, Charts VI.3 and VI.4).

The voting power conferred by this concentration of ownership is not the source of shareholder influence, although it remains a 'last resort' and may be required to pass shareholder resolutions supporting corporate recoveries and reconstructions (for example, rights issues and mergers).

I have extensively described how informal mechanisms are used by institutional shareholders to influence corporate managers, their strategic decisions and decision making processes. If companies fail to meet investor expectations, the option to sell holdings is always, in theory, available. In practice this may neither be possible or necessary. Fund managers may consider it advantageous to maintain their investment in a company but to instigate changes which will restore corporate performance, focus corporate strategy, or otherwise improve the financial position of the company. Achieving these goals may also involve changes to the senior management team.

Regular and close contact between a company and its major shareholders creates a more or less continuous flow of information about companies, particularly if they report quarterly and other sources such as brokers' analysts are taken into account. Problems are more likely to be identified in advance and catastrophic corporate collapses avoided. Shareholders increasingly have the opportunity to react sooner rather than later, providing greater opportunity to preserve shareholder wealth in both the short and long-term.

Triggers for shareholder intervention typically include unexpected news about corporate performance, the financial position of a company or its strategic direction. However, it is important to recognise that shareholder intervention is not signalled by a sudden or step change in the relationship between a company and its major shareholders. Instead, intervention develops from and is contiguous with the informal relationships which already exist between companies and their institutional shareholders.

Similarly, there is no hard and fast point at which increasingly strong shareholder influence over the course of events becomes actual control over a company. In practice, control is more likely to be exercised by a company's banks than its shareholders (or groups of them) acting alone, although shareholders will want to ensure that their interests are well represented when banks are arranging a corporate reconstruction or rescue.

However, most companies do not reach such a catastrophic state of affairs but are subject to milder forms of influence through major shareholders working together. They do not do so as coalitions as large as 20 shareholders but in much smaller groups. The problem of coordination is solved by one of a company's major shareholders taking the lead role in dealing with the board and senior managers of the company, their advisors and other shareholders.

Invariably this lead shareholder is also the company's largest shareholder, who will expect to keep closely in touch with companies' other 'core' shareholders. These will normally comprise the other top three, four or five shareholders, but the degree of contact between the lead shareholder and these and other, non-core, shareholders declines with the size of their holdings. The organisations involved in these groupings are almost always drawn from the UK's largest fund managers (see Chapter 3, Table V.1 and Chart V.2). This is a small world in which personal relationships are important, the key directors and portfolio managers are well known to each other and the level of cooperation available is likely to be high.

Nevertheless, fund managers do not wish to bear unnecessary costs or be given price sensitive information if this can be avoided. There is a sense of 'pass the parcel', in which the role of the lead shareholder almost always ends up with the largest shareholder, but also a strong

feeling that early intervention reduces the internal agency costs borne by the lead shareholder and is also very likely to maximise long-run shareholder returns.

This model of shareholder influence emphasises the importance of informal mechanisms and alliances between companies' major, core, shareholders. It is a model in which the use of shareholders' formal ownership, particularly voting rights are of limited significance. When considering the mechanisms of shareholder influence on UK listed companies it is also important to recognise firstly how small the core influence group is likely to be (seldom more that five or six fund managers) and secondly that the key and disproportionate, 'extended' ownership role is normally taken by companies' biggest shareholder, despite the fact that these shareholders normally only hold sub-minority positions in the company.

Models of investor behaviour which assume a commonality of interests, or a homogeneity of decision processes, or which do not take into account the role of informal mechanisms are therefore of limited value.

Chapter 8: Composite Case History

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II Case History 262

I Introduction

A huge amount of material was gathered in the interviews summarised in the preceding Chapters (4 to 7). However, this analysis of factors which influence company shareholder relationships fails to capture many of the comments and disclosures that were made with respect to individual companies, fund managers and the personalities involved.

This is because the interviews were undertaken on the basis that none of these specific comments would be attributed or published in my thesis. Yet there is no doubt that this material is extremely pertinent and provides an important bridge between the relatively general statements set out in Chapters 4 to 7 and the case histories of CEO resignations which are summarised in Chapter 9 and set out in more detail in Appendix K.

To provide this bridge I have created a 'Composite Case History'. This is based on the many company and fund manager specific references made in interviews but which could not be used or quoted directly because of the issue of confidentiality. The Composite Case History that forms this Chapter describes the progression of shareholder intervention in a company in which a number of management and financial problems emerge. These become of increasing concern to the company's major institutional investors and eventually undermine their confidence in the executive directors, leading in turn to the resignation of the Finance Director, CEO and Chairman over a period of months.

In this Composite Case History I have deliberately *not* sought to describe a company which has undergone some kind of catastrophic failure. Instead the situation is one in which fund managers have become increasingly concerned about the performance and direction of a company, but have nevertheless decided to remain shareholders.

The case history describes the relationship between a major institutional shareholder `INVEST Fund Management' and a company `EXPANSION plc'.

INVEST Fund Management is intended to be one of the major life or pension fund managers, which has held shares in the company for a number of years, gradually increasing its aggregated stake and the number of funds with holdings in the company.

EXPANSION plc is a Mid-250 manufacturing company with a major subsidiary company in the US, although the greater part of EXPANSION's turnover and profits are still derived from the UK market.

II Case History

March 1994

a Results announcement

EXPANSION plc announces its annual results for the year ending 31 December 1993 in March 1994. The results are in line with the forecasts of the major brokers' analysts.

In keeping with its normal investor relations programme, a few days after EXPANSION's announcement of its preliminary results, the CEO and Finance Director of EXPANSION have one-to-one meetings with the company's major shareholders to review the results. Before this meeting the fund managers all receive a number of brokers' reports reviewing EXPANSION's results and updating their forecasts for the next year or two. INVEST, being a major fund manager, has its own analyst (who is also a junior portfolio manager) covering EXPANSION and other companies in the same sector.

His internal report highlights issues which INVEST's other fund managers should raise with the directors of EXPANSION.

b Review meetings with the company's major shareholders

At the review meeting, INVEST's fund managers ask about the cautiousness of the trading statement made by the CEO at the time of the results announcement. They ask for the CEO's personal assessment of the factors involved and how the board will deal with any potential problems.

The answers are satisfactory, and it is agreed that EXPANSION will meet with INVEST when the next set of results are announced - these will be the `Interims', to be released in early August.

June 1994

c Unexpected trading statement

However, in June the company makes an unexpected statement about its trading position, and warns that analysts have overestimated the growth in a number of the company's key markets. Analysts quickly mark down their forecasts for the six months trading to June 1994

and the following year, although these vary somewhat as the company has not been very clear about where the problems are in the group.

d Briefing of major shareholders

Immediately the trading statement is released to the Stock Exchange, the Chairman of EXPANSION calls the company's largest shareholders. He offers to meet them to answer any questions that they may have about the statement. The share price is falling as he makes these calls and, on the basis of a number of telephone calls from financial journalists, it looks as if the next day's newspapers will be running bear stories on the company.

A meeting is scheduled with INVEST for the next day. This is attended by the Chairman, CEO and Finance Director of EXPANSION and INVEST's Head of UK Equities, as well as a number of INVEST's portfolio managers. INVEST asks for clarification about the reasons for the rapid deterioration in EXPANSION's performance over the last couple of months. INVEST is looking to be reassured about EXPANSION's future prospects and the management team's control of their business. The meeting is tough for EXPANSION's directors, but they have known the portfolio managers and the Head of UK Equities at INVEST for a number of years and feel that the meeting turned out all right in the end.

The worst also seems to be over in the Stock Market - by the end of the meeting (which lasted nearly the whole morning) EXPANSION's share price has recovered to its previous levels. A number of other fund managers (not apparently INVEST) appear to have used the opportunity to acquire shares in the company.

e Uncertainties remain about business prospects....

After the meeting with EXPANSION, the portfolio managers at INVEST remained more concerned about EXPANSION's trading position than the company appreciated. Although not discussed directly at the meeting with EXPANSION, and on the basis of its internal forecasts, INVEST believes that EXPANSION may need to raise additional funds through a rights issue over the next 12 months. This would be particularly likely if the UK economy did not pick up as much as the EXPANSION management team was forecasting; they had seemed too optimistic at the meeting and were not allowing for the kind of lower growth rates that INVEST's own economists were projecting for the rest of 1994 and into 1995.

f ... and about the management team

The fund managers at INVEST also have deeper concerns, that the CEO was losing touch with the underlying performance of the company's North American business. There is also a second worry; that this weakness may not be appreciated by the Chairman, who was also at the meeting. In addition, when assessing EXPANSION's requirements for working capital over the next two or three years, the Finance Director appeared to be assuming that the North American business would be cash generative. The foundation for this judgement appeared to be the CEO's own assessment of the US market.

At this stage, INVEST believes that the company's business is fundamentally sound, but that the company may not be being managed as well as it could. It is not entirely clear whether the management team is following a strategy which is really in shareholders' interests; there appear to be other agendas relating to the North American business which have not been fully explained. However, EXPANSION operates in a sector favoured by the fund manager's asset allocation model and the company has had a good track record; the share price has doubled against index and sector benchmarks over the last two years and dividend growth has been consistently above average. Although EXPANSION provides good exposure to the sector, the quality of its $ earnings remain a worry.

g Concerns voiced to the Corporate Broker

A few days later, after an internal meeting about EXPANSION, INVEST's fund managers are offered a line of stock in EXPANSION by the company's own broker. At the earlier meeting, INVEST has already taken the decision not to increase its funds' exposure to EXPANSION until the performance of the US business is clearer. The Head of UK Equities personally declines the broker's offer, but mentions the concerns his analyst and fund management team have about EXPANSION's US business, and also their doubts as to whether the board of EXPANSION have fully grasped the implications of a downturn in the US market coinciding with lower than expected growth in the UK.

This is no casual comment on the part of INVEST, but is intended as a deliberate signal to the company's broker; who also understands the significance of that kind of message when it comes from one of a company's major shareholders.

h The Corporate Broker responds

The next week, one of the directors of the broker telephones INVEST's Head of UK Equities to suggest that it might be useful if the CEO of EXPANSION arranged a meeting with INVEST to clarify any issues outstanding since the last meeting.

INVEST uses the next meeting to make quite explicit its concerns about the risks involved in the US market. In response, EXPANSION's CEO makes a strong case for expecting an improvement in the US market, but some of his key assumptions are at variance with INVEST's own assessment of likely US demand. Although all seems to go well at the meeting, by this stage INVEST is convinced that EXPANSION's CEO has become unrealistic in his assessment of the company's prospects in the US.

July 1994

i Major shareholder makes concerns increasingly specific

Shortly afterwards, the Chairman of EXPANSION telephones INVEST `to keep in touch'. INVEST's Head of UK Equities uses the call to make clear that he is becoming increasingly concerned that unrealistic expectations about the US market may start to affect the company's overall performance.

j Another unexpected announcement

The Chairman agrees to `take these issues on board', but the following week EXPANSION announces three small acquisitions in the US to add to the existing business.

Although no new shareholder funding is required for the acquisitions, INVEST and a number of other fund managers believe that the price paid is too high (as a multiple of exit earnings) and that the fit with the existing business is strategically weak.

k Shareholders exchange views

Shareholder approval is required for the transaction, but before filing its vote, INVEST contacts two of EXPANSION's other major institutional shareholders to sound out their reactions to the announcement.

Although there is no formal meeting or decision, EXPANSION's three major shareholders agree amongst themselves that they have similar concerns about the company's direction, but the other shareholders are happy to leave INVEST to raise these directly with the company. If the need arises they will become involved, but at this stage see no need to do so, as INVEST is by now the company's biggest single shareholder and is already dealing with the company on the key issues.

August 1994

l Major shareholders start to set the agenda

Before the EGM to approve the purchase of the US companies, INVEST has a meeting with EXPANSION's Chairman and CEO, making it clear that if the new businesses are not rapidly and successfully integrated as part of the US business, INVEST may become a seller of the company's shares.

By this stage the Chairman is seriously concerned - this is not the only conversation that he has had of this kind over the last month, and despite having recently visited the US operations, he has some lingering doubts about the planned acquisitions. In addition, if INVEST were to dispose of its shares in the company, EXPANSION's share price could be depressed for a considerable time - even without allowing for what other major shareholders might do.

m Share price responds positively

Nevertheless, with more than enough votes cast in support of the US acquisitions and, with the help (after all) of slightly better than expected Interim results, the Chairman is able to secure shareholder approval at the EGM and the acquisitions go ahead as planned. Around three months later, the company organises a two day visit by analysts to the US operations, in order to show how well the new companies are being integrated. The brokers' analysts return from the US, but by then the company's share price has already started to rise - and a number

of US institutions have also become buyers. EXPANSION's share price, which had been drifting downwards for a month or two, is revitalised and outperforms the market over the next month.

November 1994

n But more speculative funds start to acquire shares

INVEST's analyst is relieved to find that EXPANSION's new US subsidiaries are doing better than expected. It also looks as if the benefit of integrating the new companies is going to be felt in the current financial year, on the back of a number of new orders. Nevertheless, a number of INVEST's portfolio managers use EXPANSION's share price strength to lighten their share stakes; the asset allocation model suggesting that exposure to the sector should be decreased. Selling shares in EXPANSION provides a mechanism for doing this without disturbing other holdings. Meanwhile, at EXPANSION, the success of the US strategy and the rising share price is seen as an opportunity to raise additional funds and to purchase one of EXPANSION's major US competitors.

December 1994

o Company fails to keep major shareholders informed

EXPANSION makes an announcement of this intention a month later, with the news that detailed negotiations are under way with its target company. The share price rises in response to this news, but then falls back as analysts brief their clients on the likely size of a rights issue and possible earnings dilution (depending on the final terms).

INVEST's portfolio managers sell more of their shares in EXPANSION and continue to do so, even though the share price is weakening as the market absorbs the implications of the rights issue and a significant shift in the company's business mix to the USA.

January 1995

p Rights issue

Two weeks later, EXPANSION's CEO and Chairman visit INVEST and other major shareholders. They are accompanied by EXPANSION's merchant bank and they brief shareholders on a planned rights issue to support the planned acquisition. It is intended that this will be finalised, subject to shareholders approval, in the next week or so.

After the meeting, the Head of UK Equities at INVEST indicates to the merchant bank that its doubts about the company's plans remain - and that, as a current seller of the company's shares, INVEST may not want to take up its rights or seek an underwriting position on the issue.

q Other shareholders

The merchant bank is concerned about this attitude, particularly as, although no other shareholders have indicated that they would be taking a similar position, a number of serious concerns had been raised at other meetings. There is a danger that other institutions might take their lead from INVEST, before making a final decision.

r Unexpected problems

Meanwhile, in preparation for the planned rights offer, auditors are verifying the financial position of EXPANSION's US subsidiaries. They discover that the accounting treatment of a number of major orders has been bought forward by the US management. Further investigation reveals that none of these orders have been contractually confirmed by customers.

As a result, the financial position of EXPANSION's US subsidiary is weaker than expected, and additional capital will be required in the near future, even without the planned acquisition. News of the accounting problems (bad news travels fast) appears to have reached EXPANSION Inc's banks, which are requesting additional information before extending the company's short-term borrowing facilities. In addition, negotiations with the target company have run into some unexplained final delays; the vendor's management and advisors appear to be holding back on completion.

February 1995

s Short-term holders sell

News of these problems reaches London, triggered by US shareholders selling their recently acquired stock in EXPANSION. Market makers price the stock down, and brokers sense that the planned acquisition may not go ahead. A number of analysts quickly produce sell notices on the back of these rumours and fax them to favoured clients. Institutional investors who recently bought shares in the company sell as fast as they can into a falling market, but there are few buyers.

By the end of the next day the share price falls 20% and becomes very volatile, as market makers and short-term traders look to minimise their losses. The negotiations with the US vendors have now seriously stalled (part of the price was to be settled in the company's shares and subject to a one year lock up clause). EXPANSION's merchant bank makes a brief announcement that the planned acquisition and rights issue will not go ahead as planned. EXPANSION's directors, who had been negotiating the US purchase, return the same day to the UK, the CEO amongst them.

t Major shareholders meet

Later that day the merchant bank arranges separate meetings at its offices with EXPANSION's Chairman and CEO and the company's six major institutional shareholders; four are able to attend including INVEST. The other shareholders have asked to be kept fully informed.

At the meetings the shareholders are told that the Finance Director has resigned with immediate effect; the accounting irregularities in the US are positioned as his sole responsibility, as were a series of problems (which are only now emerging) with the three small companies which were recently acquired as part of EXPANSION's US acquisition strategy.

As far as the Chairman and CEO are concerned, the discovery of problems in the US are likely to only be short-term. As soon as the situation in the US subsidiaries has been clarified, EXPANSION intends to make a rights issue to continue funding EXPANSION Inc and remove the problem of high levels of short-term $ borrowings. At the meeting it is also

mentioned that a number of additional funding requirements had now been identified in the UK and that these would also be met within the scope of the proposed rights issue.

The fund managers attending the meeting express their concerns about the additional cash requirements, and also seek clarification on the funding required for the UK operations.

March 1995

u First management changes

The following day, the Finance Director's resignation is announced, triggering the share price to fall a further 10% by the end of the week. Meanwhile, the leading shareholders have been in touch with each other and agree again that INVEST should take the lead in dealing with EXPANSION and its merchant bankers. This will continue to be with the implicit support of the other shareholders and on the understanding that INVEST would keep them fully informed of the discussions.

v Major shareholder sets the agenda

INVEST meets privately with EXPANSION's merchant bank and indicates that the proposed rights issue will only be supported by the company's major shareholders (the six involved at this stage represent nearly 30% of the company's equity) if the CEO is replaced immediately and the Chairman takes responsibility for CEO role until a new CEO is appointed.

A third condition for shareholder support of the rights issue is that all further plans for expansion in North America are dropped and one of the main board Directors takes day-to-day control of the US business for at least a year. If the Chairman is unable to accept these conditions the shareholders will seek the appointment of a 'caretaker' Chairman with immediate effect.

w Completely new management team

Within a few days, and after discussion with his NEDs, the Chairman of EXPANSION agrees to these conditions. Within a month, a new CEO and Finance Director are appointed, and a larger than previously planned rights issue is fully underwritten by the company's major shareholders.

September 1995

- **New chairman**

Around six months later the Chairman announces his retirement and his successor, a manager with long-experience in the US market, is appointed with the full support of all EXPANSION's major shareholders.

Chapter 9:
Evidence of Shareholder Influence

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I Introduction

In Chapters 4 to 7, I describe the circumstances which may lead institutional shareholders to try to influence companies in which they have invested and the factors which may affect their success in doing so.

The major features of this analysis are:

1 Trigger factors

Institutional shareholders only normally bring pressure to bear on companies after a period of operational or financial under-performance. Intervention is therefore typically triggered by the announcement of poor financial results, or a deterioration in the share price, or both of these in combination. But fund managers are aware that relying on these indicators alone can mean that they 'act too late' and that this can lead to intervention after too long a period of financial/Stock Market under-performance. At the same time, public awareness, through press reports, of intervention by institutional investors is likely to lag and underestimate the degree to which private pressure may have been brought to bear on a company, in 'behind closed doors' meetings with major shareholders and in advance of any press stories or public announcements.

2 Private vs public

This issue is a key feature of shareholder intervention. Only if private pressures have failed to produce results are companies' shareholders likely to 'go public' and make their views more generally known through the media. Even these briefings are often on an 'off the record' basis. This means that financial/City journalists may be well informed about the position being taken by a company's shareholders, but by convention and in their own long-term interests are unable to name the actual institutions involved in newspaper articles. These conventions are well understood by all the parties which may be involved (company, fund managers, journalists). Comments in the financial press to the effect that a 'company's major shareholders are known to be unhappy' may well, therefore, be more

informed about the views and positions of the institutions involved than might first appear to be the case.

3 Role of major shareholders

It is normally companies' major shareholders that are involved in these activities, the most important role being taken by the 'lead shareholder'. This will normally be the largest institutional investor. In these circumstances other institutional investors may support the position and activities of the lead shareholder, but will tend to take a secondary role. The most likely exceptions occurring when the largest shareholders have similarly sized stakes in a company and they feel that their individual interests are best represented by dealing directly with management.

A Methodology

In earlier Chapters (4 to 7), I set out how the system of shareholder intervention, lead shareholders and shareholders coalitions operated at the time (1993-4) the research interviews were undertaken amongst companies, fund managers and others with knowledge of structure and functioning of these relationships.

In this Chapter, I review public evidence of shareholder influence and relate this to the evidence from the interviews.

The degree of influence shareholders bring to bear on a company can vary widely. As set out in Chapters 4 to 7 and in the Composite Case History (Chapter 8), a range of factors are involved and include:

1 The extent and period of under-performance.

2 The degree to which companies' major shareholders perceive this to be due to internal factors (management failure) and external industry factors, outside managements' control.

3 The assessment of the quality of senior management; principally the CEO, Finance Director and Chairman, with whom institutional fund managers have the most contact.

Pressure may also be brought to bear on a company through Non-Executive Directors (particularly if the Chairman is executive or also the CEO), through a company's broker or merchant bank.

As described in Chapters 7 and 8, CEO replacement is a strong indicator of shareholder intervention in a company's affairs. Forcing the resignation of the CEO from an under-performing or poorly managed company is effectively the last resort for shareholders who have sought to make their views and concerns known to a company, but have failed to see these acted upon. In an under-performing company, the immediate resignation of the CEO with no advance warning to investors[1] therefore strongly suggests that shareholders had lost confidence in the CEO and that decisive action was taken by the board in response to pressure from shareholders.

The removal of the CEO from a board through an immediately effective and previously unannounced resignation is therefore a strong indicator of shareholder intervention. In this Chapter, I identify:

1 Instances in which shareholder pressure on the board of a company has played a role in the removal of the CEO.

2 The institutional investors which may have been involved in this process.

[1] The announcement of a CEO's resignation would normally be considered price sensitive information and therefore effectively require immediate disclosure to shareholders and other Stock Market participants through the Stock Exchange Regulatory New Service (RNS) once the resignation had been confirmed. In around half the companies analysed (see later) the RNS announcements gave advance warning of a forthcoming resignation, in a number of cases several months ahead. These suggest a process of natural succession. The announcement of an immediately effective resignation strongly suggests the breakdown of the relationship between the board and CEO and, this Chapter suggests, between the CEO and the company's major shareholders, signalling strong shareholder influence on the board and affairs of the company.

From the accounts given by both institutional fund managers and companies (Chapters 4 to 7), shareholder intervention is most likely after a period of financial and/or investment under-performance. Appropriate measures of under-performance include:

1 Reported financial results.
2 Share price performance.
3 Total shareholder returns.

It was decided that the selection of companies would be based on total shareholder returns (TSR) as these most directly relate to shareholders' interests[2]. The information about shareholder returns was obtained from the London Business School Risk Measurement Service (RMS). Appendix J provides details of the initial sample of 150 companies which announced the resignation of their CEOs in 1995.

A three-tier selection process was used to identify companies for a more detailed analysis of their ownership and events (through press reports) of key events in the period leading up to the resignation announcement.

B Selection of 1995 for Research

The first stage of the selection process involved identifying all those companies which announced the resignation of their CEO (or equivalent position) in 1995. This year was chosen for the following reasons.

1 Information on ownership

This is the first year in which reliable and regularly updated data on the ownership of listed companies was available. The source of ownership data was Citywatch, which

[2] It has subsequently been suggested that it would have been more appropriate to have selected companies using annual abnormal returns (risk adjusted TSRs). A comparison of the abnormal and actual total shareholder returns for 14 of the case history companies is provided in Table VI.3. On average, abnormal returns are 10% - 20% lower than actual returns, suggesting that that if the same return threshold had been used (-15%) the use of abnormal returns may have increased the number of companies selected as case histories, depending on the size of companies involved and the timing of the announcement of their CEOs resignation.

made its huge database of fund management holdings in listed companies available for this research project (see Chapter 3)[3].

In contrast to other sources of information about the ownership of listed companies, Citywatch's analysis is updated monthly for the largest 350 companies listed on the London Stock Exchange. A third factor favouring the use of Citywatch as the source of ownership data is that it was made available in Excel spreadsheet format, making it particularly easy to manage and analyse. In addition to Citywatch and Jordans, a third source of ownership information, Fulcrum Research, was also considered, but as Fulcrum's analysis is undertaken on behalf of listed companies (its clients), issues of confidentiality and the ownership of data and ownership analysis became a problem.

2 Ability to access Press comment

The review of press comments about the companies selected for detailed analysis as case histories required the use of a comprehensive source, preferably on-line. Although the use of FT-Profile was the preferred choice, it proved more practicable to use the McCarthy CD ROM system available to Alumni of the London Business School. This essentially provides the same information as FT-Profile and the ease of selecting press stories (using simple search terms consisting of the names of companies and their CEOs) from McCarthy and the ability to print out the selected information greatly facilitated the analysis. Through McCarthy, stories were obtained from leading business and financial papers including the: Financial Times, Times, Daily Telegraph, Independent, Guardian, Daily Mail, Mail on Sunday, Sunday Telegraph and Investors Chronicle.

[3]The key difference between Citywatch and other possible sources (such as Jordans) is that Citywatch is able to match nominee holdings with a high degree of accuracy and consistency to the fund manager responsible for the investment. In contrast, Jordans' data includes many nominee holdings which are very difficult to consistently match to individual fund managers. The Jordan's database is also irregularly updated and data for any particular period may be a year or more out of date.

3 Annual reports and other sources of information

Other sources of information about companies were also more readily available for 1995 than previous years, including company annual reports (those for smaller companies are generally not available from the companies nor from Libraries); Company REFS and the Corporate Directory (both published by Hemmington Scott).

4 Post-resignation share price performance

The selection of companies using 1995 as the 'base' year meant that a minimum of one year's worth of additional information was available about the companies and their TSR performance after the resignation of their CEOs.

II Selection of Case History Companies

A three stage selection process was used to identify companies for detailed analysis as case histories. These were as follows:

1 Companies with below average TSRs in 1995.

2 Elimination of companies with market capitalisations which fell below £10 million in the 12 months before the resignation announcement.

3 Selection of companies whose CEOs left the company on the day of the announcement (or effectively so).

These stages are described in more detail below.

A Shareholder Returns

Information about shareholder returns was obtained from the Risk Measurement Service (RMS) Quarterly Reports published by the London Business School. These provide the actual annual returns for each listed company (the TSR). In 1995 a portfolio matching the composition of the All-share Index would have provided investors with a TSR of approximately -15% and this figure has been used to distinguish between companies with above and below average shareholder returns in 1995.

Of the 150 companies announcing the resignation or reassignment of their CEOs in 1995, 69 had prior year TSRs below -15%. The companies with TSRs better than -15% are listed in Appendix J.8. The unweighted[4] average TSR of the 150 companies was -16.0%.

[4] The RMS Portfolio return for the All-Share index is weighted by market capitalisation.

Table II.1 TSRs of companies announcing resignation of CEOs in 1995

TSR	No. of companies
Better than +15%	26
0% to +14%	31
0% to -14%	24
-15% to -29%	22
-30% to -49%	26
Worse than -75%	21
Total	**150**
Total worse than -15%	69

B Smaller Companies

The group of 69 companies with TSRs below –15% was reduced by eliminating those whose capitalisations had fallen below £10 million during the preceding year[5]. Appendix J.7 provides details of the 22 companies eliminated from the research group for this reason. These companies were eliminated:

1 To reduce the number of case history companies to a manageable number.

2 To maintain a balance between the sizes of companies (by market capitalisation) included in the final case history group.

3 Because of the limited availability of information about the ownership of smaller companies from Citywatch.

This left a group of 47 companies meeting the following selection criteria:

1 Announcement of CEO resignation in 1995.
2 Below average TSR in 1995.
3 Market capitalisation above the £10 million threshold.

The 47 companies operated in a wide range of industries (Table II.2).

[5] This selection was made using information about companies' market capitalisations from the RMS Quarterly Reports and 1995 issues of Company REFS.

Table II.2 Analysis of Stage 3 companies by industry sector

	FT-SE 100	Mid 250	Smaller Cap	Larger Fledgling	Total
Business support services		Waste Management	British Data McDonnell	Coda MR Data OIS International	6
Chemicals			Hickson	Sutcliffe Speakman	2
Construction/ builders merchants			Costain Mowlem	Bellwinch Lovell (YJ) Raine	5
Distribution				CMA Ross	2
Engineering/ electrical		Powell Duffryn	Kenwood	Hampson Industries OMI International	4
Food /drink				JLI Group	1
Furniture manufacture				Cornwell Parker Sycamore Holdings	2
Healthcare/ Pharmaceuticals				Biotrace Intercare	2
Insurance/ Banking	General Accident	Hambros	Heath (CE), Rathbone	PWS Holdings	5
Leisure	Rank			Hornby Wembley	3
Media		News International	Cordiant	Avesco	3
Printing/ Stationery				Platignum	1
Property		Bradford Property		Conrad Ritblat	2
Retail	Kingfisher	Lloyds Chemists	Asprey Austin Reed WEW	Rhino Upton & Southern	7
Telecoms	British Telecom				1
Transport				United Carriers	1
Total	4	6	12	25	47

C Resignation Announcements

The resignations of the CEOs from the 47 companies were then analysed to determine the circumstances leading to the announcement. The resignations were categorised on the basis of the timing and subsequent position of the CEO.

In 22 companies, the resignation was immediate (ie on the day of the announcement or immediately afterwards). In the other 25 companies the announcement was effectively advance notification of the CEO's forthcoming resignation. At this stage two other companies were added to the analysis group: Cable & Wireless and Calor. These were the only other FTSE 100 and FTSE Mid-250 companies (respectively) which announced the immediate resignations of their CEOs in 1995[6].

In 10 out of the 24 companies, the announcement of the resignation of the CEO was accompanied by the announcement that the resigning CEO's responsibilities were to be taken by the companies' chairmen. In seven companies the announcement of the CEO's resignation was accompanied by news of the appointment of a new CEO from outside the company (an external appointment). In the other seven seven companies, the CEO was replaced by a director (other than the chairman) or a member of the senior executive management team with immediate effect (Table II.3).

Table II.4: Analysis of immediate CEO resignations

	FTSE-100	Mid-250	SmallerCos	Fledgling
Chairman	Kingfisher		Kenwood Mowlem	Hornby JLI MR Data OMI Platignum Raine United Carriers Upton & Southern
Immediate - Internal		Bradford Property Calor Lloyds Chemists Powell Duffryn	WEW Group	Central Motor Auctions
Immediate - External	Cable & Wireless	News International	Hickson McDonnell	Biotrace Intercare Rhino Group

[6] The TSR of Cable Wireless was +7% in the year to the announcement and that of Calor +3%.

III Ownership of Case History Companies

The primary source of information about the ownership of companies was the Citywatch database. This was used to identify the 24 case history companies' major institutional shareholders the month before the resignation and six months afterwards. This analysis established:

1 The Top 10 fund managers in the month preceding the CEO resignation.

2 The holdings of these fund managers six months later.

3 The Top 10 fund mangers six months later.

This information is set out in Appendix K.

In most cases there was little change in the identity of companies' Top 10 shareholders or the size of their holdings over this period. Company REFS and annual reports were used to identify any other large non-financial shareholders[7].

This information was then used to categorise the source of potential shareholder influence. The categories were:

1 A coalition of fund managers. These typically consisted of three or four fund managers with combined holdings of between 10% and 20%[8].

2 The largest fund manager shareholder. At the time of the CEO's resignation, these holdings were typically 20% or more.

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[7] Information about non-financial shareholders is not included in the Citywatch database - also see Chapter 3.

[8] Where these combined holdings were particularly concentrated (for example, in the case of Kingfisher, MAM and Prudential held 14.1% of the company between them) or large (in the case of Hornby, six fund managers held 55%), or a combination of these, it was judged that a shareholder coalition may have operated. The composition of these coalitions and the circumstances (as reported in the press) surrounding the resignation of the CEO led to an assessment of the likely composition of the coalitions. The smallest coalition (consisting of Schroders, Prudential, MAM and Standard Life) occurred in the case of Cable & Wireless - a combined holding of 11.7%.

3 A majority (> 50%) non-financial shareholder.

The summary of the ownership for each case history company is set out in Table III.1 and a summary by type of control in Table III.2.

Table III.1: Major shareholders in case history companies

Case History	Company	Type of control	Lead shareholder(s)
1	Cable & Wireless	Coalition[9]	Schroder (3.8%) Prudential (3.0%) MAM (2.8%) Standard Life (2.1%)
2	Kingfisher	Coalition	MAM (8.1%) Prudential (6%)
3	Bradford Property Trust	Largest fund manager	*Board (19.0%)* Schroder (7.5%)
4	Calor Group	Majority shareholder	SVH (51%)
5	Lloyds Chemists	Coalition	*Board (10.1%)* Baring (7.5%) Gartmore (5.6%) Prudential (4.0%) PDFM (2.8%)
6	News International	Majority shareholder	News Corporation (81%)
7	Powell Dyffryn	Largest fund manager	M&G (12.7%) *Morgan Grenfell (6.4%)* *BZW (6.09%)*
8	Hickson International	Largest fund manager	PDFM (20.9%) *AMP (8.9%)* *M&G (8.4%)* *Britannic (7.1%)*
9	Kenwood	Coalition	Schroder (7.6%) MAM (4.95%) Baillie Gifford (4.5%) Scottish Widows (4.3%)
10	McDonnell	Coalition	Fidelity (10.0%) Prudential (8.7%) MAM (8.1%)[10]

[9] **Cable & Wireless** (Case History No.1): The largest shareholder was the German telecommunications group VEBA, however based on contemporary press accounts, the role of VEBA in the resignation of James Ross is assumed to be neutral and therefore the dominant source shareholder influence will have been the company' largest shareholders, as above.

[10] **McDonnell Information Systems** (Case History No.10): Although MAM had a stake of 8.12% in the period immediately before the resignation of Jerry Causley in July 1995, by January 1996 this had been reduced to 0.09%. This suggests that MAM may not have been supportive of the moves which led to his resignation or the appointment of his successor. The role of MAM in a coalition alongside Fidelity and Prudential, both of which subsequently increased their holdings, is therefore open to doubt.

Case History	Company	Type of control	Lead shareholder(s)
11	Mowlem	Largest fund manager	PDFM (23.7%) *Morgan Stanley (15.3%)*
12	WEW Group	Coalition[11]	Fidelity (9.9%) Gartmore (5.7%) PDFM (4.7%) Schroder (4.7%)
13	Biotrace	Coalition	Baring (7.8%) Gartmore (5.0%) *British Gas PF (3.6%)* *Newton (3.4%)* *Hermes (2.8%)*
14	Central Motor Auctions	Majority shareholder	Myers family > 50%
15	Hornby	Coalition	Morgan Stanley (10.2%) M&G (10.0%) Electra Fleming (9.9%) Hermes (8.6%) Citicorp (8.28%)[12] L&G (7.8%)
16	Intercare	Insufficient information available	
17	JLI	Largest fund manager	M&G (14.1%) *Aberforth (6.0%)* *Schroder (5.8%)* *Framlington (4.8%)* *Postel (4.69%)* *L&G (4.6%)*
18	MR Data Group	Coalition	L&G (8.0%) Universities (6.4%)[13] Baring (5.4%)
19	OMI International	Second largest fund manager	*NatWest (13.6%)* * MAM (12.3%)
20	Platignum	Insufficient information available	
21	Raine	Coalition	Scottish Amicable (8.6%) PDFM (8.0%) Gartmore (7.0%)
22	Rhino Group	Major shareholder	Electronics Boutique (29.9%)
23	United Carriers	Largest fund manager	PDFM (18.5%)

[11] **WEW** (Case History No.12): Although not included in the Citywatch analysis (probably because it was not classified as a fund manager by Citywatch at that time) Warburg Pincus appears to have had a stake of 28.1 % at the time of Peter Carr's resignation (Company REFS, November 1995 edition). An article in the Mail on Sunday (29 October 1995) also refers to Warburg Pincus having a stake of 28%.

[12] **Hornby** (Case History No.15): Although Citicorp has been identified by Citywatch as having a shareholding, this was identified as being attributable to an unidentified client account. It is therefore unlikely that Citicorp took any direct role in influencing the resignation of Keith Ness.

[13] **OMI International** (Case History No.19): By August 1995 NatWest had reduced its stake from 13.64% to 6.16%, suggesting that it may not have played a major part in the resignation of the CEO. It is more likely that MAM, with a holding of 12.31% that was maintained, had the greatest influence.

Case History	Company	Type of control	Lead shareholder(s)
			Fidelity (7.8%) *MAM (7.8%)*
24	Upton & Southern	Insufficient information available	

Table III.2 Types of control of case history companies

Type of control	Companies (Controlling shareholder)
Largest fund manager	Bradford Property Trust (Schroder) Powell Dyffryn (M&G) Hickson International (PDFM) Mowlem (PDFM) JLI (M&G) MR Data Group (L&G) OMI International (MAM) United Carriers (PDFM)
Coalitions	Cable & Wireless (Schroder, Prudential, MAM, Standard Life) Kingfisher (MAM, Prudential) Lloyds Chemists (Baring, Gartmore, Prudential, PDFM) Kenwood (Schroder, MAM, Baillie Gifford, Scottish Widows) McDonnell (Fidelity, Prudential, MAM) WEW Group (Fidelity, Gartmore, PDFM, Schroder) Biotrace (Baring, Gartmore) Hornby (Morgan Stanley, M&G, Fleming, Hermes, L&G) Raine (Scottish Amicable, PDFM, Gartmore)
Major or majority shareholder	Calor Group (SHV) News International (News Corporation) Central Motor Auctions (Myers family) Rhino Group (Electronics Boutique)
Insufficient information	Intercare Platignum Upton & Southern

IV Press Comment

Using the McCarthy CD ROM database, a detailed review of press comments in 1995 relating to the circumstances leading to each CEO's resignation was carried out. Extracts of key articles are included in Appendix K. Table IV.1 summarises this information.

Table IV.1 Summary of case histories based on press comment

Case	Company	Press comment/summary
1	**Cable & Wireless**	Resignation of subsidiary Mercury CEO Duncan Lewis triggers investors' concerns about corporate strategy. Boardroom dispute between Chairman (Lord Young) and CEO (Ross) develops & institutional pressure to resolve differences. Deputy chairman arranges meetings with institutions and non-executives. Ross & Young resign.
2	**Kingfisher**	Halving of share price during 1994, which ends with unexpectedly poor Christmas results from Woolworth and Comet chains. Institutional investors lose faith in executive management. CEO Alan Smith resigns January 1995, role taken by Chairman and former CEO Geof Mulachy.
3	**Bradford Property**	Retirement of John Burgess, after 18 years as Managing Director (CEO).
4	**Calor Group**	September 1995: 16% fall in half-year profits. 8 November 1995, profits warning and resignation of Howard Robinson announced. Robinson criticised for focusing too much on international expansion and not problems in UK market.
5	**Lloyds Chemists**	Lloyds founded and run by Allen (Chairman) and Peter Lloyd (CEO) 1994: Superdrug chain fails to respond to growing competition. 8 March 1995 closure of 105 stores and loss of 750 jobs announced at cost of £13.4m; shares fall 25%. June 1995 Peter Lloyd resigns due to stress/ill health.
6	**News International**	Controlled by Rupert Murdoch through parent company News Corporation. CEO Gus Fisher fired for misjudging purchasing contracts for newsprint at a time of shortages & rising prices; circulations and advertising revenues reduced.
7	**Powell Dyffryn**	Retirement of Bill Andrews, 59, after 19 years as CEO.
8	**Hickson International**	New Chairman (James Hann) appointed October 1994. Succession of trading and other problems early 1995. March 1995, dividend cut and 'investors becoming impatient'. April 1995, appointment of new Finance Director. November 1995; meetings between Hann and fund managers (PDFM, Prudential, M&G). 6 November 1995, Kerrison resigns and £13m restructuring charge announced.
9	**Kenwood**	September 1995: shares below 1992 flotation price. CEO led 1985 MBO from Thorn EMI, but moves to take 'bigger job' at C&J Clark. Succeeded by Tim Beech, Finance Director.

Case	Company	Press comment/summary
10	**McDonnell**	Floated in 1994. 2nd profits warning January 1995, Finance Director resigns. March 1995; 150 job losses and uncovered announced. In talks with institutional shareholders. August 1995: 3rd profit warning, losses forecast, shares fall 30% to one quarter of flotation price, CEO resigns.
11	**Mowlem**	£32m loss announced September 1995, plus continuing failure to dispose of City airport, unexpectedly costly legal dispute, disposals and 700 job losses. Share price 10% of 1989 high. New Chairman appointed 1994. CEO resigns October 1995.
12	**WEW Group**	1994; rights issue at 56p. June 1995; Profits warning. October 1995; Nationwide chain of 80 'What Everyone Wants' discount stores announce 20% fall in like-for-like sales, concerns about retail format. 8 November 1995; joint Chairman and CEO Peter Carr becomes Non-Executive Director, resigns completely December 1995.
13	**Biotrace**	25 November 1995: Share price fell from 64p to 42p on announcement of profits warning of losses of £1.5 million, blamed on expansion costs and fierce competition, and immediate resignation of CEO Brian Levett.
14	**Central Motor Auctions**	Company controlled by Myers family. September 1995; profit warning, shares fall 15%, CEO George Inch resigns as shareholders lose enthusiasm for Inch's strategy of electronic auctions and vehicle re-marketing services.
15	**Hornby**	Profits warning December 1994, followed by announcement of 60% fall in profits March 1995. Dividend cut. October 1995, boardroom 'shakeup' after 'larger institutional investors decided ... that Mr Ness had to go'.
16	**Intercare**	CEO and Finance Director organise MBO of Intercare's major subsidiary and resign from Intercare board.
17	**JLI**	February 1995: Profits warning and factory closure announcement followed by resignation of CEO and management reorganisation. CEO role taken by Executive Chairman.
18	**MR Data Group**	Document management company with history of boardroom shakeups. 25 April 1995; shares fallen 60% in last year. CEO fired by Chairman John Redmond. 1 June 1995; profits warning, shares fall to lowest ever level. New Chairman appointed, Redmond fired.
19	**OMI International**	Rights issue at 37p end 1994 followed by two profit warnings. Chairman and CEO Gil Williams resigned with immediate effect 2 March 1995. Acting Chairman says 'shareholders and the board had lost confidence'.
20	**Platignum**	January 1995: Losses announced of £1.4 million and interim dividend passed. Share price fell from 250p in 1987 to around 8p in August 1995, when market capitalisation was £2 million. CEO and Finance Director both resigned on 8 August 1995.
21	**Raine**	9 March 1995; housing, construction and shopfitting group Raine announces profit warning, cut in dividend to 0.5p (but still uncovered). Pre-tax profits fall by two-thirds. Shares fall by one-

Case	Company	Press comment/summary
		third. Chairman Peter Parkin takes on CEO role as well. 10 April, Parkin resigns following pressure from institutional investors.
22	**Rhino Group**	Specialist video games group with 112 'Future Zone' stores. 6 January 1995; profits warning, shares fall to 17p. 1994 rights issue at 44p. 22 February 1994; rights issue announced, shares fall to 8p. 25.2m shares (18% of enlarged equity) left with underwriters, purchased by US Electronics Boutique (EB). May 1995; EB raises stake to 29.9% through market purchases. September 1995; two founder directors, including CEO Terry Norris are fired as EB, which has taken management control and appoints new CEO, John Steinbrecher.
23	**United Carriers**	Floated in February 1994 at 153p, subsequently made two profit warnings. March 1995: New chairman appointed (John Toyne), former Chairman Alan Brinks becomes CEO. July 1995; Binks resigns.
24	**Upton & Southern**	North East department store group purchases Reject Shop chain in 1994, but fails to manage acquisition. Share price of U&S falls from 63p to 3.5p in 12 months. New Chairman, Ron Trenter, appointed (17 April 1995). CEO Jeffrey Gould, responsible for Reject Shop strategy resigns April 1995. Reject Shop chain put into receivership by U&S May 1995.

Press accounts of CEO resignations were analysed for content and in particular, for specific mentions of:

- a fall in profits (18 Companies)
- a reduction in dividend (6 companies)
- a fall in share price (20 companies)
- a previous rights issue (3 companies)
- the recent appointment of a new Chairman (8 companies)
- the loss of jobs or company or factory closures (7 companies)
- the role or concerns of fund managers (10 companies).

Table IV.2 summarises this information for each company.

Table IV.2 Summary of press comment

Case Hist.	Company	Profits fall	Div. reduced	Shares Down	Rights issue	New Chairman	Closures Jobs	Fund Managers
1	Cable & Wire.	Yes	No	Yes	No	Yes	Yes	Yes
2	Kingfisher	Yes	No	Yes	No	Yes	No	Yes
3	Bradford Prop.	No	No	No	No	No	No	No
4	Calor Group	Yes	No	Yes	No	No	No	No
5	Lloyds Chem.	Yes	No	Yes	No	No	Yes	No
6	News Intern.	No	No	No	No	No	No	No
7	Powell Dyffryn	No	No	No	No	No	No	No
8	Hickson	Yes	Yes	Yes	No	Yes	Yes	Yes
9	Kenwood	No	No	Yes	No (f)	No	No	No
10	McDonnell	Yes	No	Yes	No	No	Yes	Yes
11	Mowlem	Yes	No	Yes	No	Yes	Yes	No
12	WEW Group	Yes	No	Yes	No	Yes	No	Yes
13	Biotrace	Yes	No	Yes	No (f)	No	No	No
14	Central Motors	Yes	No	Yes	No	No	No	Yes
15	Hornby	Yes	Yes	No	No	No	No	Yes
16	Intercare	Yes	No	Yes	No	No	No	No
17	JLI	Yes	No	Yes	No	No	Yes	No
18	MR Data	Yes	No	Yes	No	No	No	No
19	OMI	Yes	Yes	Yes	Yes	Yes	No	Yes
20	Platignum	Yes	Yes	Yes	No	No	No	No
21	Raine	Yes	Yes	Yes	No	Yes	Yes	Yes
22	Rhino Group	Yes	Yes	Yes	Yes	No	No	Yes
23	United Carriers	No	No	Yes	No	Yes	No	No
24	Upton & South.	No	No	Yes	Yes	Yes	No	No
	Total	18	6	20	3	8	7	10

(f): McDonnell and Biotrace were relatively recent flotations at the time they announced the immediate resignation of their CEOs.

V Case History Summary

Using information on the ownership of the 24 case history companies and evidence from press accounts, an assessment has been made of the degree to which shareholders are likely to have influenced the resignation of the CEO. The evidence for shareholder influence was classified on a scale of 0 - 1- 2, as set out in Table V.1 below.

Table V.1: Types of shareholder influence

Rating	Description
2	**Strong evidence** of shareholder involvement on the basis of: • press comment • control of the company by a dominant or majority shareholder • a CEO leaving a company despite significant board shareholdings[14]
1	**Circumstantial evidence** Although there was no direct press comment signalling the active involvement of shareholders in the CEO's resignation, circumstances suggest that shareholders are likely to have played a role, in a number of cases through the earlier appointment of a new Chairman.
0	**No evidence** of shareholder influence.

Table V.2: Summary of ownership and press comment

CH	Company	Shareholders	Media	Influence rating
1	**Cable & Wireless**	**Coalition (11.7%)**	**Yes**	**2**
	Numerous press reports (eg; FT, 15 Sept 1995, 17 Nov 1995; IoS, 17 Sept 1995; Guardian, 29 Sept 1995; Stel, 19 Nov 1995) of shareholder pressure to resolve public strategy/personality dispute between Chairman (Young) and CEO (Ross), although non-executive directors were responsible for resolving the crisis, it is likely that shareholders would have expected only Young to resign. Share price rose 9% following announcement (Times, 23 Nov 1995).			
2	**Kingfisher**	**Coalition (14.1%)**	**Yes**	**2**
	Numerous press reports (eg; IoS, 22 Jan 1995; MoS, 22 Jan 1995, Independent, 25 Jan 1995; Guardian, 28 Jan 1995) of shareholders being unhappy with sudden decline in performance of Woolworths and Comet chains. Action of Deputy Chairman Nigel Mobbs may have pre-empted more direct pressure from shareholders, evidenced by survival of Geof Mulachy. Share price rose 5% following announcement (FT, 28 Jan 1995).			
3	**Bradford Property Trust**	**Board (19%)** **Largest fund manager (8%)**	**No**	**0**
	Normal retirement at age 61 years after 18 years as Managing Director. No evidence of shareholder involvement.			

[14] This judgement particularly applies to Lloyds Chemists, where the holdings of brothers Allen and Peter Lloyd totalled 10.1%.

CH	Company	Shareholders	Media	Influence rating
4	**Calor**	**Majority shareholder (51%)**	No	2
	As majority shareholder, it is extremely unlikely that SVH was not involved in the decision announced 7 Nov 1995 to fire the CEO (Howard Robinson) of Calor, a major subsidiary of SVH following the announcement of poor results in Sept 1995. A second factor was Robinson's failure to focus on performance of UK company, instead of international expansion (FT, 8 Nov 1995)			
5	**Lloyds Chemists**	**Coalition (19.9%)**	No	2
	The announcement on 8 March 1995 of 105 store closures and 750 job losses appears to have surprised investors as the share price immediately fell 25%. The failure to quantify the cost (£13.4m) for a week (until 13 March 1995) 'damaged confidence' in the company (DT, 14 march 1995). During the three month period until 13 June 1995, when resignation of CEO Peter Lloyd was announced, brothers Allen (Chairman) and Peter Lloyd will have undoubtedly been meeting shareholders. It is likely that these contributed to the pressure on the CEO.			
6	**News International**	**Majority shareholder (81%)**	Yes	2
	Murdoch's intervention in News International was response to newsprint crisis, which led to circulation losses and reduced advertising revenues, and fired CEO Gus Fisher (Independent, 18 March 1995; DT, 18 March 1995; MoS, 19 March 1995).			
7	**Powell Dyffryn**	**Largest fund manager (12.7%)**	No	0
	Normal retirement at age 59 after 19 years as CEO. No evidence of shareholder involvement.			
8	**Hickson**	**Largest fund manager (20.9%)**	Yes	2
	Chairman James Hann appointed October 1994, following a series of problems in Hickson. But the Yorkshire Post reported that 'analysts say investors are becoming impatient' (7 March 1995), before the announcement of a dividend cut (YP, 29 March 1995). CEO Dennis Kerrison resigned 6 Nov 1995. Reported that Hann 'had backing of its biggest shareholders - PDFM, Prudential, M&G - for the recovery strategy' (MoS, 12 Nov 1995).			
9	**Kenwood**	Coalition (21.4%)	No	0
	CEO Tim Parker left Kenwood for a 'bigger job' with C&J Clark, but the share price in September 1995 was also below 1992 flotation. It is possible that Parker was under some pressure from shareholders and took advantage of a career move, but there is no direct evidence from the press.			
10	**McDonnell**	Coalition (18.7%)	Yes	2
	CEO Jerry Causley reported (Independent, 1 March 1995) as having meetings with MDIS's largest shareholders - Prudential, MAM, Commercial Union, Fidelity - following profits warning (Independent, 10 January 1995) and subsequent announcement of job losses (DT, 1 March 1995). Further profit warning and resignation of Causley announced 13 Aug 1995, in which Chairman (since 1994 flotation) Ian Hay Davidson played key role (FT, 16 Aug 1995; Independent, 16 Aug 1995).			
11	**Mowlem**	Coalition (39.0%)	No	1
	Continuing losses, failure to sell City airport and other problems led to resignation of CEO John Marshall. With a 24% shareholding PDFM is likely to have been involved in this decision, almost certainly with the support of Morgan Stanley (15%).			
12	**WEW Group**	**Major shareholder (28.1)**	Yes	2
	In addition to its large shareholding, the only non-executive directors on the board were appointed as representatives of Warburg Pincus.			

CH	Company	Shareholders	Media	Influence rating
13	**Biotrace**	Coalition (19.0%)	No	1
	During 1995 Biotrace failed to respond to increased problems and faced unexpectedly high marketing and other costs. CEO Levitt's resignation triggered by a profits warning. The greatest pressure is likely to have come from Baring and Gartmore, but British Gas PF, Newton and Hermes may have taken a similar position.			
14	**Central Motors**	**Family group (>50%)**	Yes	2
	CEO George Inch resigned after failing to get backing of Myers family for developments outside core auction business, following poor performance of car auction business in tough market conditions			
15	**Hornby**	Coalition (46.5%)	Yes	2
	After profit warning, dividend cut and concerns about corporate strategy, IC (20 October 1995) reported that 'large institutional investors decided in the last few months that Mr Ness had to go'.			
16	**Intercare**	**Insufficient information available**	No	II
	The resignation of CEO Peter Cowan (July 1995) was triggered by the buyout of Intercare's largest division by Cowan and Intercare Finance Director. Institutional investors are unlikely to have been happy with this conflict of interest, but their reaction to an earlier profit warning (May 1995) may have encouraged Cowan in his plans.			
17	**JLI**	Coalition (40.0%)	No	1
	The two week gap between the profit warning (9 Feb 1995) and resignation of CEO Graham Scott (23 Feb 1995) suggests that post-announcement meetings with the company's major shareholders put pressure on Chairman Yoav Gottesman to take control of the company, by firing Scott and taking on the CEO role himself. As the largest shareholder (14%), M&G's view will have been a major influence, but the views of the other major shareholders are also likely to have been taken into account by Gottesman.			
18	**MR Data**	Coalition (19.8%)	No	1
	Chairman John Redmond reported as having a history of making senior management/board changes and resignation of CEO Michael Elliott in April 1995 appears to have been due to a split with Redmond (DM, 28 April 1995). Both will have been under pressure from investors following a collapse in MR's share price 1994/5. Profits warning in June 1995 followed by appointment of new Chairman (George Wardle) and resignation of Redmond two months later.			
19	**OMI**	**Largest fund manager (12.3%)**	Yes	2
	Confidence in Chairman and CEO Gil Williams undermined by a profit warning 3 Feb 1995. Delay of one month before resignation of Williams suggests that meetings may have taken place between one or more non-executive directors (Richard Duggan) during this period. Subsequent reduction in NatWest's holding (13.64% to 6.16% by Aug 1995) also suggests that MAM may have played the largest role. FT (3 March 1995) said that 'shareholders and the board had lost confidence in Mr Williams'.			
20	**Platignum**	**Insufficient information available**	No	II
	Nicholas Smith appointed Chairman January 1995. CEO Rob Campbell & Finance Director David Bridge resign 8 August 1995. Shareholders will have undoubtedly played a role in Smith's appointment, but possibly taken a less direct role in the resignation of Campbell & Bridges.			

CH	Company	Shareholders	Media	Influence rating
21	**Raine**	Coalition (23.6%)	**Yes**	2
	Top 3 shareholders controlled 24%, Top 10 47%. Resignation of CEO Peter Parkin followed 'pressure from institutional shareholders' (Birmingham Post, 11 April 1995) and FT said that 'shareholder pressure has forced the removal of Mr Peter Parkin as Chief Executive of Raine' (11 April 1995).			
22	**Rhino**	**Major shareholder (29.9%)**	**Yes**	2
	Resignation of co-founder & CEO Terry Norris in May 1995 followed US-based Electronics Boutique acquiring a 30% stake and taking effective management control of Rhino.			
23	**United Carriers**	Coalition (34.1%)	No	1
	Allan Binks replaced as Chairman by Doug Rogers following profit warning March 1995 but retains position as CEO. Resigns as CEO 3 July 1995. Shareholders will have undoubtedly been responsible for Rogers' appointment, but possibly taken a less direct role in Binks' resignation.			
24	**Upton & Southern**	**Insufficient information available**	No	II
	Ron Trenter appointed Executive Chairman in March 1995. CEO Jeffrey Gould, responsible for misjudged acquisition of Reject Shop chain, which was a key factor in the subsequent 90% fall in U&S's share price, resigned April 1995. FT (17 March 1995) reported that Trenter approached by non-executive directors, but in view of the company's trading performance, it is likely that the company's major shareholders will have played a role in instigating these changes.			

Abbreviations: DT - Daily Telegraph; FT - Financial Times; MoS - Mail on Sunday

Table V.3: Influence ratings

Rating	Description	Companies (Case History)
2	**Strong evidence**	**1 Cable & Wireless**
		2 Kingfisher
		4 Calor (msh - SVH)
		5 Lloyds Chemists
		6 News International (msh - NC)
		8 Hickson (lfm - PDFM)
		10 McDonnell
		12 WEW
		14 CMA (msh - Myers family)
		15 Hornby
		19 OMI (lfm - MAM)
		21 Raine
		22 Rhino (msh -EB)
1	**Circumstantial evidence**	11 Mowlem (lfm - PDFM)
		13 Biotrace
		17 JLI (lfm - M&G)
		18 MR Data
		23 United Carriers (lfm - PDFM)
0	**No evidence**	3 Bradford Property Trust
		7 Powell Duffryn
		9 Kenwood

Table continues on next page

Rating	Description	Companies (Case History)
II	Insufficient Information	16 Intercare 20 Platignum 24 Upton & Southern

msh = major/majority shareholder
lfm = largest fund manager

VI Post-resignation Shareholder Returns

Eighteen companies scored either 1 (circumstantial evidence) or 2 (strong evidence) of shareholder influence playing a role in the resignation of their CEOs in 1995.

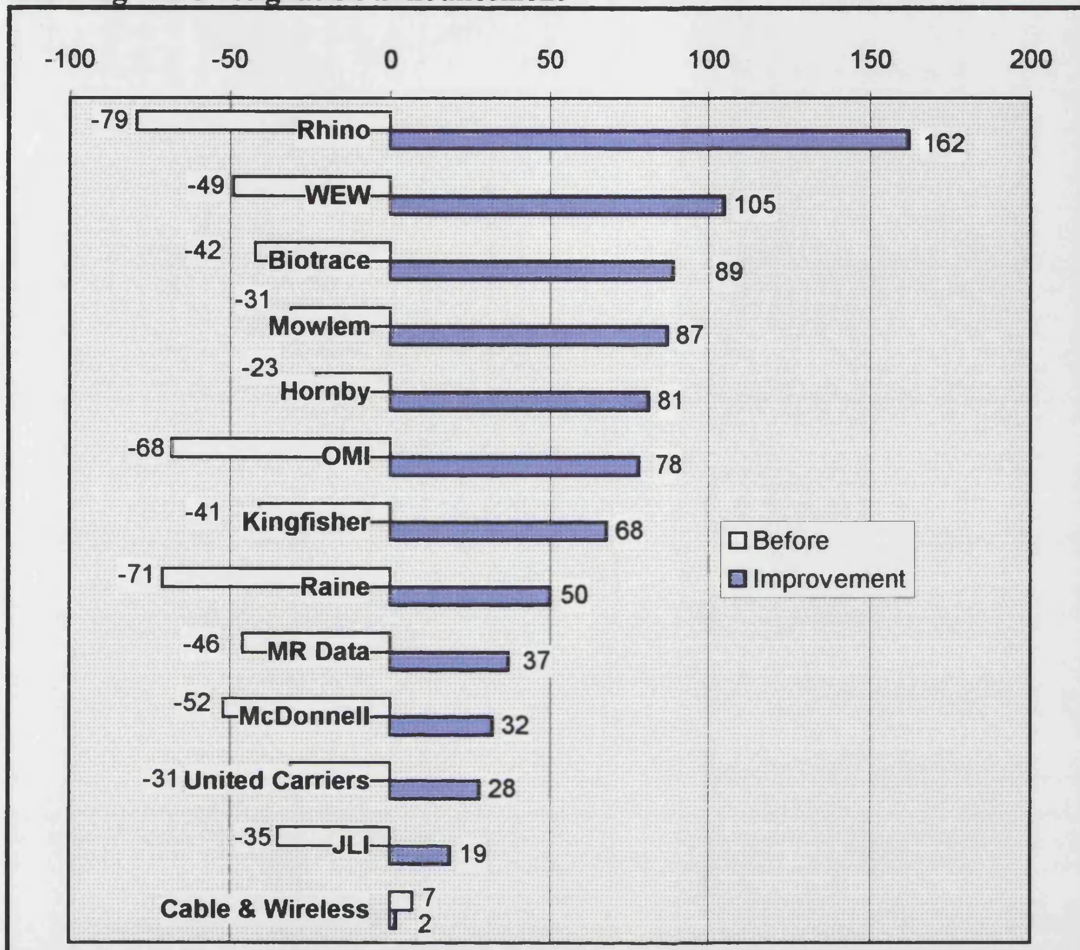
Of these, four were subsequently been taken over: Calor (by majority shareholder SVH), Central Motor Auctions (by a private company), Lloyds Chemists (by GEHE in January 1997, after a year-long bid battle between GEHE and UniChem) and News International (by majority shareholder News Corporation).

The TSRs of the other 14 companies all showed a positive improvement in the four quarters following the resignation of their CEOs (Table VI.1 and Chart VI.2). The average improvement was +60%. In seven cases (Rhino, WEW, Biotrace, Mowlem and Hornby, OMI and Kingfisher) the TSRs in the four quarters following the resignation announcement were larger than the decline in TSRs in the four quarters preceding the announcement, indicating a significant change in shareholder sentiment and a partial recovery of share values towards their former levels.

Table VI.1: TSRs four quarters before and after resignation announcement

Company	Before	After	Improvement
	CEO resignation		
Rhino	-79	83	162
WEW	-49	56	105
Biotrace	-42	47	89
Mowlem	-31	56	87
Hornby	-23	58	81
OMI	-68	10	78
Kingfisher	-41	27	68
Raine	-71	-21	50
MR Data	-46	-9	37
McDonnell	-52	-20	32
United Carriers	-31	-3	28
JLI	-35	-16	19
Cable & Wireless	7	9	2
Hickson	-26	-25	1
Average	-42	18	60

Chart VI.2: TSRs in four quarters before and four quarter improvement in TSR following CEO resignation announcement



Note: Chart excludes Hickson

However in six cases (Raine, MR Data, McDonnell, United Carriers, JLI and Hickson) shareholders continued to suffer from negative TSRs in the following four quarters, although these were, apart from Hickson, substantially smaller than those experienced in the preceding four quarters. In the cases of Hickson and Cable & Wireless, the four quarter TSRs barely changed following the CEO resignation announcement.

This analysis suggests that CEO resignations can have a dramatic impact on shareholder returns. Although there are substantial differences in post-resignation TSRs, the overall results appear to vindicate any role that fund managers may have played in the resignation. Similar conclusions can be drawn from the analysis of abnormal (risk adjusted) shareholder returns before and after the resignation announcement shown in

Table VI.3, although the average abnormal returns in the four quarters pre- and post-resignation announcement and improvement are all lower. These findings also suggest a fruitful area for further research[15].

Table VI.3 Comparison of improvement in abnormal returns in the four quarters preceding and following CEO resignation announcement with the improvement in actual returns (Table VI.1)

	Abnormal returns			Improvement in actual returns
	Before	After	Improvement	
Biotrace	-62	31	93	89
Cable & Wireless	-15	-9	6	2
Hickson	-46	-40	6	1
Hornby	-31	47	78	81
JLI	-38	-31	7	19
Kingfisher	-32	-2	30	68
McDonnell	-71	-40	31	32
Mowlem	-49	38	87	87
MR Data	-50	-27	23	37
OMI	-70	-18	52	78
Raine	-73	-47	26	50
Rhino	-82	59	141	162
United Carriers	-33	-24	9	28
WEW	-70	39	109	105
Average	**-52**	**-2**	**50**	60

[15] For example, this could be directed at a number of areas including comparisons between: different types of CEO resignation (immediate, advance) and CEO succession (internal, external, role taken by Chairman); changes in TSR relative to the market and comparator groups of companies; companies with different levels of shareholder concentration; companies with different degrees of evidence of shareholder intervention

VII Summary

This Chapter describes the selection of companies for which evidence of shareholder influence was most likely to be obtained. A three-tier selection process was used. The first stage involved identifying companies in which the CEO had resigned or announced his resignation during 1995. The second selection criteria was based on Stock Market and investment under-performance, using total shareholder returns (TSR) in the four quarters preceding resignation announcement. The third stage involved the exclusion of companies with market capitalisations of £10 million or less one year before the resignation announcement. This produced a sample of 47 companies, which were analysed in terms of the manner of the CEOs resignation. In 22 cases the resignation was immediate and the CEOs employment with the company effectively terminated on the same day. Similar events took place at two other major UK listed companies in 1995 (Cable & Wireless and Calor) and these were added to the group of companies subject to more detailed analysis as 'case history' companies.

Using information from press accounts of events surrounding these resignations, evidence has been sought for shareholder intervention in the resignation of the 24 case history companies. Each company has been given an 'influence rating' on a three point scale. In 18 companies there was either circumstantial (a rating of one) or strong evidence (two) of shareholder influence either at the time of the CEOs resignation or in the preceding period. These assessments were also based on information about the ownership of each company. In the other six companies there was either no evidence of shareholder involvement or insufficient information available about the ownership of the company to make an informed judgement on the basis of press comment alone. These six companies were given ratings of '0' and 'II' respectively.

This research suggests that major and majority shareholders operating in the same industry as the UK listed company (in the cases of Calor, News International and Electronics Boutique, CMA); fund managers with holdings of around 20% or more, and coalitions of two to six fund managers with combined holdings of between 12% (Cable & Wireless) and 55% (Hornby) are in a position to exercise influence over the companies

in which they invest and specifically to use this influence to cause the resignation and subsequent replacement of incumbent CEO.

It is also noticeable that the fund managers which appear to have taken the largest role in these events are also those ranked in the Top 10 fund managers and whose portfolios were analysed in Chapter 3.

TableVII.1 Fund managers influencing resignation of CEO.

Fund manager	Companies	
	FTSE 100 / Mid-250	Smaller / Fledgling
PDFM	Lloyds Chemists	Hickson International Mowlem WEW Raine United Carriers
MAM	Cable & Wireless Kingfisher	Kenwood McDonnell Inf. Systems OMI International
Prudential	Cable & Wireless Kingfisher Lloyds Chemists	McDonnell Inf. Systems
Gartmore	Lloyds Chemists	WEW Biotrace Raine
M&G	Powell Dyffryn	National Home Loans Hornby JLI
Schroder	Cable & Wireless Bradford Property Trust	Kenwood WEW
Fidelity		McDonnell Inf. Systems National Home Loans WEW
Baring	Lloyds Chemists	Biotrace
L&G		Hornby MR Data
Baillie Gifford		Kenwood
Fleming		Hornby
Hermes / Postel		Hornby
Morgan Stanley		Hornby
Scottish Amicable		Raine
Scottish Widows		Kenwood
Standard Life	Cable & Wireless	

Other findings from this Chapter are reviewed in Chapter 10 in the context of the research into the ownership of UK companies (Chapter 3) and the 120 interviews carried out with fund managers, companies and others in 1993/4.

Chapter 10: Conclusions

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This thesis describes my investigation of the relationships between institutional investors and the listed companies in which they own shares.

I Research Summary

My research into these relationships has been carried out in three ways. Firstly, by analysing the ownership of 297 listed companies. In January 1996, when the raw data was collected from company share registers by Citywatch, these companies accounted for approximately 83% of Stock Market value. The same database was used to analyse the UK equity portfolios of the UK's 50 largest fund managers. These accounted for close to 50% Stock Market value in December 1995.

Of the Top 20 fund managers, which accounted for close to one-third of Stock Market value in December 1995, 13 were also interviewed during the second part of my research. This involved a total of 120 in-depth interviews with fund managers, listed companies and other organisations closely involved in the management and regulation of company shareholder relationships. Approximately one-third of the interviews were held with each group.

These interviews strongly indicated that in extreme cases of management or financial under-performance, fund managers may seek the removal of the CEO. This would not be a pre-emptive action, but would normally be preceded by substantial discussions with the company and in the context of a relationship which may have been established over a number of years.

Meetings with the company would normally involve the CEO and Finance Director and sometimes the Chairman, depending on whether he was executive or non-executive and whether the roles of Chairman and CEO were a joint position.

In Chapter 8 (Composite Case History) I have described how a deteriorating financial and management position at a company leads to the resignation of the CEO and also, subsequently, the Chairman.

The third stage of my research involved identifying companies in which there was evidence of institutional involvement in the resignation of the CEO. One hundred and fifty companies announced the resignations of their CEOs in 1995 (approximately 7.5% of listed companies). Of these, 69 companies had below average (-15%) shareholder returns (TSR) in the four calendar quarters preceding the resignation announcement. Of these, around one-third (22) were particularly small companies and were not researched further, in order to maintain a balance of companies in terms of their membership of the FTSE 100, FTSE Mid-250, SmallerCap and Fledgling indices.

Of the announcements made by the 47 remaining companies, 25 were advance warnings of their CEOs' planned resignation. To the 22 other Cable & Wireless and Calor were added, as they were the only other companies in the FTSE 350 series which had announced the immediate resignation of their CEOs in 1995.

In 18 companies out of the final group of 24, there was either direct or circumstantial evidence of shareholder pressure being brought to bear on the companies, board or the CEO or a combination of these. Out of the 69 companies with below average performance the proportion is 26%.

In four companies the pressure came from major or majority shareholders. In a further four companies the source of influence was almost certainly the fund manager with the largest shareholding. In the other ten cases, it is assessed that some form of coalition may have operated, involving between two and five of the companies' largest fund manager shareholders.

The relationships between these fund managers and the ways they may have exerted influence on the companies will have been company-specific (fund managers take pains to explain that they do not work to a set formula), but there are also certain common features. One of these is that, at least in some cases, the largest shareholder will have acted as the lead shareholder and acquired the extended ownership role described earlier.

The analysis of fund managers' equity portfolios described in Chapter 3 shows that there are substantial differences which go beyond their share of the Stock Market. Although this leads directly to estimates of portfolio weightings with respect to the market as a whole, other measures help distinguish the investment strategies of the major fund managers - the Top 20 being selected for more detailed analysis.

Indicators of portfolio concentration include the Lorenz curve, the Gini Coefficient of inequality and the Herfindal Index. However one looks at this data, it is clear that around ten to fifteen fund managers dominate the ownership of UK listed companies.

The number of times these fund managers appear amongst companies' Top 5 shareholders, and the appearance of the same fund managers as the largest shareholders in the case history companies analysed in Chapter 9, suggests that there is a close relationship between portfolio size, investment strategy and the active management of company relationships.

Absent private interests, those of shareholders should coincide, but particular issues arise when considering the position of substantial non-financial and board shareholders. However, these do not appear to greatly affect the holdings of fund managers once account is taken of the reduction in the 'free float' of shares available to financial investors. Further research in this area could prove fruitful and also test whether substantial holdings by fund manager shareholders (particularly MAM, PDFM and M&G) are similarly neutral to other investors, or whether their active influencing of companies after periods of under-performance in turn affects the investment strategies of other fund managers.

In all 14 companies where there was evidence of shareholder intervention and the companies remained listed on the Stock Exchange, there was an improvement in TSR following the resignation announcement. A similar trend is found when pre-and post resignation announcement abnormal returns are analysed. Although share prices improved by around 10% between June 1995 and June 1996 (for example), in 12 companies the improvement in TSR appears to have substantially exceeded the general market improvement.

However, it should be noted that for many shareholders in these companies, this improvement will only have partly compensated (but to varying degrees) for the decline in share values and negative TSRs in the preceding year. An analysis of the pre-and post-CEO resignation announcement ownership of the case history companies indicates little change and certainly no systematic trend.

Another issue concerns the resignation process. The companies used in the case histories were specifically selected because the CEOs involved left the company the day that the resignation was announced. In many cases the wording of press releases and accounts given in the press indicate a perfunctory end to their employment. This suggests a dramatic turn of events and the building up of pressures within the board and companies, as well as between the CEOs, boards, companies and institutional investors.

It is likely that in some cases press comment plays a role in undermining the position of CEOs prior to the resignation announcement. This may not have been discouraged by the fund managers involved, although fund managers normally have a strong preference for working privately with companies and boards 'behind closed doors'. Accounts given in interviews with fund managers suggest that at least part of the resignation process is occupied with CEOs negotiating the best possible financial and legal terms for their departure. In these circumstances, the actual form of the resignation ('did he jump or was he pushed?') is less important than the process which leads to the loss of confidence and resignation, the identification of the key actors and how the company is subsequently managed.

II Overview

Institutional shareholders dominate the ownership of companies listed on the UK Stock Market and on average account for 80% of Stock Market value. Around 50 institutional investors account for 50% of Stock Market value, but just ten account for a quarter of Stock Market value. Models of investor behaviour need to take into account both this degree of concentration and the individual approach to both investment and ownership taken by the major institutional investors. They do not form a monolithic or homogeneous group and in particular they adopt different approaches to companies held in their portfolios which fail to meet expectations or which under-perform.

There is strong evidence that on occasions institutional investors play a significant role in determining board composition and other important issues. In the early 1990s, when the 120 interviews were carried out, some institutional investors reported that they used their pre-emption rights to block expansion plans that they considered inappropriate. By denying these companies additional equity capital, they exercised a degree of strategic control. Those involved almost certainly did so in the context of broader discussions with those companies about their financial performance, management capabilities and strategic plans.

However, this particular form of influence can only take place when companies are seeking additional capital. The case histories analysed in Chapter 9, provide evidence that institutional investors also play an active role in influencing CEO resignations in under-performing companies.

From these public accounts and evidence gathered in interviews, it is evident that only a small number of institutional shareholders are typically involved in putting pressure on the board and the CEO and it is often the largest shareholder which takes the lead role in these discussions. The analysis of company ownership shows that the largest institutional investor typically holds 7-8% of a company, and the Top 5 around a quarter of a typical company's shares.

It is clear that the Top 5 shareholders in many companies hold sufficient shares to be considered a 'minority coalition', particularly if they act together in a formal way. In practice, companies' major institutional shareholders report that they seldom create formal coalitions and prefer to work in loose association. This suggests that in many cases the term shareholder coalition should be used in the sense of a commonality of interests, informal working relationships and tacit understandings, rather than a formal and organised network of major institutional investors.

When confronted with an under-performing company, the largest shareholder normally takes the lead role and I have described this as being a form of extended ownership. This provides other shareholders with free-rider benefits and also creates a focus for the relationship between a company, its board and their advisors with the company's shareholders. Extended ownership does not preclude contact between the company and other major shareholders, but instead represents the apex of company investor relationships. It is particularly important when detailed and otherwise confidential discussions are held about, for example, board composition and the future of the CEO.

Once these have been concluded, other major shareholders may be consulted or their support sought, but in essence these subsequent discussions will be used to ratify the outcome of meetings and negotiations with the lead shareholder. Depending on the circumstances, the lead shareholder may well have had informal discussions with other major shareholders to ensure that the position being taken continues to benefit from their support. In this sense, the description of major shareholders forming a coalition is valuable.

These issues are important because institutional investors now dominate the ownership of listed companies, reflecting a long-term trend in the UK and also in the US (Useem 1993). Useem also describes how pressure from institutional investors in the US has focused the attention of boards on the creation of shareholder value and how this has in turn led to substantial changes in the management of US corporations.

These outcomes are partly as result of market-wide changes in the role of institutional investors, the management of company shareholder relationships and also more specific

instances where shareholder activists and institutional investors (particularly public pension funds) have targeted individual companies. Similar trends in ownership to those described by Useem in the US are evident in the UK, although the UK has historically lacked the degree of shareholder activism found in the US.

Descriptions of shareholder intervention in the US also highlight the role of banks as being particularly important, the outcome of a corporate crises and rescues depending to a significant degree on the balance of power between a company's banks and shareholders (Mintz & Schwatz 1985, Glasberg 1989). This did not emerge as a major issue in either the 120 interviews or the 24 case histories described in this study.

A further issue to consider is at what point institutional investors seek to influence companies and boards and take an active role as part owners of companies. Although Mintz & Schwartz (1985) consider newspaper reports to be a valuable source of accurate information (and more so than might be expected) about corporate crises and interventions by banks and shareholders, in the UK these appear to report shareholder intervention at a relatively late stage in the process. Informal contact, behind closed doors and without the complications that press comment can bring to sensitive negotiations, is the preferred approach of UK institutional investors, until such time that they believe off the record press briefings will bring benefit to their interests.

It can therefore be argued that corporate crises involving intervention by institutional investors are constructed by them in two senses. The first is the point at which private pressure is brought to bear on the company, through discussions with the CEO, Chairman and possibly other directors as well. If, over the course of time, these fail to produce a satisfactory result and the company's performance and other factors continue to cause concern, knowledge of the role taken by the company's largest shareholders may enter the public domain through targeted press briefings (of the kind which will have given rise to many of the newspaper stories set out in Appendix K and summarised in Chapter 9). Glasberg (1989) is correct to comment that financial institutions 'dominate the process of defining crises' (p.5) but in the UK context it is important to realise that the crisis is part of a continuing process which involves both public and private positions being taken by companies' largest shareholders over a period of time.

I believe that my own study into the relationship between institutional investors and listed companies is important because it describes and analyses how these investors intervene in companies' affairs and the factors which influence the role they take. This provides a framework with which to analyse company shareholder relationships, the nature of shareholder coalitions and the coordination of shareholders' interests when they believe that this is required.

END

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Appendix A

Appendix A.1: Top 50 Fund Managers' UK Equity Holdings 1989 - 1992 (£ billion)

	End 1989		End 1990		End 1991		End 1992	
	Fund manager	UK Equities	Fund manager	UK Equities	Fund manager	UK Equities	Fund manager	UK Equities
1	Prudential	17.6	MAM	21.9	Prudential	21.0	MAM	24.5
2	MAM	16.0	Prudential	18.1	MAM	20.0	Prudential	21.0
3	Schroder	12.0	Schroder	11.4	BZW	13.3	BZW	13.3
4	Postel	11.2	Abu Dhabi	10.0	Standard Life	13.0	Standard Life	13.0
5	Abu Dhabi	10.0	BZW	10.0	Postel	10.2	M&G	12.5
6	BZW	10.0	KIO	10.0	Abu Dhabi	10.0	Postel	10.2
7	KIO	10.0	SAMA	10.0	KIO	10.0	Abu Dhabi	10.0
8	Standard Life	10.0	Standard Life	10.0	SAMA	10.0	KIO	10.0
9	Fleming	8.4	Fleming	8.0	Schroder	10.0	SAMA	10.0
10	Norwich Union	8.0	PDFM	8.0	PDFM	9.3	PDFM	9.3
11	PDFM	8.0	Postel	8.0	Legal & General	9.2	Legal & General	9.2
12	Morgan Grenfell	6.6	AMP	7.0	Fleming	8.9	Schroder	9.1
13	County NatWest	6.0	M&G	6.4	Scottish Widows	7.4	Fleming	8.9
14	Legal & General	5.7	County NatWest	6.0	County NatWest	7.1	Jardine Fleming	8.3
15	M&G	5.3	Norwich Union	5.7	AMP	7.0	Baillie Gifford	8.0
16	CIN	5.0	Legal & General	5.7	Norwich Union	7.0	Scottish Widows	7.4
17	MIM	5.0	CIN	5.0	Allied Dunbar	6.4	Nat West	7.1
18	Pearl	5.0	GRE	5.0	Eagle Star	6.4	AMP	7.0
19	Kleinwort Benson	5.0	MIM	5.0	Invesco	6.3	Norwich Union	7.0
20	Scottish Widows	4.8	Scottish Widows	4.8	M&G	6.2	Allied Dunbar	6.4
21	Allied Dunbar	4.5	Kleinwort Benson	4.5	Gartmore	5.9	Eagle Star	6.4

	End 1989		End 1990		End 1991		End 1992	
	Fund manager	**UK Equities**	**Fund manager**	**UK Equities**	**Fund manager**	**UK Equities**	**Fund manager**	**UK Equities**
22	Sun Life IM	4.5	Allied Dunbar	4.0	Kleinwort Benson	5.5	Invesco	6.3
23	Henderson	4.3	Friends Provident	4.0	ESN	5.5	Gartmore	5.9
24	GRE	4.0	Sun Alliance	4.0	Lloyds	5.1	Kleinwort Benson	5.5
25	Scottish Amicable	3.8	ESN	3.9	CIN	5.0	ESN	5.5
26	Gartmore	3.8	Gartmore	3.8	Scottish Amicable	4.8	Lloyds	5.1
27	Co-op	3.6	Co-op	3.7	Henderson	4.8	CIN	5.0
28	Royal Insurance	3.6	NM Rothschild	3.6	Baring	4.7	Scottish Amicable	4.8
29	NM Rothschild	3.6	Henderson	3.5	Sun Alliance	4.0	Henderson	4.8
30	Eagle Star	3.2	Scottish Amicable	3.5	Co-op	3.8	Baring	4.7
31	Friends Provident	3.2	Midland Montagu	3.4	Cazenove	3.8	Dunedin	4.0
32	Lloyds	3.2	Baring	3.1	Royal Insurance	3.6	Sun Alliance	4.0
33	Baring	3.1	Lloyds	3.1	Friends Provident	3.6	Co-op	3.8
34	ESN	3.0	Royal Insurance	3.1	Morgan Grenfell	3.5	Cazenove	3.8
35	Sun Alliance	3.0	Cazenove	3.1	Sun Life IM	3.5	James Capel	3.7
36	British Gas	2.9	Morgan Grenfell	3.0	British Gas PF	3.4	Royal Insurance	3.6
37	Clerical Medical	2.5	British Gas PF	2.9	GRE	3.3	Friends Provident	3.6
38	Commercial Union	2.5	ICI PF	2.7	ICI PF	3.1	Morgan Grenfell	3.5
39	Provident Mutual	2.5	Eagle Star	2.7	Provident Mutual	2.9	Sun Life IM	3.5
40	Hambros	2.4	TSB	2.6	BP PF	2.8	British Gas PF	3.4
41	Hill Samuel	2.4	Commercial Union	2.6	Equitable Life	2.7	GRE	3.3
42	Britannic	2.2	Clerical Medical	2.5	Midland Montagu	2.7	ICI PF	3.3
43	Scottish Equitable	2.2	Provident Mutual	2.5	Commercial Union	2.7	AXA Equity & Law	3.1
44	Midland Montagu	2.1	Sun Life IM	2.5	Capel-Cure Myers	2.7	Provident Mutual	2.9
45	Dunedin	2.0	Hill Samuel	2.4	USS	2.6	BP PF	2.8
46	General Accident	2.0	Laing & Cruickshank	2.4	Baillie Gifford	2.5	Equitable Life	2.8

	End 1989		End 1990		End 1991		End 1992	
	Fund manager	**UK Equities**	**Fund manager**	**UK Equities**	**Fund manager**	**UK Equities**	**Fund manager**	**UK Equities**
47	ICI	2.0	Equity & Law	2.2	Clerical Medical	2.5	Commercial Union	2.7
48	TSB	2.0	Capel-Cure Myers	2.1	British Steel PF	2.5	USS	2.6
49	Capital House	1.8	Hambros	2.1	TSB	2.5	British Steel PF	2.5
50	Cazenove	1.5	Scottish Equitable	2.1	Hill Samuel	2.4	TSB	2.5

Appendix A.2: Top 50 Fund Managers' UK Equity Holdings 1992 - 1995 (£ billion)

	End 1993		End 1994		End 1995	
	Fund manager	**UK Equities**	**Fund manager**	**UK Equities**	**Fund manager**	**UK Equities**
1	MAM	31.7	MAM	38.0	MAM	38.0
2	Prudential	21.0	Prudential	25.8	Prudential	29.3
3	Schroder	19.5	Schroder	18.5	Schroder	22.6
4	BZW	19.2	BZW	17.4	PDFM	20.7
5	Standard Life	17.8	Standard Life	16.5	Standard Life	17.0
6	PDFM	16.5	PDFM	16.0	BZW	15.2
7	Threadneedle	13.9	Postel	13.6	Legal & General	15.2
8	Gartmore	13.0	Legal & General	12.0	Hermes	13.2
9	Legal & General	13.0	Gartmore	12.0	Gartmore	12.5
10	Postel	12.9	Saudi Arabia	10.0	Threadneedle	11.0
11	M&G	12.5	Abu Dhabi	10.0	Norwich Union	10.4
12	Norwich Union	10.6	Singapore	10.0	Scottish Widows	10.2
13	Abu Dhabi	10.0	KIO	10.0	Saudi Arabia	10.0
14	KIO	10.0	Threadneedle	9.4	Abu Dhabi	10.0

15	SAMA	10.0	Norwich Union	9.2	Singapore	10.0
16	Fleming	9.8	CIN	9.0	KIO	10.0
17	Scottish Widows	9.1	Fleming	8.6	Fleming	10.0
18	CIN	9.0	Scottish Widows	8.6	M&G	9.8
19	Jardine Fleming	8.3	Jardine Fleming	8.3	AMP	9.3
20	Henderson	8.0	AMP	8.2	CIN	9.0
21	Hill Samuel	7.9	M&G	8.0	ESN	7.5
22	Sun Life IM	7.2	Sun Life IM	7.2	Morgan Grenfell	7.4
23	NatWest	6.7	ESN	7.2	Sun Life IM	7.3
24	Invesco	6.3	Co-op	7.0	NatWest	7.1
25	AMP	6.1	Baring	6.5	Co-op	7.0
26	Baring	6.1	NatWest	6.4	Baring	6.5
27	Kleinwort Benson	6	Hill Samuel	6.4	Hill Samuel	6.4
28	Lloyds	5.6	Morgan Grenfell	6.0	Clerical Medical	6.0
29	ESN	5.5	Lloyds	6.0	GRE	5.9
30	Sun Alliance	5.1	GRE	5.9	Friends Provident	5.9
31	Scottish Amicable	5.0	Henderson	5.9	Royal Insurance	5.8
32	Baillie Gifford	4.6	Sun Alliance	5.5	USS	5.8
33	Dunedin	4.0	Kleinwort Benson	5.4	Sun Alliance	5.5
34	Co-op	3.8	Newton	5.2	Scottish Amicable	5.5
35	Cazenove	3.8	Clerical Medical	5.0	Baillie Gifford	5.5
36	HSBC	3.7	Scottish Amicable	5.0	Cazenove	5.4
37	USS	3.7	Baillie Gifford	4.9	Henderson	5.4
38	Royal Insurance	3.6	British Gas PF	4.5	Lloyds	5.2
39	ICI PF	3.6	Royal Insurance	4.4	Sun Life IM	5.0
40	Friends Provident	3.6	HSBC	4.2	British Gas PF	4.9
41	Morgan Grenfell	3.5	USS	3.7	HSBC	4.8
42	British Gas PF	3.4	General Accident	3.6	Newton	4.5

43	GRE	3.3	Friends Provident	3.6	Tilney	4.4
44	Clerical Medical	3.3	Provident Mutual	3.5	Jupiter	4.2
45	Shell PF	3	Shell PF	3.4	General Accident	3.6
46	Tilney	3	National Provident	3.3	Shell PF	3.6
47	National Provident	2.9	BP PF	3.2	Fidelity	3.6
48	Provident Mutual	2.9	Tilney	3.2	Provident Mutual	3.5
49	BP PF	2.8	Jupiter	3.0	AXA	3.5
50	Equitable Life	2.8	AXA	3.0	BP PF	3.2

Appendix B: Top 5 financial shareholders in Top 300 UK companies

	Company	Index	Largest	Second	Third	Fourth	Fifth
1	3i	FTSE 100	NatWest PB	Gartmore	MAM	Threadneedle	Prudential
2	Abbey National	FTSE 100	MAM	Legal & General	Morgan Grenfell	Hermes	BZW
3	ABF	FTSE 100	PDFM	Standard Life	Hermes	BZW	Legal & General
4	Aegis	FTSE 250	Warburg Pincus	PDFM	Fidelity	BZW	Pictet Asset Mgmt
5	Airtours	FTSE 250	Schroder	General Electric IC	Prudential	National Provident	PDFM
6	Albert Fisher	FTSE 250	PDFM	Lloyds Abbey Life	MAM	BZW	Scottish Amicable
7	Allied Colloids	FTSE 250	Schroder	Gartmore	Prudential	Foreign & Colonial	Baillie Gifford
8	Allied Domecq	FTSE 100	PDFM	MAM	Schroder	Prudential	M&G
9	Amersham	FTSE 250	MAM	Prudential	Gartmore	Threadneedle	Abu Dhabi
10	Anglian Water	FTSE 250	Prudential	Schroder	M&G	Fleming	Threadneedle
11	Argos	FTSE 250	Schroder	MAM	Prudential	Baillie Gifford	Gartmore
12	Argyll Group	FTSE 100	PDFM	Scottish Widows	BZW	Standard Life	Prudential
13	Arjo Wiggins	FTSE 100	MAM	Baring	Schroder	Standard Life	Morgan Grenfell
14	ASDA	FTSE 100	Schroder	MAM	PDFM	Fleming	Standard Life
15	ABPs	FTSE 250	Schroder	Prudential	Morgan Grenfell	Standard Life	MAM
16	BAA	FTSE 100	MAM	Prudential	Gartmore	Scottish Widows	HM Treasury
17	Babcock	FTSE 250	PDFM	Fleming	M&G	Morgan Grenfell	Sun Life IM
18	Baird William	FTSE 250	PDFM	Threadneedle	M&G	Prudential	Clerical Medical
19	Bank of Scotland	FTSE 100	Standard Life	Britannic	Norwich Union	BZW	Hermes
20	Barclays	FTSE 100	MAM	Prudential	Schroder	BZW	Standard Life
21	Barratt Developments	FTSE 250	Schroder	Provident Mutual	HSBC	Morgan Grenfell	M&G
22	Bass	FTSE 100	Prudential	Standard Life	PDFM	Threadneedle	BZW
23	BAT	FTSE 100	MAM	Prudential	PDFM	Schroder	Standard Life
24	BBA	FTSE 250	MAM	Gartmore	Threadneedle	Standard Life	Fleming
25	Beazer Homes	FTSE 250	Prudential	Threadneedle	Fleming	Sun Life Canada	Morgan Grenfell

	Company	Index	Largest	Second	Third	Fourth	Fifth
26	Berisford	FTSE 250	Fleming	MAM	M&G	Scottish Amicable	Sun Life Canada
27	Berkeley	FTSE 250	HSBC	Legal & General	GMO Woolley	Hill Samuel	Royal Ins
28	BET	FTSE 250	M&G	Threadneedle	Fidelity	Prudential	Sun Life IM
29	BICC	FTSE 250	M&G	Capital Group	AMP	Britannic Assurance	BZW
30	Bilton	FTSE 250	Schroder	CIN	Clerical Medical	MAM	Fleming
31	Blue Circle	FTSE 100	MAM	Schroder	M&G	Morgan Grenfell	Prudential
32	BOC Group	FTSE 100	PDFM	Scottish Widows	Schroder	Prudential	Standard Life
33	Body Shop	FTSE 250	Prudential	Fleming	Hermes	BZW	Friends Provident
34	Booker	FTSE 250	M&G	PDFM	MAM	Threadneedle	Baring
35	Boots	FTSE 100	Prudential	MAM	AMP	Standard Life	Schroder
36	Bowthorpe	FTSE 250	Prudential	Threadneedle	Gartmore	Schroder	Sun Alliance
37	BP	FTSE 100	KIO	MAM	Prudential	Standard Life	Schroder
38	BPB	FTSE 250	MAM	Gartmore	Prudential	Scottish Widows	Clerical Medical
39	Bradford Property	FTSE 250	Schroder	Gartmore	British Airways PT	Singer & Friedlander	Ivory & Sime
40	Britannic Assurance	FTSE 250	Refuge Group	Prudential	Wesleyan Ass Soc	AMP	Legal & General
41	British Aerospace	FTSE 100	Schroder	MAM	Standard Life	Threadneedle	Scottish Widows
42	British Airways	FTSE 100	MAM	Schroder	Standard Life	Universities	Prudential
43	British Biotech	FTSE 250	Morgan Grenfell	MAM	National Provident	GRE	Scottish Widows
44	British Gas	FTSE 100	Prudential	PDFM	Schroder	MAM	BZW
45	British Land	FTSE 250	Schroder	MAM	Fleming	Morgan Grenfell	Scottish Widows
46	British Steel	FTSE 100	MAM	Schroder	M&G	Standard Life	Legal & General
47	British Telecom	FTSE 100	Prudential	Schroder	Standard Life	BZW	Legal & General
48	British Vita	FTSE 250	Fleming	Sun Life Canada	Prudential	Gartmore	MAM
49	Brixton Estates	FTSE 250	Clerical Medical	Royal Ins	Schroder	Standard Life	Sun Life Canada
50	Brown N Group	FTSE 250	Gartmore	Prudential	BZW	Hermes	NatWest
51	Bryant	FTSE 250	Schroder	Standard Life	Dunedin	Legal & General	Prudential
52	BSkyB	FTSE 100	L&G	ESN	Hermes	BZW	Schroder

	Company	Index	Largest	Second	Third	Fourth	Fifth
53	BTP	FTSE 250	MAM	British Airways PT	Prolific	M&G	Cazenove
54	BTR	FTSE 100	Prudential	MAM	Standard Life	PDFM	Legal & General
55	Bunzl	FTSE 250	MAM	Threadneedle	M&G	Prudential	Hill Samuel
56	Burford	FTSE 250	Schroder	Singer & Friedlander	Scottish Widows	Prudential	MAM
57	Burmah Castrol	FTSE 100	MAM	Scottish Widows	M&G	Threadneedle	HSBC
58	Burton	FTSE 250	MAM	PDFM	Standard Life	M&G	Schroder
59	Cable & Wireless	FTSE 100	Schroder	Prudential	MAM	Standard Life	BZW
60	Cadbury Schweppes	FTSE 100	Schroder	Prudential	Standard Life	Norwich Union	Legal & General
61	Caledonia Investments	FTSE 250	MAM	Equitable	Prudential	BZW	Royal Ins
62	Calor Group	FTSE 250	M&G	Sun Life IM	Hermes	BZW	PDFM
63	CAMAS	FTSE 250	M&G	Schroder	Prudential	Royal Ins	Sun Life Canada
64	Capital Radio	FTSE 250	Prudential	MAM	Fidelity	Baillie Gifford	Gartmore
65	Caradon	FTSE 250	Prudential	Hermes	PDFM	Fleming	Clerical Medical
66	Carlton	FTSE 100	MAM	BZW	Standard Life	Scottish Widows	Capital Group
67	Charter	FTSE 250	M&G	Schroder	Baring	BZW	HSBC
68	Chelsfield	FTSE 250	Provident Mutual	PDFM	Prudential	Gartmore	Schroder
69	Christian Salvesen	FTSE 250	Morgan Stanley	PDFM	Scottish Widows	Prudential	BZW
70	Christies International	FTSE 250	Merrill Lynch	MAM	Schroder	Fleming	Credit Suisse
71	Chubb Security	FTSE 250	Schroder	Threadneedle	GRE	Provident Mutual	BZW
72	Coats Viyella	FTSE 250	M&G	Threadneedle	Baring	Schroder	Prudential
73	Cobham	FTSE 250	Royal Ins	Sun Life IM	Scottish Widows	M&G	British Airways PT
74	Commercial Union	FTSE 100	MAM	M&G	Prudential	Gartmore	Standard Life
75	Compass	FTSE 250	MAM	Threadneedle	Prudential	Newton	HSBC
76	Cookson Group	FTSE 100	MAM	M&G	Prudential	Schroder	Gartmore
77	Cordiant	FTSE 250	PDFM	M&G	General Electric IC	Provident Mutual	GMO Wooley
78	Courtaulds	FTSE 100	Schroder	Threadneedle	MAM	Prudential	BZW
79	Courtaulds Textiles	FTSE 250	Schroder	Morgan Grenfell	Gartmore	Clerical Medical	CIN

	Company	Index	Largest	Second	Third	Fourth	Fifth
80	Cowie	FTSE 250	Prudential	Friends Provident	MAM	Prolific	Gartmore
81	Cray Electronics	FTSE 250	PDFM	Prudential	Newton	Morgan Grenfell	MAM
82	Croda International	FTSE 250	Fleming	Threadneedle	Prudential	Britannic Assurance	HSBC
83	Daily Mail & General	FTSE 250	MAM	Schroder	Legal & General	BZW	Morgan Grenfell
84	Dalgety	FTSE 250	PDFM	M&G	MAM	BZW	AMP
85	Danka	FTSE 250	Prudential	Co-operative Ins	Hermes	Legal & General	BZW
86	David S Smith	FTSE 250	Prudential	Schroder	Fleming	MAM	HSBC
87	Dawson	FTSE 250	PDFM	Schroder	M&G	Royal Ins	Lloyds Abbey Life
88	De La Rue	FTSE 100	Schroder	Prudential	Britannic	MAM	Scottish Widows
89	Delta	FTSE 250	Prudential	Schroder	Sun Life Canada	MAM	Threadneedle
90	Devro	FTSE 250	Prudential	Baillie Gifford	MAM	Standard Life	BZW
91	DFS Furniture	FTSE 250	Prudential	Baillie Gifford	Commercial Union	Legal & General	Standard Life
92	Diploma	FTSE 250	Gartmore	Threadneedle	Prudential	Baillie Gifford	Norwich Union
93	Dixons	FTSE 250	Gartmore	MAM	Prudential	Standard Life	Baring
94	East Midlands Elec.	FTSE 250	MAM	Prudential	Newton	HSBC	Norwich Union
95	ED&F Man	FTSE 250	BZW	Prudential	Hermes	Baillie Gifford	Legal & General
96	Electrocomponents	FTSE 250	Prudential	Schroder	Threadneedle	Co-operative Ins	Standard Life
97	EMAP	FTSE 250	Gartmore	MAM	Schroder	CIN	Standard Life
98	English China Clays	FTSE 250	Schroder	M&G	Capital Group	Prudential	Gartmore
99	Enterprise Oil	FTSE 100	PDFM	Schroder	Fleming	Norwich Union	Prudential
100	Eurotherm	FTSE 250	MAM	Schroder	Prudential	Threadneedle	Baillie Gifford
101	Eurotunnel	FTSE 250	Foreign & Colonial	Caisse des Depots	BZW	Legal & General	Hermes
102	Fairey	FTSE 250	MAM	Prudential	Hill Samuel	Schroder	General Accident
103	Farnell Electronics	FTSE 250	MAM	Prudential	Fleming	Norwich Union	Scottish Widows
104	Fine Art Dev.	FTSE 250	MAM	Gartmore	Prudential	Legal & General	Sun Alliance
105	First Leisure	FTSE 250	Threadneedle	Schroder	Legal & General	Prudential	Royal Ins
106	FKI	FTSE 250	MAM	Gartmore	Baring	Morgan Grenfell	Fleming

	Company	Index	Largest	Second	Third	Fourth	Fifth
107	Forte	FTSE 100	MAM	Capital Group	Prudential	Baring IM	Gartmore
108	Gartmore	FTSE 250	Standard Life	Pictet Asset Mgmt	Hermes	MAM	Legal & General
109	GEC	FTSE 100	Prudential	PDFM	Standard Life	BZW	Norwich Union
110	General Accident	FTSE 100	Schroder	Threadneedle	MAM	Gartmore	M&G
111	General Cable	FTSE 250	Prudential	Standard Life	Legal & General	Lloyds Abbey Life	Provident Mutual
112	GKN	FTSE 100	Schroder	Scottish Widows	Prudential	MAM	M&G
113	Glaxo Wellcome	FTSE 100	Prudential	Schroder	Standard Life	MAM	Legal & General
114	Glynwed	FTSE 250	Britannic Assurance	Prudential	Sun Life Canada	Baring	Legal & General
115	Granada	FTSE 100	MAM	Schroder	Prudential	Standard Life	Scottish Widows
116	Grand Metropolitan	FTSE 100	MAM	Prudential	Norwich Union	PDFM	BZW
117	GRE	FTSE 100	Schroder	MAM	M&G	Fleming	Prudential
118	Great Portland	FTSE 250	MAM	PDFM	M&G	Prudential	Friends Provident
119	Greenalls	FTSE 250	PDFM	Schroder	Fleming	Legal & General	Britannic Assurance
120	Guinness	FTSE 100	MAM	Prudential	Standard Life	Legal & General	Hermes
121	GUS	FTSE 100	Barclays PB	MAM	Standard Life	Legal & General	Prudential
122	Halma	FTSE 250	Gartmore	MAM	Abu Dhabi	Friends Provident	Legal & General
123	Hambros	FTSE 250	Hambros	GRE	Norwich Union	Prudential	Dean Witter Reynolds
124	Hammerson	FTSE 250	Standard Life	PDFM	Hermes	ABN AMRO	Prudential
125	Hanson	FTSE 100	Prudential	Standard Life	Legal & General	BZW	Hermes
126	Harrisons & Crosfield	FTSE 250	M&G	Schroder	Fleming	Morgan Grenfell	AMP
127	Hays	FTSE 250	MAM	Gartmore	Standard Life	Schroder	Clerical Medical
128	Hazlewood Foods	FTSE 250	Baring	Prudential	M&G	Fleming	Fidelity
129	Hepworth	FTSE 250	M&G	Sun Life Canada	Prudential	Schroder	Britannic Assurance
130	Hewden Stuart	FTSE 250	MAM	Morgan Grenfell	British Airways PT	Fleming	Co-operative Ins
131	Hickson	FTSE 250	PDFM	AMP	M&G	Britannic Assurance	Prudential
132	Highland Distilleries	FTSE 250	MAM	Royal Ins	Baillie Gifford	Britannic Assurance	Prudential
133	Hillsdown Holdings	FTSE 250	Templeton	Prudential	M&G	PDFM	Hermes

	Company	Index	Largest	Second	Third	Fourth	Fifth
134	House of Fraser	FTSE 250	PDFM	Schroder	CIN	Clerical Medical	Morgan Grenfell
135	Howden	FTSE 250	M&G	BZW	Clerical Medical	Lloyds Abbey Life	MAM
136	HSBC	FTSE 100	Prudential	Standard Life	Legal & General	BZW	Schroder
137	Iceland	FTSE 250	PDFM	Fleming	Rothschild	Clerical Medical	Sun Life Canada
138	ICI	FTSE 100	MAM	Schroder	Standard Life	Prudential	BZW
139	IMI	FTSE 250	Prudential	Schroder	Threadneedle	MAM	AMP
140	Inchcape	FTSE 100	Gartmore	Prudential	Fleming	Baring IM	Legal & General
141	INVESCO	FTSE 250	INVESCO	Morgan Grenfell	Prudential	GT	BZW
142	Johnson Matthey	FTSE 250	Schroder	Prudential	M&G	Sun Alliance	Co-operative Ins
143	Kalon	FTSE 250	Schroder	Capital Group	Prolific	Commercial Union	BZW
144	Kingfisher	FTSE 100	MAM	Prudential	Threadneedle	BZW	Norwich Union
145	Kwik Fit Holdings	FTSE 250	MAM	Gartmore	Sun Life Canada	Standard Life	Prudential
146	Ladbroke	FTSE 100	MAM	Threadneedle	Scottish Widows	Gartmore	Clerical Medical
147	Laing J	FTSE 250	PDFM	MAM	BZW	Hermes	Equitable
148	Laird	FTSE 250	Schroder	Prudential	MAM	Baring	Morgan Grenfell
149	Land Securities	FTSE 100	MAM	Prudential	Schroder	Scottish Widows	BZW
150	Laporte	FTSE 250	MAM	Prudential	Scottish Widows	BZW	Standard Life
151	LASMO	FTSE 100	PDFM	Fleming	Schroder	Abu Dhabi	Standard Life
152	Legal & General	FTSE 100	Schroder	Prudential	PDFM	Sun Life IM	Standard Life
153	Lex Service	FTSE 250	Prudential	Morgan Grenfell	MAM	HSBC	M&G
154	Lloyds Chemists	FTSE 250	PDFM	Baring	Lloyds Abbey Life	Gartmore	Prudential
155	London & Manchester	FTSE 250	Schroder	Britannic Assurance	Perpetual	M&G	Dunedin
156	London Electricity	FTSE 250	Prudential	Fleming	Standard Life	Gartmore	Baillie Gifford
157	London International	FTSE 250	Threadneedle	Prudential	Scottish Amicable	PDFM	Morgan Grenfell
158	London Merchant	FTSE 250	General Accident	Schroder	MAM	BZW	Hermes
159	Lonrho	FTSE 250	Credit Suisse	Standard Life	Hermes	Lloyds Abbey Life	BZW
160	Low & Bonar	FTSE 250	Prolific	British Airways PT	Sun Life Canada	AMP	Gartmore

	Company	Index	Largest	Second	Third	Fourth	Fifth
161	Lucas	FTSE 250	Lucas PF	Schroder	MAM	M&G	Scottish Widows
162	M&G	FTSE 250	Commercial Union	GT	Standard Life	Schroder	ESN
163	Macallan Glenlivet	FTSE 250	Barclays PB	Prudential	Britannic Assurance	Hambros	Hermes
164	MAI	FTSE 250	MAM	Schroder	HSBC	Scottish Widows	Newton
165	Marks & Spencer	FTSE 100	Prudential	Standard Life	Schroder	BZW	Legal & General
166	Marley	FTSE 250	MAM	PDFM	Fleming	Clerical Medical	Royal London
167	Marston Thompson	FTSE 250	Gartmore	PDFM	Royal Ins	Prudential	Britannic Assurance
168	McKechnie	FTSE 250	MAM	Prudential	BZW	Britannic Assurance	Threadneedle
169	Medeva	FTSE 250	General Electric IC	Templeton	Standard Life	Schroder	Legal & General
170	Menzies J	FTSE 250	D C Thomson	PDFM	Prudential	Legal & General	Hermes
171	MEPC	FTSE 250	Co-operative Ins	PDFM	MAM	BZW	Britannic Assurance
172	Mersey Docks	FTSE 250	Prudential	MAM	M&G	Mersey CC	Schroder
173	Meyer	FTSE 250	PDFM	MAM	Prudential	Sun Life Canada	Standard Life
174	MFI Furniture	FTSE 250	Threadneedle	Gartmore	Schroder	Prudential	Baillie Gifford
175	Midlands Electricity	FTSE 250	Prudential	Legal & General	Threadneedle	BZW	Hermes
176	Mirror Group	FTSE 250	PDFM	Fidelity	Baillie Gifford	MAM	Lloyds
177	ML Laboratories	FTSE 250	Gartmore	BZW	Clerical Medical	Hermes	Legal & General
178	Monument Oil & Gas	FTSE 250	Prudential	MAM	Standard Life	HSBC	Legal & General
179	Morgan Crucible	FTSE 250	Standard Life	Britannic Assurance	Sun Life Canada	Sun Life IM	Schroder
180	Morrison WM	FTSE 250	MAM	Prudential	Co-operative Ins	Royal Ins	Standard Life
181	National Power	FTSE 100	Schroder	BZW	Standard Life	Legal & General	Hermes
182	NatWest	FTSE 100	MAM	Schroder	Prudential	Standard Life	Legal & General
183	Next	FTSE 250	MAM	Morgan Grenfell	HSBC	Fleming	Standard Life
184	NFC	FTSE 250	Prudential	Standard Life	Abu Dhabi	Legal & General	Shell PF
185	Northern Electric	FTSE 250	Prudential	M&G	Sun Life IM	BZW	Fleming
186	Northern Foods	FTSE 250	PDFM	Prudential	BZW	Sun Life Canada	AMP
187	N. Ireland Electricity	FTSE 250	HM Treasury	Equitable	MAM	Principal	Standard Life

	Company	Index	Largest	Second	Third	Fourth	Fifth
215	RTZ	FTSE 100	MAM	Prudential	Schroder	PDFM	Standard Life
216	Rugby	FTSE 250	Gartmore	MAM	Schroder	HSBC	Prudential
217	Sainsbury J	FTSE 100	Prudential	Standard Life	Legal & General	Hermes	MAM
218	Savoy Hotel A	FTSE 250	Barclays PB	NatWest	Commercial Union	Lloyds	Henderson TR
219	Scapa	FTSE 250	Schroder	Sun Life Canada	PDFM	Prudential	Gartmore
220	Schroders	FTSE 100	MAM	Ivory & Sime	Prudential	Legal & General	BZW
221	Scottish & Newcastle	FTSE 100	PDFM	MAM	Prudential	Scottish Widows	Britannic Assurance
222	Scottish Hydro	FTSE 250	AMP	Standard Life	Gartmore	MAM	M&G
223	Scottish Power	FTSE 100	Prudential	Schroder	Norwich Union	PDFM	Legal & General
224	Scottish Television	FTSE 250	Fidelity	Prudential	Schroder	Baillie Gifford	GT
225	Sears	FTSE 100	M&G	Prudential	Baring	Sun Life IM	Sun Life Canada
226	Securicor	FTSE 250	MAM	Commercial Union	British Steel PF	Provident Mutual	Prudential
227	Sedgwick	FTSE 250	PDFM	Schroder	Gartmore	BZW	MAM
228	Sema	FTSE 250	MAM	Abu Dhabi	Shell PF	Commercial Union	Prolific AM
229	Senior Engineering	FTSE 250	M&G	Prudential	Schroder	Morgan Grenfell	Scottish Amicable
230	Severn Trent	FTSE 100	BZW	Sun Life IM	PDFM	HSBC	MAM
231	Shell	FTSE 100	MAM	Prudential	Schroder	BZW	Legal & General
232	Siebe	FTSE 100	Norwich Union	BZW	Standard Life	Baillie Gifford	GRE
233	Slough Estates	FTSE 250	Schroder	MAM	Britannic Assurance	Sun Life IM	PDFM
234	Smith & Nephew	FTSE 100	PDFM	Sun Life IM	MAM	Prudential	Schroder
235	SmithKline Beecham	FTSE 100	Standard Life	Prudential	MAM	Norwich Union	ESN
236	Smiths Industries	FTSE 250	Morgan Grenfell	Prudential	Norwich Union	Standard Life	Britannic Assurance
237	South Wales Elec.	FTSE 250	Norwich Union	Prudential	Standard Life	Clerical Medical	Legal & General
238	South West Water	FTSE 250	PDFM	Norwich Union	Sun Life IM	Prudential	MAM
239	Southern Electric	FTSE 100	Sun Life IM	BZW	Standard Life	Capital Group	MAM
240	Southern Water	FTSE 250	Prudential	MAM	Morgan Grenfell	PDFM	M&G
241	Spirax Sarco	FTSE 250	Schroder	Prudential	Britannic Assurance	Sun Alliance	Prolific AM

	Company	Index	Largest	Second	Third	Fourth	Fifth
242	St Ives	FTSE 250	Schroder	Gartmore	Threadneedle	MAM	Prudential
243	St James's Place	FTSE 250	MAM	NatWest	AMP	Lloyds	Fleming
244	Stagecoach	FTSE 250	MAM	Standard Life	Baillie Gifford	M&G	John Govett
245	Stakis	FTSE 250	Schroder	PDFM	Morgan Grenfell	MAM	BZW
246	Standard Chartered	FTSE 100	Schroder	Prudential	Fleming	MAM	Threadneedle
247	Storehouse	FTSE 250	Prudential	Scottish Widows	Threadneedle	M&G	Baring
248	Sun Alliance	FTSE 100	MAM	Gartmore	Schroder	Standard Life	Sun Life IM
249	T&N	FTSE 250	M&G	Norwich Union	Abu Dhabi	Baring	Fleming
250	Takare	FTSE 250	Gartmore	Fiduciary Trust	Fleming	General Electric IC	Lloyds Abbey Life
251	Tarmac	FTSE 250	PDFM	Schroder	Fleming	AMP	BZW
252	Tate & Lyle	FTSE 250	MAM	PDFM	Perpetual	Prudential	AMP
253	Taylor Woodrow	FTSE 250	Schroder	MAM	Standard Life	Norwich Union	Prudential
254	Telegraph	FTSE 250	PDFM	Caledonia Invest.	Norwich Union	Hermes	Lloyds
255	Telewest Comm.	FTSE 250	Prudential	Abu Dhabi	Hermes	Legal & General	BZW
256	Tesco	FTSE 100	Prudential	MAM	Standard Life	Schroder	Norwich Union
257	Thames Water	FTSE 100	PDFM	Capital Group	MAM	CIN	BZW
258	Thorn EMI	FTSE 100	MAM	Prudential	Capital Group	Standard Life	Schroder
259	TI	FTSE 100	Scottish Widows	Threadneedle	Schroder	HSBC	Standard Life
260	TLG	FTSE 250	Prudential	AMP	Friends Provident	Singapore Mon Auth	BZW
261	Tomkins	FTSE 100	Norwich Union	Morgan Grenfell	CIN IM	MAM	Gartmore
262	Trafalgar House	FTSE 250	PDFM	Abu Dhabi	BZW	Legal & General	Britannic Assurance
263	Transatlantic Hldgs	FTSE 250	Hambros	Scottish Widows	MAM	Fleming	Sun Life IM
264	Transport Dev.	FTSE 250	PDFM	Threadneedle	Britannic Assurance	AMP	Clerical Medical
265	Travis Perkins	FTSE 250	MAM	Gartmore	Prudential	AMP	Hill Samuel
266	TSB	FTSE 100	Schroder	Prudential	Sun Life IM	PDFM	Hill Samuel
267	TT	FTSE 250	Newton	Gartmore	Standard Life	Fleming	Jupiter
268	Unichem	FTSE 250	PDFM	HSBC	Schroder	AMP	Newton

	Company	Index	Largest	Second	Third	Fourth	Fifth
269	Unigate	FTSE 250	M&G	MAM	Fleming	Standard Life	Legal & General
270	Unilever	FTSE 100	Prudential	MAM	Schroder	Legal & General	Hermes
271	United Biscuits	FTSE 250	PDFM	M&G	Standard Life	MAM	Legal & General
272	United Friendly	FTSE 250	Prudential	United Friendly	Britannic Assurance	Legal & General	PDFM
273	United News & Media	FTSE 250	PDFM	Gartmore	HSBC	T Rowe Price	Prudential
274	Vaux	FTSE 250	PDFM	MAM	Britannic Assurance	Caledonia Inv.	Royal Ins
275	Vendome	FTSE 250	MAM	Fleming	Morgan Grenfell	Prudential	British Gas PF
276	Vickers	FTSE 250	Schroder	Gartmore	Standard Life	MAM	CIN
277	Vodafone	FTSE 100	Schroder	Prudential	Standard Life	Baillie Gifford	Legal & General
278	Wassall	FTSE 250	Fleming	Gartmore	HSBC	Hill Samuel	Abu Dhabi
279	Watmoughs	FTSE 250	Schroder	Provident Mutual	Cazenove	Gartmore	Friends Provident
280	Weir	FTSE 250	Schroder	Prudential	Fleming	Threadneedle	Gartmore
281	Welsh Water	FTSE 250	Capital Group	Sun Life IM	Brown Brothers	Morgan Grenfell	Gartmore
282	Wessex Water	FTSE 250	Prudential	MAM	Newton	Standard Life	Legal & General
283	WH Smith	FTSE 250	Baring	Capital Group	Prudential	BZW	MAM
284	Whitbread	FTSE 100	Whitbread Inv Co	Schroder	BZW	Standard Life	Sun Life IM
285	Wickes	FTSE 250	Threadneedle	Fidelity	MAM	M&G	Lloyds
286	Williams	FTSE 100	Norwich Union	Schroder	Threadneedle	Prudential	PDFM
287	Willis Corroon	FTSE 250	PDFM	HSBC	Fleming	Friends Provident	BZW
288	Wilson Bowden	FTSE 250	Ivory & Sime	CIN	Legal & General	Morgan Grenfell	Shell PF
289	Wilson Connolly	FTSE 250	Sun Life Canada	Baillie Gifford	CIN	Royal Ins	BZW
290	Wimpey G	FTSE 250	MAM	Schroder	PDFM	Gartmore	Provident Mutual
291	Wolseley	FTSE 100	Prudential	Schroder	MAM	Baillie Gifford	Gartmore
292	Wolverhampton & Dudley	FTSE 250	Britannic Assurance	Gartmore	Prudential	MAM	Baillie Gifford
293	WPP	FTSE 250	Fleming	Baring	Provident Mutual	BZW	Clerical Medical
294	Yorkshire Electricity	FTSE 250	Prudential	Fleming	AMP	Standard Life	Threadneedle
295	Yorkshire Water	FTSE 250	Schroder	Prudential	Standard Life	MAM	CIN

	Company	Index	Largest	Second	Third	Fourth	Fifth
296	Yule Catto	FTSE 250	Morgan Grenfell	HSBC	Prudential	Clerical Medical	Newton
297	Zeneca	FTSE 100	MAM	Schroder	Prudential	Standard Life	BZW

Appendix C: Measures of concentration

No.	Company	Index	Financial shareholders					Gini	Herfindahl
			Largest	Top 3	Top 5	Top 10	Top 20	Coefficient	Index
1	3i	FTSE 100	17.11	27.97	34.48	41.82	50.91	0.52	0.152
2	Abbey National	FTSE 100	4.63	7.78	10.06	15.03	22.30	0.28	0.079
3	ABF	FTSE 100	4.11	8.21	11.20	14.96	19.68	0.40	0.092
4	Aegis	FTSE 250	31.69	39.61	45.09	53.69	60.10	0.66	0.297
5	Airtours	FTSE 250	10.52	17.84	22.02	29.20	37.82	0.44	0.117
6	Albert Fisher	FTSE 250	11.73	19.97	25.71	37.22	48.62	0.40	0.098
7	Allied Colloids	FTSE 250	13.67	27.75	34.01	44.47	58.30	0.42	0.108
8	Allied Domecq	FTSE 100	7.23	17.99	22.62	32.60	45.46	0.34	0.077
9	Amersham	FTSE 250	11.22	19.96	26.88	42.83	58.30	0.34	0.078
10	Anglian Water	FTSE 250	6.81	17.00	22.04	32.50	43.53	0.36	0.077
11	Argos	FTSE 250	10.27	25.57	33.53	44.67	57.00	0.44	0.091
12	Argyll Group	FTSE 100	3.76	9.12	13.71	23.42	35.11	0.22	0.058
13	Arjo Wiggins	FTSE 100	12.40	17.68	21.58	28.85	35.95	0.48	0.148
14	ASDA	FTSE 100	9.26	18.11	25.13	35.22	48.16	0.36	0.081
15	Associated British Ports	FTSE 250	6.86	18.73	27.88	40.29	55.39	0.32	0.071
16	BAA	FTSE 100	7.90	16.10	22.36	32.01	43.19	0.36	0.079
17	Babcock	FTSE 250	15.27	29.71	36.39	49.34	62.45	0.46	0.109
18	Baird William	FTSE 250	17.54	33.20	41.68	53.93	67.74	0.48	0.115
19	Bank of Scotland	FTSE 100	32.34	37.33	40.26	45.43	52.20	0.66	0.394
20	Barclays	FTSE 100	6.65	13.89	19.16	28.54	38.83	0.34	0.075
21	Barratt Developments	FTSE 250	9.86	20.45	27.99	41.15	57.54	0.32	0.074
22	Bass	FTSE 100	4.31	9.95	14.43	23.39	36.40	0.22	0.059
23	BAT	FTSE 100	4.29	10.18	15.57	24.58	35.28	0.26	0.063
24	BBA	FTSE 250	8.07	20.07	26.94	39.12	55.47	0.30	0.072

No.	Company	Index	Financial shareholders					Gini	Herfindahl
			Largest	Top 3	Top 5	Top 10	Top 20	Coefficient	Index
25	Beazer Homes	FTSE 250	6.90	18.05	27.38	43.79	60.48	0.30	0.065
26	Berisford	FTSE 250	14.71	29.05	36.49	47.51	57.19	0.50	0.118
27	Berkeley	FTSE 250	6.07	16.46	23.06	34.23	49.14	0.30	0.067
28	BET	FTSE 250	6.21	17.14	26.22	42.54	56.32	0.32	0.068
29	BICC	FTSE 250	6.93	14.59	20.10	30.99	43.66	0.30	0.071
30	Bilton	FTSE 250	11.48	23.35	28.70	38.70	49.67	0.44	0.108
31	Blue Circle	FTSE 100	9.49	17.43	23.05	34.37	46.34	0.36	0.084
32	BOC Group	FTSE 100	4.56	12.18	18.52	28.93	42.04	0.26	0.062
33	Body Shop	FTSE 250	3.56	8.43	11.23	16.09	20.10	0.44	0.092
34	Booker	FTSE 250	14.34	27.28	36.16	49.16	62.83	0.42	0.098
35	Boots	FTSE 100	3.86	9.33	13.96	21.51	31.88	0.26	0.062
36	Bowthorpe	FTSE 250	8.08	20.70	29.49	41.30	56.49	0.34	0.075
37	BP	FTSE 100	5.95	13.11	17.47	26.10	36.08	0.32	0.074
38	BPB	FTSE 250	13.18	27.77	34.54	45.99	58.64	0.44	0.101
39	Bradford Property Trust	FTSE 250	9.06	14.59	19.18	28.07	36.47	0.40	0.099
40	Britannic Assurance	FTSE 250	11.04	25.74	32.78	44.51	59.11	0.40	0.095
41	British Aerospace	FTSE 100	8.65	16.80	20.93	30.07	42.94	0.32	0.082
42	British Airways	FTSE 100	9.96	18.92	23.66	30.78	39.76	0.44	0.110
43	British Biotech	FTSE 250	11.00	26.46	33.02	44.88	57.45	0.44	0.097
44	British Gas	FTSE 100	3.44	9.15	13.72	22.47	32.65	0.26	0.061
45	British Land	FTSE 250	13.02	30.10	36.21	47.35	59.47	0.46	0.111
46	British Steel	FTSE 100	17.79	26.63	30.73	38.21	47.81	0.50	0.168
47	British Telecom	FTSE 100	3.56	8.34	12.17	19.26	28.05	0.26	0.063
48	British Vita	FTSE 250	6.16	16.32	23.71	35.41	50.13	0.30	0.067
49	Brixton Estates	FTSE 250	18.88	42.68	49.94	61.58	74.40	0.52	0.132
50	Brown N Group	FTSE 250	6.51	12.09	15.39	21.78	27.58	0.44	0.102

No.	Company	Index	Financial shareholders					Gini	Herfindahl
			Largest	Top 3	Top 5	Top 10	Top 20	Coefficient	Index
51	Bryant	FTSE 250	7.98	16.08	22.99	35.03	50.42	0.30	0.069
52	BSkyB	FTSE 100	1.09	2.90	4.33	13.48	18.56	0.20	0.122
53	BTP	FTSE 250	10.57	19.16	26.57	40.71	58.04	0.30	0.073
54	BTR	FTSE 100	3.32	8.39	12.48	20.32	31.11	0.22	0.059
55	Bunzl	FTSE 250	10.50	21.66	29.45	44.96	61.43	0.34	0.075
56	Burford	FTSE 250	8.41	20.71	30.04	44.64	59.87	0.34	0.072
57	Burmah Castrol	FTSE 100	5.38	14.92	21.80	32.03	45.00	0.30	0.068
58	Burton	FTSE 250	20.98	36.16	43.63	55.39	66.72	0.52	0.145
59	Cable & Wireless	FTSE 100	3.99	10.00	14.24	21.21	29.97	0.30	0.068
60	Cadbury Schweppes	FTSE 100	4.17	10.28	14.39	22.25	32.55	0.26	0.065
61	Caledonia Investments	FTSE 250	10.67	23.44	28.24	34.84	40.86	0.56	0.133
62	Calor Group	FTSE 250	4.21	8.61	11.62	18.00	25.12	0.32	0.073
63	CAMAS	FTSE 250	14.33	32.00	39.15	47.99	60.63	0.48	0.120
64	Capital Radio	FTSE 250	8.68	20.64	27.78	39.09	51.48	0.38	0.084
65	Caradon	FTSE 250	4.42	10.06	15.56	26.66	41.42	0.20	0.057
66	Carlton Communications	FTSE 100	10.58	17.40	22.84	32.10	42.50	0.38	0.099
67	Charter	FTSE 250	8.56	23.11	30.73	42.72	54.59	0.42	0.086
68	Chelsfield	FTSE 250	6.38	14.80	20.18	27.21	33.04	0.48	0.096
69	Christian Salvesen	FTSE 250	6.53	13.19	16.90	23.16	31.38	0.38	0.089
70	Christies International	FTSE 250	12.56	27.98	33.68	41.07	47.41	0.58	0.156
71	Chubb Security	FTSE 250	9.37	21.18	26.77	38.21	51.80	0.36	0.085
72	Coats Viyella	FTSE 250	5.04	13.00	19.62	31.57	46.00	0.26	0.061
73	Cobham	FTSE 250	6.39	17.33	24.00	38.19	54.76	0.28	0.064
74	Commercial Union	FTSE 100	8.41	16.32	22.07	30.31	39.85	0.40	0.090
75	Compass	FTSE 250	5.12	12.57	17.94	28.07	41.27	0.26	0.063
76	Cookson Group	FTSE 100	6.53	16.76	23.52	37.95	55.05	0.26	0.063

No.	Company	Index	Financial shareholders					Gini	Herfindahl
			Largest	Top 3	Top 5	Top 10	Top 20	Coefficient	Index
77	Cordiant	FTSE 250	7.14	12.46	15.21	18.61	20.61	0.62	0.169
78	Courtaulds	FTSE 100	6.02	17.42	24.01	34.14	48.24	0.30	0.071
79	Courtaulds Textiles	FTSE 250	6.80	16.59	25.36	37.53	52.66	0.30	0.067
80	Cowie	FTSE 250	8.82	19.22	26.05	36.38	51.42	0.32	0.076
81	Cray Electronics	FTSE 250	7.22	20.46	26.67	37.75	51.22	0.36	0.077
82	Croda International	FTSE 250	11.93	28.42	37.11	49.93	65.32	0.40	0.093
83	Daily Mail and General Trust	FTSE 250	20.84	28.39	32.26	38.74	43.56	0.64	0.256
84	Dalgety	FTSE 250	14.76	31.60	36.63	45.03	54.91	0.52	0.141
85	Danka Business Systems	FTSE 250	3.96	8.25	10.54	12.91	14.49	0.60	0.142
86	David S Smith	FTSE 250	7.79	17.31	24.46	36.40	51.06	0.32	0.071
87	Dawson	FTSE 250	23.78	36.30	42.50	52.36	65.88	0.50	0.163
88	De La Rue	FTSE 100	9.84	17.89	22.52	31.82	45.28	0.34	0.087
89	Delta	FTSE 250	8.63	19.38	28.65	44.92	62.22	0.30	0.068
90	Devro	FTSE 250	11.32	20.80	27.05	38.36	53.78	0.34	0.084
91	DFS Furniture	FTSE 250	7.51	16.33	22.12	31.10	38.96	0.44	0.091
92	Diploma	FTSE 250	8.56	21.17	31.43	44.00	59.40	0.36	0.075
93	Dixons	FTSE 250	9.63	19.36	27.67	40.69	56.14	0.32	0.074
94	East Midlands Electricity	FTSE 250	5.74	15.12	19.92	28.95	41.12	0.30	0.072
95	ED&F Man	FTSE 250	2.30	6.00	8.50	13.45	17.14	0.38	0.076
96	Electrocomponents	FTSE 250	7.16	15.32	22.21	35.33	51.24	0.26	0.064
97	EMAP	FTSE 250	7.97	18.22	23.74	32.37	45.47	0.34	0.079
98	English China Clays	FTSE 250	11.16	26.65	35.65	44.57	57.08	0.44	0.100
99	Enterprise Oil	FTSE 100	11.37	25.06	32.17	40.51	50.94	0.46	0.112
100	Eurotherm	FTSE 250	8.99	22.24	28.91	40.86	53.65	0.40	0.085
101	Eurotunnel	FTSE 250	1.05	2.85	4.08	5.97	7.05	0.48	0.089
102	Fairey	FTSE 250	7.05	17.12	23.36	35.46	52.94	0.26	0.066

No.	Company	Index	Financial shareholders					Gini	Herfindahl
			Largest	Top 3	Top 5	Top 10	Top 20	Coefficient	Index
103	Farnell Electronics	FTSE 250	9.34	21.42	28.13	39.58	55.26	0.34	0.077
104	Fine Art Developments	FTSE 250	12.06	21.82	27.56	37.49	51.18	0.38	0.095
105	First Leisure	FTSE 250	6.35	15.69	23.67	36.32	51.20	0.30	0.066
106	FKI	FTSE 250	13.57	25.36	35.05	48.20	61.17	0.42	0.095
107	Forte	FTSE 100	11.91	18.61	23.42	32.96	44.16	0.38	0.107
108	Gartmore	FTSE 250	2.51	5.56	7.60	11.20	14.37	0.40	0.082
109	GEC	FTSE 100	6.47	12.34	16.52	25.24	37.32	0.28	0.071
110	General Accident	FTSE 100	4.86	12.87	19.12	30.83	44.47	0.26	0.062
111	General Cable	FTSE 250	2.82	7.69	11.04	16.75	23.55	0.30	0.067
112	GKN	FTSE 100	7.28	15.14	21.14	30.38	42.14	0.34	0.075
113	Glaxo Wellcome	FTSE 100	3.70	8.38	12.12	19.43	28.65	0.24	0.062
114	Glynwed	FTSE 250	5.17	13.69	20.06	29.33	43.34	0.26	0.064
115	Granada	FTSE 100	14.00	20.42	26.07	35.94	47.68	0.40	0.118
116	Grand Metropolitan	FTSE 100	3.88	10.27	15.17	23.78	34.70	0.26	0.063
117	GRE	FTSE 100	12.40	19.75	25.53	36.70	50.05	0.36	0.096
118	Great Portland	FTSE 250	13.12	31.79	39.21	49.70	61.80	0.48	0.110
119	Greenalls	FTSE 250	7.95	21.57	27.68	37.78	49.94	0.40	0.085
120	Guinness	FTSE 100	4.73	10.14	13.53	20.69	28.66	0.32	0.074
121	GUS	FTSE 100	12.38	23.10	27.02	35.38	45.10	0.46	0.129
122	Halma	FTSE 250	10.50	21.38	28.31	37.82	49.90	0.40	0.092
123	Hambros	FTSE 250	14.81	29.57	35.53	46.68	58.49	0.46	0.117
124	Hammerson	FTSE 250	20.94	51.22	56.68	66.56	76.45	0.60	0.163
125	Hanson	FTSE 100	2.77	6.82	10.06	15.95	24.42	0.22	0.060
126	Harrisons & Crosfield	FTSE 250	10.99	23.80	30.82	41.51	54.07	0.42	0.093
127	Hays	FTSE 250	10.48	20.78	26.93	37.77	50.33	0.38	0.090
128	Hazlewood Foods	FTSE 250	9.83	19.77	25.67	34.97	46.76	0.40	0.091

No.	Company	Index	Financial shareholders					Gini	Herfindahl
			Largest	Top 3	Top 5	Top 10	Top 20	Coefficient	Index
129	Hepworth	FTSE 250	7.78	16.45	24.14	34.73	48.31	0.32	0.072
130	Hewden Stuart	FTSE 250	10.13	17.20	23.77	36.54	53.49	0.28	0.074
131	Hickson	FTSE 250	20.89	38.17	49.34	63.57	78.45	0.48	0.117
132	Highland Distilleries	FTSE 250	5.64	15.27	23.35	29.82	36.27	0.46	0.094
133	Hillsdown Holdings	FTSE 250	9.24	19.68	25.71	35.92	50.70	0.32	0.079
134	House of Fraser	FTSE 250	22.32	30.23	35.91	46.82	58.46	0.50	0.171
135	Howden	FTSE 250	11.35	26.98	36.41	50.93	68.23	0.36	0.080
136	HSBC	FTSE 100	5.81	12.80	18.86	28.36	40.39	0.30	0.068
137	Iceland	FTSE 250	6.04	17.11	26.32	41.35	55.65	0.32	0.068
138	ICI	FTSE 100	10.85	15.44	19.31	27.28	36.35	0.38	0.119
139	IMI	FTSE 250	5.59	15.29	22.84	35.02	48.22	0.32	0.068
140	Inchcape	FTSE 100	6.35	15.89	20.88	28.96	40.55	0.34	0.078
141	INVESCO	FTSE 250	4.76	10.52	14.91	24.42	34.68	0.28	0.066
142	Johnson Matthey	FTSE 250	13.95	23.51	26.91	33.08	42.05	0.48	0.152
143	Kalon	FTSE 250	4.45	10.27	14.83	21.55	27.48	0.40	0.080
144	Kingfisher	FTSE 100	13.04	21.59	26.63	37.06	48.24	0.42	0.111
145	Kwik Fit Holdings	FTSE 250	14.38	26.13	34.43	43.19	53.98	0.48	0.116
146	Ladbroke	FTSE 100	4.41	11.68	17.42	27.51	40.24	0.26	0.062
147	Laing J	FTSE 250	3.29	8.22	10.87	14.27	16.24	0.56	0.114
148	Laird	FTSE 250	13.41	26.94	37.01	48.33	64.08	0.40	0.092
149	Land Securities	FTSE 100	7.69	19.03	24.77	34.70	46.06	0.38	0.086
150	Laporte	FTSE 250	6.70	17.36	23.80	35.18	48.63	0.34	0.072
151	LASMO	FTSE 100	7.66	18.87	23.75	32.04	41.87	0.40	0.090
152	Legal & General	FTSE 100	5.67	13.07	18.97	30.51	41.60	0.32	0.068
153	Lex Service	FTSE 250	6.89	17.16	26.97	43.10	58.11	0.32	0.068
154	Lloyds Chemists	FTSE 250	6.78	17.91	26.01	37.07	47.64	0.40	0.079

No.	Company	Index	Financial shareholders					Gini	Herfindahl
			Largest	Top 3	Top 5	Top 10	Top 20	Coefficient	Index
155	London and Manchester	FTSE 250	13.24	23.96	31.13	42.85	58.78	0.36	0.092
156	London Electricity	FTSE 250	5.78	13.54	20.03	31.10	43.52	0.30	0.067
157	London International	FTSE 250	12.51	23.57	31.51	44.25	59.86	0.38	0.086
158	London Merchant Securites	FTSE 250	9.36	18.04	23.67	29.62	35.07	0.52	0.125
159	Lonrho	FTSE 250	6.41	9.94	12.50	17.16	22.01	0.44	0.119
160	Low & Bonar	FTSE 250	10.22	18.73	24.50	35.96	53.13	0.28	0.076
161	Lucas	FTSE 250	7.87	22.33	30.34	44.04	56.85	0.40	0.079
162	M&G	FTSE 250	5.15	10.15	14.34	22.65	32.38	0.30	0.069
163	Macallan Glenlivet	FTSE 250	25.20	31.17	34.64	40.03	43.44	0.72	0.354
164	MAI	FTSE 250	9.62	23.01	28.81	40.33	54.85	0.36	0.085
165	Marks & Spencer	FTSE 100	5.52	10.39	14.30	21.60	30.53	0.30	0.074
166	Marley	FTSE 250	15.78	27.29	33.28	44.13	58.12	0.42	0.115
167	Marston Thompson & Evershed	FTSE 250	12.12	29.28	41.85	61.09	75.21	0.44	0.085
168	McKechnie	FTSE 250	5.84	15.41	22.72	39.28	59.69	0.22	0.058
169	Medeva	FTSE 250	6.11	15.51	20.36	28.20	38.66	0.36	0.080
170	Menzies J	FTSE 250	9.90	19.84	23.46	29.33	33.23	0.60	0.161
171	MEPC	FTSE 250	16.34	38.17	41.91	49.85	60.17	0.54	0.149
172	Mersey Docks and Harbour	FTSE 250	6.28	16.18	22.76	32.13	44.70	0.34	0.074
173	Meyer	FTSE 250	7.02	19.24	28.19	43.87	60.49	0.30	0.067
174	MFI Furniture	FTSE 250	9.44	20.54	30.14	45.79	65.76	0.28	0.067
175	Midlands Electricity	FTSE 250	5.44	10.82	14.00	19.71	28.83	0.30	0.078
176	Mirror Group	FTSE 250	15.66	24.96	31.47	41.49	54.73	0.42	0.117
177	ML Laboratories	FTSE 250	8.50	11.72	14.55	18.24	21.32	0.56	0.188
178	Monument Oil and Gas	FTSE 250	6.52	17.17	23.67	31.29	40.75	0.40	0.085
179	Morgan Crucible	FTSE 250	4.22	12.53	20.39	33.59	48.90	0.24	0.060
180	Morrison WM	FTSE 250	5.01	11.24	15.20	22.91	31.90	0.32	0.071

No.	Company	Index	Financial shareholders					Gini	Herfindahl
			Largest	Top 3	Top 5	Top 10	Top 20	Coefficient	Index
181	National Power	FTSE 100	3.43	7.51	11.10	17.00	24.57	0.28	0.065
182	NatWest	FTSE 100	6.68	14.23	18.17	26.17	35.89	0.34	0.081
183	Next	FTSE 250	10.30	19.56	25.77	37.80	49.57	0.38	0.088
184	NFC	FTSE 250	5.48	10.45	14.55	22.30	32.99	0.26	0.069
185	Northern Electric	FTSE 250	8.23	14.94	19.90	27.60	38.27	0.34	0.086
186	Northern Foods	FTSE 250	7.06	12.63	17.49	27.08	39.52	0.28	0.072
187	Northern Ireland Electricity	FTSE 250	3.73	8.84	12.54	18.84	26.60	0.30	0.068
188	Nurdin & Peacock	FTSE 250	4.76	10.25	15.39	23.21	33.64	0.28	0.066
189	Nynex Cablecomms	FTSE 250	1.64	3.34	4.69	7.00	9.60	0.32	0.074
190	Ocean	FTSE 250	14.14	25.49	33.18	44.18	55.55	0.46	0.108
191	P&O.	FTSE 100	6.76	15.50	21.63	31.76	44.22	0.34	0.073
192	Pearson	FTSE 100	10.10	19.00	24.81	32.71	44.02	0.38	0.096
193	Pentland	FTSE 250	5.61	12.18	16.81	25.56	29.99	0.48	0.093
194	Perpetual	FTSE 250	4.54	9.08	12.06	16.84	22.05	0.40	0.089
195	Persimmon	FTSE 250	11.72	21.86	27.55	38.46	51.63	0.38	0.093
196	Pilkington	FTSE 250	17.55	27.94	34.51	45.83	57.61	0.46	0.128
197	Powell Duffryn	FTSE 250	13.47	26.34	34.89	46.20	58.53	0.44	0.100
198	PowerGen	FTSE 100	4.64	8.24	11.49	18.65	25.67	0.30	0.074
199	Powerscreen	FTSE 250	5.32	13.62	20.75	32.62	46.44	0.28	0.064
200	Provident Financial	FTSE 250	7.28	18.10	25.04	38.87	56.48	0.28	0.066
201	Prudential	FTSE 100	4.41	9.95	15.05	25.22	37.21	0.24	0.061
202	Racal Electronics	FTSE 250	6.64	15.41	21.42	31.65	44.43	0.32	0.071
203	Rank	FTSE 100	6.75	18.48	24.57	35.43	48.36	0.34	0.075
204	RBS	FTSE 100	11.56	16.93	21.47	29.88	38.25	0.42	0.123
205	Reckitt & Colman	FTSE 100	4.09	8.88	13.25	21.52	33.18	0.22	0.060
206	Redland	FTSE 100	3.60	8.63	13.55	23.94	38.09	0.18	0.055

No.	Company	Index	Financial shareholders					Gini	Herfindahl
			Largest	Top 3	Top 5	Top 10	Top 20	Coefficient	Index
207	Reed	FTSE 100	7.59	15.86	20.69	29.97	40.94	0.36	0.082
208	Refuge	FTSE 250	11.00	28.50	36.74	46.37	56.40	0.50	0.108
209	Rentokil	FTSE 100	2.60	6.68	9.97	16.02	22.93	0.28	0.064
210	Reuters	FTSE 100	5.32	12.76	17.29	24.37	31.82	0.40	0.082
211	Rexam	FTSE 100	3.82	9.79	15.44	24.98	38.31	0.22	0.058
212	RMC Group	FTSE 100	21.25	29.03	34.68	44.03	54.24	0.52	0.179
213	Rolls Royce	FTSE 100	13.77	22.94	28.47	37.39	49.11	0.42	0.116
214	Royal Insurance	FTSE 100	6.37	13.24	18.62	28.70	43.41	0.24	0.064
215	RTZ	FTSE 100	10.43	18.01	22.45	30.63	40.00	0.42	0.106
216	Rugby	FTSE 250	7.80	18.04	25.77	40.98	55.83	0.32	0.068
217	Sainsbury J	FTSE 100	2.14	5.30	7.81	12.89	19.71	0.22	0.058
218	Savoy Hotel A	FTSE 250	3.74	8.76	10.75	13.33	14.35	0.64	0.153
219	Scapa	FTSE 250	15.42	27.46	38.52	51.59	68.18	0.40	0.094
220	Schroders	FTSE 100	8.27	14.60	18.42	23.70	29.73	0.48	0.120
221	Scottish & Newcastle	FTSE 100	12.43	20.52	26.06	36.78	50.02	0.38	0.098
222	Scottish Hydro-Electric	FTSE 250	3.40	9.01	14.07	22.79	34.55	0.22	0.058
223	Scottish Power	FTSE 100	5.64	12.72	18.08	27.76	38.84	0.30	0.069
224	Scottish Television	FTSE 250	7.12	15.27	21.21	31.60	43.83	0.32	0.073
225	Sears	FTSE 100	6.01	13.54	19.11	30.06	45.20	0.24	0.063
226	Securicor (A)	FTSE 250	15.25	26.75	33.56	44.73	58.86	0.42	0.106
227	Sedgwick	FTSE 250	21.41	40.47	46.44	56.53	66.65	0.56	0.170
228	Sema	FTSE 250	7.47	18.02	23.45	32.38	39.55	0.48	0.097
229	Senior Engineering	FTSE 250	9.47	23.41	33.45	46.24	61.63	0.36	0.078
230	Severn Trent	FTSE 100	3.94	9.47	14.76	24.15	36.20	0.24	0.059
231	Shell	FTSE 100	3.91	10.68	14.34	22.19	31.31	0.30	0.068
232	Siebe	FTSE 100	4.01	10.65	15.75	25.00	38.41	0.22	0.059

No.	Company	Index	Financial shareholders					Gini	Herfindahl
			Largest	Top 3	Top 5	Top 10	Top 20	Coefficient	Index
233	Slough Estates	FTSE 250	8.05	18.13	25.95	39.97	52.33	0.36	0.075
234	Smith & Nephew	FTSE 100	7.50	16.39	22.17	34.35	49.71	0.28	0.068
235	SmithKline Beecham A	FTSE 100	4.46	12.28	17.32	25.75	35.29	0.32	0.070
236	Smiths Industries	FTSE 250	5.80	14.16	19.76	30.53	45.82	0.26	0.063
237	South Wales Electricity	FTSE 250	5.57	14.09	19.42	30.04	44.90	0.26	0.063
238	South West Water	FTSE 250	12.04	23.62	31.04	41.59	54.03	0.42	0.095
239	Southern Electric	FTSE 100	7.54	14.24	18.45	25.33	35.13	0.34	0.087
240	Southern Water	FTSE 250	9.24	17.30	23.57	35.12	47.02	0.36	0.082
241	Spirax Sarco	FTSE 250	10.96	27.77	37.09	51.84	68.40	0.38	0.081
242	St Ives	FTSE 250	13.53	29.38	39.30	50.72	66.09	0.42	0.095
243	St James's Place	FTSE 250	14.10	24.64	28.91	37.68	47.88	0.46	0.127
244	Stagecoach	FTSE 250	6.92	14.50	17.24	21.79	27.52	0.48	0.116
245	Stakis	FTSE 250	8.36	17.68	24.06	34.84	47.93	0.34	0.077
246	Standard Chartered	FTSE 100	6.46	15.84	22.66	32.36	45.91	0.30	0.070
247	Storehouse	FTSE 250	5.91	16.52	24.18	37.27	54.00	0.28	0.063
248	Sun Alliance	FTSE 100	10.27	16.79	21.20	30.48	44.50	0.30	0.088
249	T&N	FTSE 250	14.11	22.86	29.79	41.46	56.90	0.36	0.097
250	Takare	FTSE 250	9.34	18.73	26.35	39.60	52.73	0.36	0.078
251	Tarmac	FTSE 250	10.94	20.82	25.44	33.59	45.44	0.40	0.100
252	Tate & Lyle	FTSE 250	7.15	16.33	23.37	34.06	46.17	0.34	0.074
253	Taylor Woodrow	FTSE 250	12.83	24.59	32.47	43.73	60.43	0.36	0.088
254	Telegraph	FTSE 250	2.15	6.05	9.12	16.02	23.60	0.24	0.059
255	Telewest Communications	FTSE 250	2.42	5.55	7.70	11.09	14.74	0.36	0.077
256	Tesco	FTSE 100	4.09	10.55	14.89	24.12	36.28	0.24	0.061
257	Thames Water	FTSE 100	6.44	12.77	17.61	27.26	39.11	0.28	0.070
258	Thorn EMI	FTSE 100	9.50	17.39	23.71	33.80	46.19	0.36	0.084

No.	Company	Index	Financial shareholders					Gini	Herfindahl
			Largest	Top 3	Top 5	Top 10	Top 20	Coefficient	Index
259	TI	FTSE 100	4.10	10.26	15.31	24.92	38.51	0.22	0.058
260	TLG	FTSE 250	5.14	12.16	17.27	26.76	40.99	0.22	0.062
261	Tomkins	FTSE 100	3.10	8.95	13.89	24.43	39.06	0.16	0.055
262	Trafalgar House	FTSE 250	9.88	18.09	22.67	30.62	36.08	0.52	0.123
263	Transatlantic Hldgs	FTSE 250	23.35	27.06	28.22	29.75	30.62	0.86	0.591
264	Transport Development	FTSE 250	17.17	30.23	36.67	50.26	65.62	0.42	0.110
265	Travis Perkins	FTSE 250	8.71	20.10	24.15	32.13	42.96	0.40	0.101
266	TSB	FTSE 100	4.30	10.94	16.04	25.92	35.86	0.30	0.065
267	TT	FTSE 250	11.32	21.15	29.20	44.11	60.34	0.34	0.078
268	Unichem	FTSE 250	6.03	13.73	20.33	32.39	47.17	0.26	0.063
269	Unigate	FTSE 250	5.95	14.92	22.21	34.52	47.80	0.30	0.066
270	Unilever	FTSE 100	5.74	10.14	13.60	20.99	30.72	0.28	0.074
271	United Biscuits	FTSE 250	8.69	18.46	22.63	31.46	44.22	0.34	0.089
272	United Friendly	FTSE 250	6.09	16.38	23.63	36.73	49.87	0.32	0.069
273	United News & Media	FTSE 250	13.10	19.33	25.00	35.85	49.43	0.36	0.102
274	Vaux	FTSE 250	8.14	21.21	29.89	43.19	58.46	0.34	0.073
275	Vendome	FTSE 250	7.31	10.12	11.38	13.96	17.11	0.54	0.208
276	Vickers	FTSE 250	10.12	22.94	29.88	41.78	54.25	0.40	0.088
277	Vodafone	FTSE 100	3.86	9.22	12.89	20.10	27.75	0.32	0.069
278	Wassall	FTSE 250	14.83	25.59	30.04	38.94	50.77	0.44	0.126
279	Watmoughs	FTSE 250	6.21	17.60	24.83	36.74	52.84	0.28	0.066
280	Weir	FTSE 250	15.11	30.86	41.10	55.06	69.89	0.44	0.097
281	Welsh Water	FTSE 250	5.84	12.07	17.11	25.68	37.02	0.28	0.069
282	Wessex Water	FTSE 250	7.99	16.93	23.18	33.26	45.53	0.34	0.077
283	WH Smith	FTSE 250	5.52	13.62	19.45	30.43	47.86	0.20	0.059
284	Whitbread	FTSE 100	10.09	17.33	23.23	34.31	48.94	0.32	0.081

No.	Company	Index	Financial shareholders					Gini	Herfindahl
			Largest	Top 3	Top 5	Top 10	Top 20	Coefficient	Index
285	Wickes	FTSE 250	10.37	26.02	39.11	62.16	81.31	0.34	0.070
286	Williams	FTSE 100	5.22	14.74	22.81	33.42	46.30	0.32	0.068
287	Willis Corroon	FTSE 250	16.29	22.74	27.09	34.60	45.17	0.46	0.156
288	Wilson Bowden	FTSE 250	8.16	14.40	18.56	27.20	39.01	0.30	0.081
289	Wilson Connolly	FTSE 250	5.52	11.97	17.26	26.96	39.98	0.26	0.064
290	Wimpey G	FTSE 250	11.51	23.49	31.43	42.46	55.54	0.40	0.091
291	Wolseley	FTSE 100	5.12	13.67	20.87	31.82	46.52	0.26	0.062
292	Wolverhampton & Dudley Brews	FTSE 250	6.23	16.90	25.68	39.36	54.63	0.30	0.066
293	WPP	FTSE 250	6.93	16.72	23.29	33.80	45.99	0.34	0.075
294	Yorkshire Electricity	FTSE 250	7.48	15.20	22.05	33.00	45.71	0.32	0.072
295	Yorkshire Water	FTSE 250	7.48	18.62	26.34	37.34	48.60	0.38	0.080
296	Yule Catto	FTSE 250	7.44	19.18	25.09	35.02	46.70	0.38	0.081
297	Zeneca	FTSE 100	11.19	17.82	22.35	30.28	40.45	0.40	0.111
		Average	**8.82**	**18.02**	**23.88**	**33.75**	**45.37**	**0.37**	**0.09**

Appendix D: Companies used to creating profile of the 'modal' Top 300 company

	Allied Domecq	Berkeley	Blue Circle	Courtaulds	De La Rue	Emap	Hepworth	IMI	Land Securities	Laporte	Rank
	FTSE 100	FTSE 250	FTSE 100	FTSE 100	FTSE 100	FTSE 250	FTSE 250	FTSE 250	FTSE 100	FTSE 250	FTSE 100
1	7.23	6.07	9.49	6.02	9.84	7.97	7.78	5.59	7.69	6.70	6.75
2	5.98	5.25	4.71	5.86	5.00	5.28	4.45	4.91	7.69	6.62	6.30
3	4.78	5.14	3.23	5.54	3.05	4.97	4.22	4.79	3.65	4.04	5.43
4	2.45	3.57	2.95	4.10	2.45	3.18	3.98	4.35	3.27	3.48	3.14
5	2.18	3.03	2.67	2.49	2.18	2.34	3.71	3.20	2.47	2.96	2.95
6	2.17	2.49	2.65	2.34	2.07	2.20	2.34	3.17	2.14	2.76	2.46
7	2.04	2.47	2.54	2.02	1.97	1.75	2.32	3.14	2.13	2.30	2.35
8	2.00	2.10	2.24	2.01	1.81	1.59	2.05	2.57	2.12	2.12	2.10
9	1.92	2.06	1.95	1.89	1.79	1.55	2.02	1.69	1.95	2.12	1.99
10	1.85	2.05	1.94	1.87	1.66	1.54	1.86	1.61	1.59	2.08	1.96
11	1.65	1.98	1.78	1.67	1.65	1.52	1.60	1.53	1.55	2.04	1.94
12	1.58	1.95	1.65	1.56	1.58	1.50	1.58	1.47	1.44	1.62	1.58
13	1.56	1.82	1.24	1.56	1.50	1.44	1.57	1.43	1.44	1.56	1.46
14	1.56	1.82	1.16	1.43	1.49	1.39	1.54	1.41	1.34	1.47	1.27
15	1.32	1.64	1.14	1.42	1.43	1.34	1.33	1.35	1.02	1.39	1.20
16	1.17	1.25	1.12	1.32	1.38	1.28	1.23	1.31	1.00	1.23	1.20
17	1.04	1.21	1.05	1.31	1.19	1.21	1.22	1.26	0.99	1.12	1.15
18	1.02	1.13	0.98	1.30	1.10	1.19	1.21	1.18	0.88	1.05	1.10
19	0.98	1.07	0.96	1.27	1.08	1.14	1.16	1.13	0.87	0.99	1.05
20	0.98	1.04	0.89	1.26	1.06	1.09	1.14	1.13	0.83	0.98	0.98
Top 20	45.46	49.14	46.34	48.24	45.28	45.47	48.31	48.22	46.06	48.63	48.36

	Smith & Nephew	Southern Water	Stakis	Standard Chartered	Tate & Lyle	Thorn EMI	Wessex Water	WPP	Yorkshire Electricity	Average	Cumulative
	FTSE 100	FTSE 250	FTSE 250	FTSE 100	FTSE 250	FTSE 100	FTSE 250	FTSE 250	FTSE 250	All 20	Total
1	7.50	9.24	8.36	6.46	7.15	9.50	7.99	6.93	7.48	7.59	46.98
2	4.67	4.71	5.21	5.42	4.92	4.00	4.95	5.94	3.88	5.29	39.40
3	4.22	3.35	4.11	3.96	4.26	3.89	3.99	3.85	3.84	4.22	34.11
4	2.92	3.23	3.53	3.79	3.85	3.47	3.25	3.32	3.65	3.40	29.89
5	2.86	3.04	2.85	3.03	3.19	2.85	3.00	3.25	3.20	2.87	26.50
6	2.70	2.83	2.45	2.20	2.76	2.59	2.66	3.08	2.75	2.54	23.62
7	2.55	2.61	2.28	2.14	2.12	2.37	2.16	2.20	2.44	2.30	21.08
8	2.47	2.41	2.15	1.94	2.06	1.92	2.09	1.89	2.40	2.10	18.79
9	2.25	2.20	1.95	1.75	2.02	1.65	1.59	1.80	1.69	1.89	16.69
10	2.21	1.50	1.95	1.67	1.73	1.56	1.58	1.54	1.67	1.77	14.80
11	2.15	1.44	1.83	1.67	1.68	1.53	1.55	1.53	1.54	1.69	13.02
12	1.77	1.38	1.72	1.57	1.47	1.49	1.53	1.42	1.50	1.57	11.33
13	1.69	1.31	1.54	1.50	1.43	1.48	1.40	1.37	1.44	1.49	9.77
14	1.69	1.23	1.54	1.48	1.23	1.45	1.37	1.31	1.34	1.43	8.28
15	1.68	1.18	1.45	1.38	1.17	1.24	1.36	1.22	1.27	1.33	6.85
16	1.58	1.17	1.15	1.36	1.13	1.13	1.20	1.21	1.21	1.23	5.53
17	1.40	1.14	1.06	1.36	1.08	1.10	1.02	1.15	1.18	1.16	4.29
18	1.14	1.14	0.95	1.23	1.07	1.01	1.02	1.03	1.15	1.09	3.13
19	1.13	1.00	0.93	1.05	0.95	0.99	0.93	0.98	1.07	1.04	2.04
20	1.13	0.91	0.92	0.95	0.90	0.97	0.89	0.97	1.01	1.00	1.00
Top 20	49.71	47.02	47.93	45.91	46.17	46.19	45.53	45.99	45.71	46.98	

Appendix E: Non-financial shareholders (NFS)

Appendix E.1: Strategic NFS with shareholdings over 50%

	Company	Largest NFS > 50%	Holding	Second NFS	Holding	Largest	Top 3	Top 5
1	Gartmore	Indosuez	75.0			2.51	5.56	7.6
2	Telewest Communications	TCI & US West	70.6			2.42	5.55	7.7
3	Vendome	Companie Financiere	70.0	Sofina	3.6	7.31	10.12	11.38
4	Savoy Hotel A	Forte	69.7			3.74	8.76	10.75
5	Nynex Cablecomms	Nynex Network Systems	67.0			1.64	3.34	4.69
6	Telegraph	Conrad Black (Chairman)	64.3			2.15	6.05	9.12
7	General Cable	General Utilities Holdings	57.9			2.82	7.69	11.04
8	Kalon	Total Group	56.3			4.45	10.27	14.83
9	Calor Group	SHV Holdings	51.6			4.21	8.61	11.62
10	Rentokil	Sophus Berendsen	51.4			2.6	6.68	9.97
		Average	**63.38**			**3.39**	**7.26**	**9.87**

Appendix E.2: Strategic NFS with shareholdings of 20% - 50%

	Company	Largest NFS 20% - 50%	Holding	Second NFS	Holding	Largest	Top 3	Top 5
1	Transatlantic Hldgs	Conduit Insurance	42.3	TAI Investments	30.5	23.35	27.06	28.22
2	Sema	Financiere Sema	41.3	Schneider	6.54	7.47	18.02	23.45
3	Arjo Wiggins	Arjomori Priox & Others	40.0			12.4	17.68	21.58
4	BSkyB	News International	40.0	BSB Holdings	14	1.09	2.9	4.33
5	Monument Oil and Gas	Nimex Resources	37.9			6.52	17.17	23.67
6	Yule Catto	Kuala Lumpar Kepong	29.5			7.44	19.18	25.09
7	Macallan Glenlivet	Highland Distillers	26.2	Suntory	25.4	25.2	31.17	34.64
8	Trafalgar House	Hong Kong Land	26.1			9.88	18.09	22.67
9	Compass	Accor	22.9			5.12	12.57	17.94
10	Midlands Electricity	PowerGen	21.0			5.44	10.82	14.00
		Average	**32.72**			**10.39**	**17.47**	**21.56**

Appendix E.3: Strategic NFS with shareholdings of 10% - 20%

	Company	Largest NFS 10% - 20%	Holding	Second NFS	Holding	Largest	Top 3	Top 5
1	Guinness	Moet Hennessy Louis Vuitton	20.0			4.73	10.14	13.53
2	Scottish Television	Mirror Group	20.0			7.12	15.27	**21.21**
3	Wessex Water	Waste Management	19.7			7.99	16.93	**23.18**
4	Capital Radio	Dominfast	18.9	Radio Investment	8.86	8.68	**20.64**	**27.78**
5	Johnson Matthey	Garrick Inv.	18.6			13.59	**23.51**	**26.91**
6	Hambros	Grupo Banco San Paolo	16.0			14.81	**29.57**	**35.53**
7	Standard Chartered	Tan Sri Teck Puat	14.9			6.46	**15.84**	**22.66**
8	Bradford Property Trust	Warner Estates	13.2	Reddihoigh Trust	3.99	9.06	**14.59**	**19.18**
9	Enterprise Oil	Elf Aquitane	12.9			11.37	**25.06**	**32.17**
10	South Wales Electricity	Welsh Water	12.9			5.57	**14.09**	**19.42**
11	Berkeley	Saad Investment Co.	11.5			6.07	**16.46**	**23.06**
12	Cable & Wireless	Veba	10.5			3.99	10.00	**14.24**
13	Forte	Granada	10.1			**11.91**	**18.61**	**23.42**
		Average	15.32			**8.57**	**17.75**	**23.25**

Appendix E.4: Strategic NFS with shareholdings of below 10%

	Company	Largest NFS <10%	Holding	Second NFS	Holding	Largest	Top 3	Top 5
1	TI	Mannesman	9.0			4.1	**10.26**	**15.31**
2	Menzies J	DC Thompson	8.7			**9.9**	**19.84**	**23.46**
3	Harrisons & Crosfield	Sime Darby Bhd	7.8			**10.99**	**23.80**	**30.82**
4	Tate & Lyle	Archer Daniels Midland	7.5			7.15	**16.33**	**23.37**
5	First Leisure	London Merchant Securities	7.0			6.35	**15.69**	**23.67**
6	Commercial Union	Societe Generale	6.3	Munich Re	4.32	**8.41**	**16.32**	**22.07**
7	Inchcape	Toyota	4.8			**6.35**	**15.89**	**20.88**
8	British Biotech	Japan Tobacco Inc	3.9			**11.00**	**26.46**	**33.02**
9	Allied Domecq	Suntory	3.7			**7.23**	**17.99**	**22.62**
10	Eurotunnel	Bombadier	3.4			**1.05**	2.85	**4.08**
11	Welsh Water	Rockleigh Corporation	3.3			**5.84**	**12.07**	**17.11**
		Average	**5.94**			7.12	16.14	21.49

Appendix E.5: Board NFS with shareholdings above 10%

	Company	Largest NFS	Holding	Second NFS	Holding	Largest	Top 3	Top 5
1	Pentland	S Rubin (Chairman)	56.4			5.61	12.18	16.81
2	ML Laboratories	K Leech (Chairman/CEO)	53.6			8.50	11.72	14.55
3	ABF	Wittington Trust (G Weston)	50.9			4.11	8.21	11.20
4	Wilson Bowden	DW Wilson (Chairman/CEO)	43.5			8.16	14.40	18.56
5	Body Shop	B McGlinn	28.0	T & A Roddick	25.5	3.56	8.43	11.23
6	ED&F Man	Directors	27.5	ESO Trust	4.7	2.30	6.00	8.50
7	Perpetual	M Arbib (Chairman)	26.6			4.54	9.08	12.06
8	Airtours	D Crossland, Chairman	26.1			10.52	17.48	22.02
9	Lonrho	D Bock (CEO)	24.4	RW Rowland	6.68	6.41	9.94	12.50
10	Stagecoach	B Suter (Chairman)	21.4	Ann Gloag (MD)	17.7	6.92	14.50	17.24
11	TT	JW Newman/ND Shipp (Joint CEs)	19.2			11.32	**21.15**	**29.20**
12	Sainsbury J	D Sainsbury (Chairman)	17.5			2.14	5.30	7.81
13	Daily Mail and General	Viscount Rothermere (Chair)	17.4			**20.84**	**28.39**	**32.26**
14	London Merchant	Lord Rayne (Chairman)	17.0			9.36	**18.04**	**23.67**
		Average	**30.68**			**7.45**	**13.20**	**16.97**

Appendix E.6: Board NFS with shareholdings below 10%

	Company	Largest NFS	Holding	Second NFS	Holding	Largest	Top 3	Top 5
1	Eurotherm	Directors	9.9			8.99	22.24	28.91
2	Iceland	Directors	9.3			6.04	17.11	26.32
3	Travis Perkins	ERA Travis (Chairman)	9.0			8.71	20.10	24.15
4	Fine Art Developments	K Chapman (Chairman)	8.6			12.06	21.82	27.56
5	INVESCO	ESO Trust	8.3			4.76	10.52	14.91
6	Kwik Fit Holdings	T Farmer (Chairman)	8.0			14.38	26.13	34.43
7	St James's Place	Lord Rothschild (Chairman)	7.7			14.10	24.64	28.91
8	Lloyds Chemists	AJ Lloyd (Chairman)	7.5			6.78	17.16	26.97
9	Berisford	ABF	7.0	Rockwood	5.06	14.71	29.05	36.49
10	Hays	R Frost (Chairman)	5.0			10.48	20.78	26.93
11	United Friendly	RE Balding (MD)	4.3			6.09	16.38	23.63
12	Brown N Group	ESO Trust	3.9			6.51	12.09	15.39
13	Halma	DS Barber (Chairman)	3.7			10.50	21.38	28.31
14	Scottish & Newcastle	Directors	3.2			12.43	20.52	26.06
15	Carlton	Michael Green (Chairman)	2.3			10.58	17.40	22.84
16	Hazlewood Foods	Peter Barr (Chairman)	2.2			9.83	19.77	25.67
17	Diploma	AC Thomas (Chair/CEO)	1.9			8.56	21.17	31.43
18	Fairey	D Kingsbury (Chairman)	1.9			7.05	17.12	23.36
19	Baird William	J Jackson, NED	1.6			17.54	33.20	41.68
20	GEC	Directors	1.5			6.47	12.34	16.52
21	Bowthorpe	W Penny, NED	1.1			8.08	20.70	29.49
22	Watmoughs	PE Walker (Chairman)	1.0			6.21	17.60	24.83
		Average	4.95			9.58	19.96	26.58

Appendix E.7: Private and family NFS with shareholdings above 10%

	Company	Holdings > 10%	Holding	Second NFS	Holding	Type	Largest	Top 3	Top 5
1	DFS Furniture	Kirkham family	43.4			Family	7.51	16.33	22.12
2	Nurdin & Peacock	CH & WM Peacock	38.6	Makro NV	14	Private	4.76	10.25	15.39
3	Caledonia Investments	Cayzer Family Trust	36.8			Family	10.67	23.44	28.24
4	Schroders	Vincitas / Veritas	33.8			Private	8.27	14.6	18.42
5	Bilton	Glazehazel IT	29.4	Bilton Charity	5.34	Private	11.48	23.35	28.7
6	Christies International	Abel Inc	25.3			Private	12.56	27.98	33.68
7	Wilson Connolly	LA & FCT Wilson	23.6			Family	5.52	11.97	17.26
8	Greenalls	Daresbury/Hatton/Brown	19.1			Private	7.95	21.57	27.68
9	Morrison WM	AR Wilson	14.2	NG & SB Pritchard	12.4	Private	5.01	11.24	15.2
		Average	**29.36**			**Average**	**8.19**	**17.86**	**22.97**

Appendix E.8: Private and family NFS with shareholdings below 10%

	Company	Largest NFS	Holding	Second NFS	Holding	Type	Largest	Top 3	Top 5
1	Bryant	AC Bryant & Trust	9.3			Family	7.98	16.08	22.99
2	St Ives	R Gavron	6.7			Private	13.53	29.38	39.3
3	MEPC	HJ Hyams	5.3			Private	16.34	38.17	41.91
4	Slough Estates	Hack/Heathers/Others	5.0			Private	8.05	18.13	25.95
5	Christian Salvesen	AEH Salvesen	4.6			Family	6.53	13.19	16.9
6	Cowie	Sir Tom Cowie	3.9			Private	8.82	19.22	26.05
7	Stakis	R Capoynapolous	3.3	Sir Reo Stakis	1.8	Private	8.36	17.68	24.06
8	Cray Electronics	RM Holland	3.1			Private	7.22	20.46	26.67
		Average	**5.15**			**Average**	**9.60**	**21.54**	**27.98**

Appendix E.9: Charitable & trust shareholdings

	Company	Largest NFS	Holding	Second NFS	Holding	Type
1	GUS	Wolfson Foundation	8.6			Charity
2	Laing J	Rufford Foundation	9.2	Eskmuir Ltd	6.25	Charity
3	M&G	Esmee Fairburn Trust	33.5			Charity
4	Unilever	Leverhulme Trust	5.4			Charity
5	Wimpey G	Grove Charity	4.0			Charity

Appendix E.10: Cross-holdings

	Company	Largest NFS	Holding	Second NFS	Holding	Type
1	Highland Distilleries	Edrington Holdings	20.0	Andromede Inv.	9.5	Cross-Holdings
1	Pearson	Lazard Freres	8.7	David Weil	8.7	Cross-holdings

Appendix E.11: Government shareholdings

	Company	Largest NFS	Holding	Second NFS	Holding	Type
1	Mersey Docks and Harbour	Treasury Solicitor	13.8			Government
2	Northern Ireland Electricity	Treasury Solicitor	3.3			Government

Appendix E.12: Unidentified/unclassified shareoldings

	Company	Largest NFS	Holding	Second NFS	Holding	Type
1	Chelsfield	Summerwind	12.5	Competrol	10.1	Not known
2	Cobham	Falaisse Investments	4.8			Not Known
3	London International	Powerstock Ltd	3.7			Not known

Appendix F

Appendix F.1: Top 300 companies with market capitalisations above £10 billion

			Cap.	**Financial shareholders**					**Gini**	**Herfindahl**
	Company	**Index**	**£ m**	**Largest**	**Top 3**	**Top 5**	**Top 10**	**Top 20**	**Coefficient**	**Index**
1	Glaxo Wellcome	FTSE 100	32,071	3.70	8.38	12.12	19.43	28.65	0.42	0.062
2	BP	FTSE 100	29,326	5.95	13.11	17.47	26.10	36.08	0.40	0.074
3	Shell	FTSE 100	28,339	3.91	10.68	14.34	22.19	31.31	0.38	0.059
4	HSBC	FTSE 100	28,234	5.81	12.80	18.86	28.36	40.39	0.36	0.068
5	Unilever	FTSE 100	26,260	5.74	10.14	13.60	20.99	30.72	0.34	0.074
6	British Telecom	FTSE 100	22,141	3.56	8.34	12.17	19.26	28.05	0.32	0.063
7	BAT	FTSE 100	17,622	4.29	10.18	15.57	24.58	35.28	0.30	0.063
8	Lloyds TSB	FTSE 100	17,021	13.24	23.96	31.13	42.85	58.78	0.28	0.092
9	Barclays	FTSE 100	12,821	6.65	13.89	19.16	28.54	38.83	0.26	0.075
10	Marks & Spencer	FTSE 100	12,325	5.52	10.39	14.30	21.60	30.53	0.26	0.115
11	BTR	FTSE 100	12,257	3.32	8.39	12.48	20.32	31.11	0.26	0.059
12	Zeneca	FTSE 100	11,937	11.19	17.82	22.35	30.28	40.45	0.26	0.111
13	NatWest	FTSE 100	11,778	6.68	14.23	18.17	26.17	35.89	0.24	0.088
14	Hanson	FTSE 100	10,613	2.77	6.82	10.06	15.95	24.42	0.22	0.060
15	Reuters	FTSE 100	10348	5.32	12.76	17.29	24.37	31.82	0.22	0.058
16	British Gas	FTSE 100	10,334	3.44	9.15	13.72	22.47	32.65	0.22	0.061
17	SmithKline Beecham A	FTSE 100	10,186	4.46	12.28	17.32	25.75	35.29	0.22	0.063
	> £10bn	**Average**	**17,860**	**5.62**	**11.96**	**16.48**	**24.66**	**34.72**	**0.29**	**0.073**

Appendix F.2: Top 300 companies with market capitalisations of £5 - £10 billion

			Cap.	Financial shareholders					Gini	Herfindahl
	Company	Index	£ m	Largest	Top 3	Top 5	Top 10	Top 20	Coefficient	Index
1	GEC	FTSE 100	9,903	6.47	12.34	16.52	25.24	37.32	0.50	0.071
2	RTZ	FTSE 100	9,668	10.43	18.01	22.45	30.63	40.00	0.46	0.068
3	Cable & Wireless	FTSE 100	9,571	3.99	10.00	14.24	21.21	29.97	0.44	0.068
4	Guinness	FTSE 100	9,479	4.73	10.14	13.53	20.69	28.66	0.44	0.074
5	Grand Metropolitan	FTSE 100	9,418	3.88	10.27	15.17	23.78	34.70	0.40	0.063
6	Prudential	FTSE 100	8,156	4.41	9.95	15.05	25.22	37.21	0.38	0.071
7	Abbey National	FTSE 100	8,107	4.63	7.78	10.06	15.03	22.30	0.36	0.079
8	Thorn EMI	FTSE 100	7,179	9.50	17.39	23.71	33.80	46.19	0.34	0.058
9	Vodafone	FTSE 100	7,101	14.83	25.59	30.04	38.94	50.77	0.32	0.126
10	GUS	FTSE 100	7,060	12.38	23.10	27.02	35.38	45.10	0.32	0.129
11	BSkyB	FTSE 100	6,843	1.09	2.90	4.33	13.48	18.56	0.32	0.122
12	Bass	FTSE 100	6,408	4.31	9.95	14.43	23.39	36.40	0.30	0.059
13	Tesco	FTSE 100	6,300	4.09	10.55	14.89	24.12	36.28	0.28	0.070
14	Standard Chartered	FTSE 100	6,167	6.46	15.84	22.66	32.36	45.91	0.28	0.063
15	Granada	FTSE 100	6,071	14.00	20.42	26.07	35.94	47.68	0.28	0.118
16	Boots	FTSE 100	5,895	3.86	9.33	13.96	21.51	31.88	0.28	0.062
17	ICI	FTSE 100	5,820	10.85	15.44	19.31	27.28	36.35	0.26	0.119
18	Reed	FTSE 100	5,748	7.59	15.86	20.69	29.97	40.94	0.26	0.108
19	Allied Domecq	FTSE 100	5,439	7.23	17.99	22.62	32.60	45.46	0.26	0.077
20	Cadbury Schweppes	FTSE 100	5,323	4.17	10.28	14.39	22.25	32.55	0.22	0.065
21	BAA	FTSE 100	5,089	7.90	16.10	22.36	32.01	43.19	0.22	0.079
22	British Airways	FTSE 100	5,076	9.96	18.92	23.66	30.78	39.76	0.20	0.110
	£5 - 10bn	**Average**	**7,083**	**7.13**	**14.01**	**18.51**	**27.07**	**37.60**	**0.32**	**0.085**

Appendix F.3 Top 300 companies with market capitalisations of £3 - £5 billion

			Cap.	Financial shareholders					Gini	Herfindahl
	Company	Index	£ m	Largest	Top 3	Top 5	Top 10	Top 20	Coefficient	Index
1	National Power	FTSE 100	4,933	3.43	7.51	11.10	17.00	24.57	0.66	0.081
2	RBS	FTSE 100	4,742	11.56	16.93	21.47	29.88	38.25	0.52	0.060
3	BOC Group	FTSE 100	4,409	4.56	12.18	18.52	28.93	42.04	0.50	0.062
4	Commercial Union	FTSE 100	4,129	8.41	16.32	22.07	30.31	39.85	0.42	0.090
5	Rank	FTSE 100	3,797	6.75	18.48	24.57	35.43	48.36	0.42	0.123
6	British Aerospace	FTSE 100	3,792	8.65	16.80	20.93	30.07	42.94	0.40	0.082
7	Scottish & Newcastle	FTSE 100	3,777	12.43	20.52	26.06	36.78	50.02	0.38	0.058
8	Argyll Group	FTSE 100	3,772	3.76	9.12	13.71	23.42	35.11	0.38	0.058
9	PowerGen	FTSE 100	3,764	4.64	8.24	11.49	18.65	25.67	0.38	0.064
10	Forte	FTSE 100	3,761	11.91	18.61	23.42	32.96	44.16	0.38	0.107
11	Bank of Scotland	FTSE 100	3,677	32.34	37.33	40.26	45.43	52.20	0.36	0.394
12	Pearson	FTSE 100	3,618	10.10	19.00	24.81	32.71	44.02	0.36	0.093
13	Kingfisher	FTSE 100	3,593	13.04	21.59	26.63	37.06	48.24	0.36	0.111
14	Scottish Power	FTSE 100	3,577	5.64	12.72	18.08	27.76	38.84	0.34	0.073
15	Legal & General	FTSE 100	3,513	5.67	13.07	18.97	30.51	41.60	0.32	0.068
16	British Steel	FTSE 100	3,419	17.79	26.63	30.73	38.21	47.81	0.32	0.168
17	P&O.	FTSE 100	3,326	6.76	15.50	21.63	31.76	44.22	0.32	0.096
18	Whitbread	FTSE 100	3,319	10.09	17.33	23.23	34.31	48.94	0.32	0.081
19	Tomkins	FTSE 100	3,318	3.10	8.95	13.89	24.43	39.06	0.28	0.123
20	Siebe	FTSE 100	3,307	4.01	10.65	15.75	25.00	38.41	0.26	0.075
21	Land Securities	FTSE 100	3,183	7.69	19.03	24.77	34.70	46.06	0.26	0.086
22	General Accident	FTSE 100	3,179	4.86	12.87	19.12	30.83	44.47	0.22	0.062
23	ASDA	FTSE 100	3,094	9.26	18.11	25.13	35.22	48.16	0.22	0.081
24	Sun Alliance	FTSE 100	3,091	10.27	16.79	21.20	30.48	44.50	0.22	0.097
	£3 - 5bn	**Average**	**3,670**	**9.03**	**16.43**	**21.56**	**30.91**	**42.40**	**0.36**	**0.100**

Appendix F.4: Top 300 companies with market capitalisations of £2 - £3 billion

			Cap.	Financial shareholders					Gini	Herfindahl
	Company	**Index**	**£ m**	**Largest**	**Top 3**	**Top 5**	**Top 10**	**Top 20**	**Coefficient**	**Index**
1	Reckitt & Colman	FTSE 100	2,971	4.09	8.88	13.25	21.52	33.18	0.18	0.055
2	Rolls Royce	FTSE 100	2,921	13.77	22.94	28.47	37.39	49.11	0.24	0.064
3	GKN	FTSE 100	2,820	7.28	15.14	21.14	30.38	42.14	0.34	0.075
4	Wolseley	FTSE 100	2,551	5.12	13.67	20.87	31.82	46.52	0.26	0.062
5	Royal Insurance	FTSE 100	2,526	6.37	13.24	18.62	28.70	43.41	0.42	0.106
6	Blue Circle	FTSE 100	2,479	9.49	17.43	23.05	34.37	46.34	0.36	0.084
7	RMC Group	FTSE 100	2,423	21.25	29.03	34.68	44.03	54.24	0.42	0.116
8	Carlton	FTSE 100	2,415	10.58	17.40	22.84	32.10	42.50	0.38	0.099
9	3i	FTSE 100	2,414	17.11	27.97	34.48	41.82	50.91	0.52	0.152
10	Schroders	FTSE 100	2,395	8.27	14.60	18.42	23.70	29.73	0.38	0.098
11	GRE	FTSE 100	2,356	12.40	19.75	25.53	36.70	50.05	0.36	0.096
12	Severn Trent	FTSE 100	2,294	3.94	9.47	14.76	24.15	36.20	0.30	0.068
13	TI	FTSE 100	2,278	4.10	10.26	15.31	24.92	38.51	0.22	0.062
14	Thames Water	FTSE 100	2,170	6.44	12.77	17.61	27.26	39.11	0.36	0.084
15	Ladbroke	FTSE 100	2,029	4.41	11.68	17.42	27.51	40.24	0.26	0.062
16	Southern Electric	FTSE 100	2,028	7.54	14.24	18.45	25.33	35.13	0.36	0.082
	£2 - 3bn	**Average**	**2,442**	**8.89**	**16.15**	**21.56**	**30.73**	**42.33**	**0.34**	**0.085**

Appendix F.5: Top 300 companies with market capitalisations £1 - £2 billion

			Cap.	Financial shareholders					Gini	Herfindahl
	Company	Index	£ m	Largest	Top 3	Top 5	Top 10	Top 20	Coefficient	Index
1	Burmah Castrol	FTSE 100	1,996	5.38	14.92	21.80	32.03	45.00	0.60	0.068
2	Redland	FTSE 100	1,994	3.60	8.63	13.55	23.94	38.09	0.52	0.082
3	Smith & Nephew	FTSE 100	1,993	7.50	16.39	22.17	34.35	49.71	0.52	0.070
4	Smiths Industries	FTSE 250	1,984	5.80	14.16	19.76	30.53	45.82	0.52	0.063
5	Cookson Group	FTSE 100	1,953	6.53	16.76	23.52	37.95	55.05	0.48	0.063
6	Williams	FTSE 100	1,953	5.22	14.74	22.81	33.42	46.30	0.48	0.068
7	Pilkington	FTSE 250	1,945	17.55	27.94	34.51	45.83	57.61	0.46	0.100
8	Rexam	FTSE 100	1,904	3.82	9.79	15.44	24.98	38.31	0.46	0.179
9	Enterprise Oil	FTSE 100	1,883	11.37	25.06	32.17	40.51	50.94	0.44	0.112
10	Tate & Lyle	FTSE 250	1,878	7.15	16.33	23.37	34.06	46.17	0.44	0.088
11	Burton	FTSE 250	1,858	20.98	36.16	43.63	55.39	66.72	0.44	0.145
12	Argos	FTSE 250	1,812	10.27	25.57	33.53	44.67	57.00	0.44	0.091
13	Courtaulds	FTSE 100	1,795	6.02	17.42	24.01	34.14	48.24	0.42	0.071
14	Greenalls	FTSE 250	1,734	7.95	21.57	27.68	37.78	49.94	0.42	0.085
15	Next	FTSE 250	1,707	10.30	19.56	25.77	37.80	49.57	0.42	0.069
16	British Land	FTSE 250	1,702	13.02	30.10	36.21	47.35	59.47	0.40	0.111
17	Lucas	FTSE 250	1,700	7.87	22.33	30.34	44.04	56.85	0.40	0.069
18	LASMO	FTSE 100	1,670	7.66	18.87	23.75	32.04	41.87	0.40	0.090
19	Dixons	FTSE 250	1,664	9.63	19.36	27.67	40.69	56.14	0.38	0.074
20	MEPC	FTSE 250	1,624	16.34	38.17	41.91	49.85	60.17	0.38	0.074
21	De La Rue	FTSE 100	1,580	9.84	17.89	22.52	31.82	45.28	0.38	0.087
22	Anglian Water	FTSE 250	1,522	6.81	17.00	22.04	32.50	43.53	0.38	0.077
23	Compass	FTSE 250	1,500	5.12	12.57	17.94	28.07	41.27	0.36	0.063
24	BPB	FTSE 250	1,495	13.18	27.77	34.54	45.99	58.64	0.36	0.101

	Company	Index	Cap. £ m	Financial shareholders					Gini Coefficient	Herfindahl Index
				Largest	Top 3	Top 5	Top 10	Top 20		
25	Hays	FTSE 250	1,494	10.48	20.78	26.93	37.77	50.33	0.36	0.090
26	Arjo Wiggins	FTSE 100	1,469	12.40	17.68	21.58	28.85	35.95	0.36	0.148
27	Electrocomponents	FTSE 250	1,468	7.16	15.32	22.21	35.33	51.24	0.34	0.064
28	Sears	FTSE 100	1,453	6.01	13.54	19.11	30.06	45.20	0.34	0.106
29	United News & Media	FTSE 250	1,448	13.10	19.33	25.00	35.85	49.43	0.34	0.102
30	Midlands Electricity	FTSE 250	1,447	5.44	10.82	14.00	19.71	28.83	0.34	0.117
31	Britannic Assurance	FTSE 250	1,431	11.04	25.74	32.78	44.51	59.11	0.34	0.095
32	Inchcape	FTSE 100	1,415	6.35	15.89	20.88	28.96	40.55	0.34	0.078
33	Scottish Hydro-Electric	FTSE 250	1,376	3.40	9.01	14.07	22.79	34.55	0.34	0.069
34	Coats Viyella	FTSE 250	1,336	5.04	13.00	19.62	31.57	46.00	0.34	0.061
35	East Midlands Elect.	FTSE 250	1,331	5.74	15.12	19.92	28.95	41.12	0.34	0.072
36	United Biscuits	FTSE 250	1,327	8.69	18.46	22.63	31.46	44.22	0.32	0.089
37	Caradon	FTSE 250	1,307	4.42	10.06	15.56	26.66	41.42	0.32	0.057
38	Laporte	FTSE 250	1,265	6.70	17.36	23.80	35.18	48.63	0.32	0.072
39	BET	FTSE 250	1,259	6.21	17.14	26.22	42.54	56.32	0.32	0.068
40	Hillsdown Holdings	FTSE 250	1,237	9.24	19.68	25.71	35.92	50.70	0.32	0.079
41	Dalgety	FTSE 250	1,231	14.76	31.60	36.63	45.03	54.91	0.32	0.141
42	Yorkshire Water	FTSE 250	1,231	7.48	18.62	26.34	37.34	48.60	0.32	0.080
43	BBA	FTSE 250	1,228	8.07	20.07	26.94	39.12	55.47	0.32	0.072
44	WPP	FTSE 250	1,223	6.93	16.72	23.29	33.80	45.99	0.30	0.075
45	Storehouse	FTSE 250	1,223	5.91	16.52	24.18	37.27	54.00	0.30	0.088
46	London Electricity	FTSE 250	1,217	5.78	13.54	20.03	31.10	43.52	0.30	0.086
47	Danka Business Systems	FTSE 250	1,192	3.96	8.25	10.54	12.91	14.49	0.30	0.142
48	WH Smith	FTSE 250	1,168	5.52	13.62	19.45	30.43	47.86	0.30	0.059
49	Johnson Matthey	FTSE 250	1,151	13.95	23.51	26.91	33.08	42.05	0.30	0.152
50	EMAP	FTSE 250	1,136	7.97	18.22	23.74	32.37	45.47	0.30	0.079

			Cap.	Financial shareholders					Gini	Herfindahl
	Company	**Index**	**£ m**	**Largest**	**Top 3**	**Top 5**	**Top 10**	**Top 20**	**Coefficient**	**Index**
51	Morrison WM	FTSE 250	1,136	5.01	11.24	15.20	22.91	31.90	0.30	0.065
52	MAI	FTSE 250	1,135	9.62	23.01	28.81	40.33	54.85	0.30	0.074
53	Associated British Ports	FTSE 250	1,100	6.86	18.73	27.88	40.29	55.39	0.30	0.071
54	Northern Foods	FTSE 250	1,095	7.06	12.63	17.49	27.08	39.52	0.30	0.068
55	British Biotech	FTSE 250	1,079	11.00	26.46	33.02	44.88	57.45	0.28	0.097
56	NFC	FTSE 250	1,076	5.48	10.45	14.55	22.30	32.99	0.26	0.086
57	IMI	FTSE 250	1,073	5.59	15.29	22.84	35.02	48.22	0.26	0.068
58	Provident Financial	FTSE 250	1,072	7.28	18.10	25.04	38.87	56.48	0.26	0.061
59	Harrisons & Crosfield	FTSE 250	1,059	10.99	23.80	30.82	41.51	54.07	0.26	0.093
60	Tarmac	FTSE 250	1,055	10.94	20.82	25.44	33.59	45.44	0.26	0.074
61	Yorkshire Electricity	FTSE 250	1,048	7.48	15.20	22.05	33.00	45.71	0.26	0.072
62	Southern Water	FTSE 250	1,033	9.24	17.30	23.57	35.12	47.02	0.24	0.081
63	BICC	FTSE 250	1,027	6.93	14.59	20.10	30.99	43.66	0.20	0.071
64	Unigate	FTSE 250	1,022	5.95	14.92	22.21	34.52	47.80	0.20	0.066
	£1 - 2bn	**Average**	**1,436**	**8.28**	**18.30**	**24.34**	**34.82**	**47.56**	**0.35**	**0.086**

Appendix F.6: Top 300 companies with market capitalisations £500 million - £1 billion

	Company	Index	Cap. £ m	Financial shareholders Largest	Top 3	Top 5	Top 10	Top 20	Gini Coefficient	Herfindahl Index
1	English China Clays	FTSE 250	986	11.16	26.65	35.65	44.57	57.08	0.30	0.100
2	Cray Electronics	FTSE 250	975	7.22	20.46	26.67	37.75	51.22	0.60	0.077
3	M&G	FTSE 250	965	5.15	10.15	14.34	22.65	32.38	0.60	0.354
4	Hammerson	FTSE 250	964	20.94	51.22	56.68	66.56	76.45	0.56	0.163
5	MFI Furniture	FTSE 250	955	9.44	20.54	30.14	45.79	65.76	0.56	0.078
6	Transatlantic Hldgs	FTSE 250	936	23.35	27.06	28.22	29.75	30.62	0.48	0.110
7	Welsh Water	FTSE 250	917	5.84	12.07	17.11	25.68	37.02	0.48	0.069
8	Chubb Security	FTSE 250	913	9.37	21.18	26.77	38.21	51.80	0.48	0.085
9	David S Smith	FTSE 250	901	7.79	17.31	24.46	36.40	51.06	0.48	0.071
10	Racal Electronics	FTSE 250	887	6.64	15.41	21.42	31.65	44.43	0.46	0.075
11	FKI	FTSE 250	884	13.57	25.36	35.05	48.20	61.17	0.44	0.095
12	Morgan Crucible	FTSE 250	876	4.22	12.53	20.39	33.59	48.90	0.42	0.071
13	T&N	FTSE 250	860	14.11	22.86	29.79	41.46	56.90	0.42	0.078
14	Vickers	FTSE 250	859	10.12	22.94	29.88	41.78	54.25	0.42	0.088
15	Farnell Electronics	FTSE 250	859	9.34	21.42	28.13	39.58	55.26	0.42	0.077
16	Booker	FTSE 250	855	14.34	27.28	36.16	49.16	62.83	0.42	0.098
17	Bunzl	FTSE 250	848	10.50	21.66	29.45	44.96	61.43	0.42	0.075
18	Slough Estates	FTSE 250	828	8.05	18.13	25.95	39.97	52.33	0.40	0.068
19	Glynwed	FTSE 250	819	5.17	13.69	20.06	29.33	43.34	0.40	0.064
20	Christian Salvesen	FTSE 250	790	6.53	13.19	16.90	23.16	31.38	0.40	0.089
21	South Wales Electricity	FTSE 250	790	5.57	14.09	19.42	30.04	44.90	0.40	0.095
22	Mirror Group	FTSE 250	789	15.66	24.96	31.47	41.49	54.73	0.40	0.085
23	Bowthorpe	FTSE 250	789	8.08	20.70	29.49	41.30	56.49	0.40	0.075
24	Eurotunnel	FTSE 250	736	1.05	2.85	4.08	5.97	7.05	0.40	0.089

			Cap.	Financial shareholders					Gini	Herfindahl
	Company	Index	£ m	Largest	Top 3	Top 5	Top 10	Top 20	Coefficient	Index
25	Charter	FTSE 250	734	8.56	23.11	30.73	42.72	54.59	0.38	0.086
26	Hepworth	FTSE 250	727	7.78	16.45	24.14	34.73	48.31	0.36	0.072
27	Securicor	FTSE 250	720	15.25	26.75	33.56	44.73	58.86	0.36	0.170
28	Wessex Water	FTSE 250	719	7.99	16.93	23.18	33.26	45.53	0.36	0.077
29	Refuge	FTSE 250	717	11.00	28.50	36.74	46.37	56.40	0.36	0.082
30	Rugby	FTSE 250	691	7.80	18.04	25.77	40.98	55.83	0.34	0.094
31	Sedgwick	FTSE 250	689	21.41	40.47	46.44	56.53	66.65	0.34	0.097
32	Medeva	FTSE 250	686	6.11	15.51	20.36	28.20	38.66	0.34	0.161
33	Allied Colloids	FTSE 250	677	13.67	27.75	34.01	44.47	58.30	0.34	0.108
34	Burford	FTSE 250	646	8.41	20.71	30.04	44.64	59.87	0.34	0.072
35	INVESCO	FTSE 250	638	4.76	10.52	14.91	24.42	34.68	0.34	0.066
36	Willis Corroon	FTSE 250	629	16.29	22.74	27.09	34.60	45.17	0.34	0.156
37	South West Water	FTSE 250	629	12.04	23.62	31.04	41.59	54.03	0.34	0.087
38	United Friendly	FTSE 250	600	6.09	16.38	23.63	36.73	49.87	0.32	0.069
39	Caledonia Investments	FTSE 250	593	10.67	23.44	28.24	34.84	40.86	0.32	0.133
40	Ocean	FTSE 250	588	14.14	25.49	33.18	44.18	55.55	0.32	0.073
41	Northern Ireland Elec.	FTSE 250	586	3.73	8.84	12.54	18.84	26.60	0.32	0.066
42	Northern Electric	FTSE 250	582	8.23	14.94	19.90	27.60	38.27	0.32	0.072
43	Delta	FTSE 250	578	8.63	19.38	28.65	44.92	62.22	0.32	0.068
44	Great Portland	FTSE 250	566	13.12	31.79	39.21	49.70	61.80	0.30	0.110
45	Scapa	FTSE 250	565	15.42	27.46	38.52	51.59	68.18	0.30	0.120
46	Laird	FTSE 250	558	13.41	26.94	37.01	48.33	64.08	0.28	0.092
47	Lloyds Chemists	FTSE 250	557	6.78	17.91	26.01	37.07	47.64	0.28	0.079
48	Wimpey G	FTSE 250	523	11.51	23.49	31.43	42.46	55.54	0.28	0.091
49	Taylor Woodrow	FTSE 250	521	12.83	24.59	32.47	43.73	60.43	0.28	0.061
50	Cowie	FTSE 250	520	8.82	19.22	26.05	36.38	51.42	0.28	0.076

	Company	Index	Cap. £ m	Financial shareholders Largest	Top 3	Top 5	Top 10	Top 20	Gini Coefficient	Herfindahl Index
51	Sema	FTSE 250	513	7.47	18.02	23.45	32.38	39.55	0.26	0.078
52	Fairey	FTSE 250	504	7.05	17.12	23.36	35.46	52.94	0.26	0.066
53	Wassall	FTSE 250	501	3.86	9.22	12.89	20.10	27.75	0.24	0.069
	£500m - £1bn	**Average**	**731**	**9.93**	**20.74**	**27.40**	**37.93**	**50.35**	**0.38**	**0.094**

Appendix F.7: Top 300 companies with market capitalisations below £50m million

			Cap.	Financial shareholders					Gini	Herfindahl
	Company	Index	£ m	Largest	Top 3	Top 5	Top 10	Top 20	Coefficient	Index
1	London and Manchester	FTSE 250	490	4.30	10.94	16.04	25.92	35.86	0.86	0.067
2	Spirax Sarco	FTSE 250	489	10.96	27.77	37.09	51.84	68.40	0.66	0.095
3	Low & Bonar	FTSE 250	488	10.22	18.73	24.50	35.96	53.13	0.62	0.079
4	Amersham	FTSE 250	486	11.22	19.96	26.88	42.83	58.30	0.58	0.078
5	Eurotherm	FTSE 250	486	8.99	22.24	28.91	40.86	53.65	0.56	0.085
6	BTP	FTSE 250	484	10.57	19.16	26.57	40.71	58.04	0.54	0.073
7	Cordiant	FTSE 250	483	7.14	12.46	15.21	18.61	20.61	0.52	0.169
8	Beazer Homes	FTSE 250	480	6.90	18.05	27.38	43.79	60.48	0.50	0.065
9	Berkeley	FTSE 250	478	6.07	16.46	23.06	34.23	49.14	0.50	0.067
10	Wickes	FTSE 250	472	10.37	26.02	39.11	62.16	81.31	0.50	0.070
11	Meyer	FTSE 250	472	7.02	19.24	28.19	43.87	60.49	0.48	0.067
12	Cobham	FTSE 250	468	6.39	17.33	24.00	38.19	54.76	0.48	0.064
13	Croda International	FTSE 250	459	11.93	28.42	37.11	49.93	65.32	0.48	0.093
14	St Ives	FTSE 250	457	13.53	29.38	39.30	50.72	66.09	0.48	0.127
15	Weir	FTSE 250	456	15.11	30.86	41.10	55.06	69.89	0.48	0.097
16	Halma	FTSE 250	452	10.50	21.38	28.31	37.82	49.90	0.46	0.092
17	McKechnie	FTSE 250	445	5.84	15.41	22.72	39.28	59.69	0.46	0.080
18	Courtaulds Textiles	FTSE 250	433	6.80	16.59	25.36	37.53	52.66	0.46	0.067
19	British Vita	FTSE 250	433	6.16	16.32	23.71	35.41	50.13	0.46	0.067
20	Barratt Developments	FTSE 250	432	9.86	20.45	27.99	41.15	57.54	0.46	0.074
21	Unichem	FTSE 250	432	6.03	13.73	20.33	32.39	47.17	0.46	0.063
22	Highland Distilleries	FTSE 250	429	5.64	15.27	23.35	29.82	36.27	0.44	0.094
23	DFS Furniture	FTSE 250	425	7.51	16.33	22.12	31.10	38.96	0.44	0.091

	Company	Index	Cap. £ m	Financial shareholders Largest	Top 3	Top 5	Top 10	Top 20	Gini Coefficient	Herfindahl Index
24	London International	FTSE 250	424	12.51	23.57	31.51	44.25	59.86	0.44	0.076
25	Devro	FTSE 250	423	11.32	20.80	27.05	38.36	53.78	0.44	0.084
26	Capital Radio	FTSE 250	420	8.68	20.64	27.78	39.09	51.48	0.44	0.084
27	Stakis	FTSE 250	419	8.36	17.68	24.06	34.84	47.93	0.42	0.070
28	Vaux	FTSE 250	416	8.14	21.21	29.89	43.19	58.46	0.40	0.073
29	House of Fraser	FTSE 250	414	22.32	30.23	35.91	46.82	58.46	0.40	0.171
30	Monument Oil and Gas	FTSE 250	414	6.52	17.17	23.67	31.29	40.75	0.40	0.060
31	Iceland	FTSE 250	414	6.04	17.11	26.32	41.35	55.65	0.40	0.068
32	Marley	FTSE 250	406	15.78	27.29	33.28	44.13	58.12	0.40	0.085
33	Brixton Estates	FTSE 250	402	18.88	42.68	49.94	61.58	74.40	0.40	0.132
34	Wolverhampton & Dudley Brews	FTSE 250	395	6.23	16.90	25.68	39.36	54.63	0.40	0.066
35	Powell Duffryn	FTSE 250	390	13.47	26.34	34.89	46.20	58.53	0.40	0.074
36	Brown N Group	FTSE 250	387	6.51	12.09	15.39	21.78	27.58	0.40	0.102
37	Hewden Stuart	FTSE 250	379	10.13	17.20	23.77	36.54	53.49	0.38	0.074
38	Travis Perkins	FTSE 250	371	8.71	20.10	24.15	32.13	42.96	0.38	0.065
39	Mersey Docks and Harbour	FTSE 250	371	6.28	16.18	22.76	32.13	44.70	0.38	0.067
40	Lex Service	FTSE 250	369	6.89	17.16	26.97	43.10	58.11	0.36	0.068
41	Aegis	FTSE 250	361	31.69	39.61	45.09	53.69	60.10	0.36	0.297
42	Hambros	FTSE 250	352	14.81	29.57	35.53	46.68	58.49	0.36	0.117
43	Trafalgar House	FTSE 250	350	9.88	18.09	22.67	30.62	36.08	0.36	0.591
44	Albert Fisher	FTSE 250	349	11.73	19.97	25.71	37.22	48.62	0.34	0.098
45	Fine Art Developments	FTSE 250	343	12.06	21.82	27.56	37.49	51.18	0.34	0.095
46	Powerscreen	FTSE 250	343	5.32	13.62	20.75	32.62	46.44	0.34	0.066
47	Wilson Connolly	FTSE 250	340	5.52	11.97	17.26	26.96	39.98	0.34	0.064

	Company	Index	Cap. £ m	Financial shareholders					Gini	Herfindahl
				Largest	Top 3	Top 5	Top 10	Top 20	Coefficient	Index
48	Christies International	FTSE 250	328	12.56	27.98	33.68	41.07	47.41	0.34	0.156
49	Yule Catto	FTSE 250	328	7.44	19.18	25.09	35.02	46.70	0.32	0.081
50	Bradford Property Trust	FTSE 250	317	9.06	14.59	19.18	28.07	36.47	0.32	0.099
51	Kwik Fit Holdings	FTSE 250	316	14.38	26.13	34.43	43.19	53.98	0.32	0.116
52	Menzies J	FTSE 250	305	9.90	19.84	23.46	29.33	33.23	0.30	0.149
53	Watmoughs	FTSE 250	305	6.21	17.60	24.83	36.74	52.84	0.30	0.066
54	Scottish Television	FTSE 250	297	7.12	15.27	21.21	31.60	43.83	0.30	0.063
55	Bryant	FTSE 250	296	7.98	16.08	22.99	35.03	50.42	0.30	0.069
56	Transport Development	FTSE 250	295	17.17	30.23	36.67	50.26	65.62	0.30	0.101
57	Marston Thompson & Evershed	FTSE 250	292	12.12	29.28	41.85	61.09	75.21	0.30	0.058
58	Berisford	FTSE 250	289	14.71	29.05	36.49	47.51	57.19	0.30	0.118
59	Senior Engineering	FTSE 250	287	9.47	23.41	33.45	46.24	61.63	0.30	0.059
60	Chelsfield	FTSE 250	287	6.38	14.80	20.18	27.21	33.04	0.30	0.096
61	St James's Place	FTSE 250	278	14.10	24.64	28.91	37.68	47.88	0.30	0.077
62	First Leisure	FTSE 250	272	6.35	15.69	23.67	36.32	51.20	0.30	0.066
63	TLG	FTSE 250	270	5.14	12.16	17.27	26.76	40.99	0.30	0.055
64	Hazlewood Foods	FTSE 250	240	9.83	19.77	25.67	34.97	46.76	0.30	0.091
65	CAMAS	FTSE 250	239	14.33	32.00	39.15	47.99	60.63	0.28	0.120
66	Laing J	FTSE 250	235	3.29	8.22	10.87	14.27	16.24	0.28	0.114
67	Diploma	FTSE 250	232	8.56	21.17	31.43	44.00	59.40	0.28	0.075
68	Babcock	FTSE 250	230	15.27	29.71	36.39	49.34	62.45	0.28	0.109
69	Persimmon	FTSE 250	223	11.72	21.86	27.55	38.46	51.63	0.28	0.128
70	Nurdin & Peacock	FTSE 250	218	4.76	10.25	15.39	23.21	33.64	0.28	0.108
71	Dawson	FTSE 250	217	23.78	36.30	42.50	52.36	65.88	0.26	0.163
72	Baird William	FTSE 250	213	17.54	33.20	41.68	53.93	67.74	0.26	0.115

			Cap.	Financial shareholders					Gini	Herfindahl
	Company	Index	£ m	Largest	Top 3	Top 5	Top 10	Top 20	Coefficient	Index
73	Takare	FTSE 250	204	9.34	18.73	26.35	39.60	52.73	0.24	0.100
74	Howden	FTSE 250	201	11.35	26.98	36.41	50.93	68.23	0.24	0.080
75	Macallan Glenlivet	FTSE 250	197	25.20	31.17	34.64	40.03	43.44	0.24	0.085
76	Bilton	FTSE 250	189	11.48	23.35	28.70	38.70	49.67	0.22	0.108
77	Hickson	FTSE 250	151	20.89	38.17	49.34	63.57	78.45	0.16	0.117
	< £500m	**Average**	**359**	**10.57**	**21.54**	**28.51**	**39.81**	**52.49**	**0.39**	**0.099**

Appendix G: Market Capitalisations of Top 300 companies
(End-January 1996)

	Company	Index	Capitalisation £ m
1	3i	FTSE 100	2,414
2	Abbey National	FTSE 100	8,107
3	ABF	FTSE 100	3,320
4	Aegis	FTSE 250	361
5	Airtours	FTSE 250	489
6	Albert Fisher	FTSE 250	349
7	Allied Colloids	FTSE 250	677
8	Allied Domecq	FTSE 100	5,439
9	Amersham	FTSE 250	486
10	Anglian Water	FTSE 250	1,522
11	Argos	FTSE 250	1,812
12	Argyll Group	FTSE 100	3,772
13	Arjo Wiggins	FTSE 100	1,469
14	ASDA	FTSE 100	3,094
15	Associated British Ports	FTSE 250	1,100
16	BAA	FTSE 100	5,089
17	Babcock	FTSE 250	230
18	Baird William	FTSE 250	213
19	Bank of Scotland	FTSE 100	3,677
20	Barclays	FTSE 100	12,821
21	Barratt Developments	FTSE 250	432
22	Bass	FTSE 100	6,408
23	BAT	FTSE 100	17,622
24	BBA	FTSE 250	1,228
25	Beazer Homes	FTSE 250	480
26	Berisford	FTSE 250	289
27	Berkeley	FTSE 250	478
28	BET	FTSE 250	1,259
29	BICC	FTSE 250	1,027
30	Bilton	FTSE 250	189
31	Blue Circle	FTSE 100	2,479
32	BOC Group	FTSE 100	4,409
33	Body Shop	FTSE 250	304
34	Booker	FTSE 250	855
35	Boots	FTSE 100	5,895
36	Bowthorpe	FTSE 250	789
37	BP	FTSE 100	29,326
38	BPB	FTSE 250	1,495
39	Bradford Property Trust	FTSE 250	317
40	Britannic Assurance	FTSE 250	1,431
41	British Aerospace	FTSE 100	3,792
42	British Airways	FTSE 100	5,076
43	British Biotech	FTSE 250	1,079

	Company	Index	Capitalisation £ m
280	Weir	FTSE 250	456
281	Welsh Water	FTSE 250	917
282	Wessex Water	FTSE 250	719
283	WH Smith	FTSE 250	1,168
284	Whitbread	FTSE 100	3,319
285	Wickes	FTSE 250	472
286	Williams	FTSE 100	1,953
287	Willis Corroon	FTSE 250	629
288	Wilson Bowden	FTSE 250	341
289	Wilson Connolly	FTSE 250	340
290	Wimpey G	FTSE 250	523
291	Wolseley	FTSE 100	2,551
292	Wolverhampton & Dudley	FTSE 250	395
293	WPP	FTSE 250	1,223
294	Yorkshire Electricity	FTSE 250	1,048
295	Yorkshire Water	FTSE 250	1,231
296	Yule Catto	FTSE 250	328
297	Zeneca	FTSE 100	11,937
		Total	**757,429**
	Market capitalisation	**Jan-96**	**917,300**
		Total/market	**82.6%**

	Company	Index	Capitalisation £ m
233	Siebe	FTSE 100	3,307
234	Slough Estates	FTSE 250	828
235	Smith & Nephew	FTSE 100	1,993
236	SmithKline Beecham A	FTSE 100	10,186
237	Smiths Industries	FTSE 250	1,984
238	South Wales Electricity	FTSE 250	790
239	South West Water	FTSE 250	629
240	Southern Electric	FTSE 100	2,028
241	Southern Water	FTSE 250	1,033
242	Spirax Sarco	FTSE 250	489
243	St Ives	FTSE 250	457
244	St James's Place	FTSE 250	278
245	Stagecoach	FTSE 250	551
246	Stakis	FTSE 250	419
247	Standard Chartered	FTSE 100	6,167
248	Storehouse	FTSE 250	1,223
249	Sun Alliance	FTSE 100	3,091
250	T&N	FTSE 250	860
251	Takare	FTSE 250	204
252	Tarmac	FTSE 250	1,055
253	Tate & Lyle	FTSE 250	1,878
254	Taylor Woodrow	FTSE 250	521
255	Telegraph	FTSE 250	583
256	Telewest Communications	FTSE 250	1,109
257	Tesco	FTSE 100	6,300
258	Thames Water	FTSE 100	2,170
259	Thorn EMI	FTSE 100	7,179
260	TI	FTSE 100	2,278
261	TLG	FTSE 250	270
262	Tomkins	FTSE 100	3,318
263	Trafalgar House	FTSE 250	350
264	Transatlantic Hldgs	FTSE 250	936
265	Transport Development	FTSE 250	295
266	Travis Perkins	FTSE 250	371
267	TT	FTSE 250	478
268	Unichem	FTSE 250	432
269	Unigate	FTSE 250	1,022
270	Unilever	FTSE 100	26,260
271	United Biscuits	FTSE 250	1,327
272	United Friendly	FTSE 250	600
273	United News & Media	FTSE 250	1,448
274	Vaux	FTSE 250	416
275	Vendome	FTSE 250	3,928
276	Vickers	FTSE 250	859
277	Vodafone	FTSE 100	7,101
278	Wassall	FTSE 250	501
279	Watmoughs	FTSE 250	305

	Company	Index	Capitalisation £ m
186	Northern Electric	FTSE 250	582
187	Northern Foods	FTSE 250	1,095
188	Northern Ireland Electricity	FTSE 250	586
189	Nurdin & Peacock	FTSE 250	218
190	Nynex Cablecomms	FTSE 250	800
191	Ocean	FTSE 250	588
192	P&O.	FTSE 100	3,326
193	Pearson	FTSE 100	3,618
194	Pentland	FTSE 250	419
195	Perpetual	FTSE 250	566
196	Persimmon	FTSE 250	223
197	Pilkington	FTSE 250	1,945
198	Powell Duffryn	FTSE 250	390
199	PowerGen	FTSE 100	3,764
200	Powerscreen	FTSE 250	343
201	Provident Financial	FTSE 250	1,072
202	Prudential	FTSE 100	8,156
203	Racal Electronics	FTSE 250	887
204	Rank	FTSE 100	3,797
205	RBS	FTSE 100	4,742
206	Reckitt & Colman	FTSE 100	2,971
207	Redland	FTSE 100	1,994
208	Reed	FTSE 100	5,748
209	Refuge	FTSE 250	717
210	Rentokil	FTSE 100	3,388
211	Reuters	FTSE 100	10,348
212	REXAM	FTSE 100	1,904
213	RMC Group	FTSE 100	2,423
214	Rolls Royce	FTSE 100	2,921
215	Royal Insurance	FTSE 100	2,526
216	RTZ	FTSE 100	9,668
217	Rugby	FTSE 250	691
218	Sainsbury J	FTSE 100	7,225
219	Savoy Hotel A	FTSE 250	400
220	Scapa	FTSE 250	565
221	Schroders	FTSE 100	2,395
222	Scottish & Newcastle	FTSE 100	3,777
223	Scottish Hydro-Electric	FTSE 250	1,376
224	Scottish Power	FTSE 100	3,577
225	Scottish Television	FTSE 250	297
226	Sears	FTSE 100	1,453
227	Securicor	FTSE 250	720
228	Sedgwick	FTSE 250	689
229	Sema	FTSE 250	513
230	Senior Engineering	FTSE 250	287
231	Severn Trent	FTSE 100	2,294
232	Shell	FTSE 100	28,339

	Company	Index	Capitalisation £ m
139	IMI	FTSE 250	1,073
140	Inchcape	FTSE 100	1,415
141	INVESCO	FTSE 250	638
142	Johnson Matthey	FTSE 250	1,151
143	Kalon	FTSE 250	457
144	Kingfisher	FTSE 100	3,593
145	Kwik Fit Holdings	FTSE 250	316
146	Ladbroke	FTSE 100	2,029
147	Laing J	FTSE 250	235
148	Laird	FTSE 250	558
149	Land Securities	FTSE 100	3,183
150	Laporte	FTSE 250	1,265
151	LASMO	FTSE 100	1,670
152	Legal & General	FTSE 100	3,513
153	Lex Service	FTSE 250	369
154	Lloyds Chemists	FTSE 250	557
155	Lloyds TSB	FTSE 100	17,021
156	London and Manchester	FTSE 250	490
157	London Electricity	FTSE 250	1,217
158	London International	FTSE 250	424
159	London Merchant Securites	FTSE 250	226
160	Lonrho	FTSE 250	1,636
161	Low & Bonar	FTSE 250	488
162	Lucas	FTSE 250	1,700
163	M&G	FTSE 250	965
164	Macallan Glenlivet	FTSE 250	197
165	MAI	FTSE 250	1,135
166	Marks & Spencer	FTSE 100	12,325
167	Marley	FTSE 250	406
168	Marston Thompson & Evershed	FTSE 250	292
169	McKechnie	FTSE 250	445
170	Medeva	FTSE 250	686
171	Menzies J	FTSE 250	305
172	MEPC	FTSE 250	1,624
173	Mersey Docks and Harbour	FTSE 250	371
174	Meyer	FTSE 250	472
175	MFI Furniture	FTSE 250	955
176	Midlands Electricity	FTSE 250	1,447
177	Mirror Group	FTSE 250	789
178	ML Laboratories	FTSE 250	660
179	Monument Oil and Gas	FTSE 250	414
180	Morgan Crucible	FTSE 250	876
181	Morrison WM	FTSE 250	1,136
182	National Power	FTSE 100	4,933
183	NatWest	FTSE 100	11,778
184	Next	FTSE 250	1,707
185	NFC	FTSE 250	1,076

	Company	Index	Capitalisation £ m
92	Diploma	FTSE 250	232
93	Dixons	FTSE 250	1,664
94	East Midlands Electricity	FTSE 250	1,331
95	ED&F Man	FTSE 250	411
96	Electrocomponents	FTSE 250	1,468
97	EMAP	FTSE 250	1,136
98	English China Clays	FTSE 250	986
99	Enterprise Oil	FTSE 100	1,883
100	Eurotherm	FTSE 250	486
101	Eurotunnel	FTSE 250	736
102	Fairey	FTSE 250	504
103	Farnell Electronics	FTSE 250	859
104	Fine Art Developments	FTSE 250	343
105	First Leisure	FTSE 250	272
106	FKI	FTSE 250	884
107	Forte	FTSE 100	3,761
108	Gartmore	FTSE 250	505
109	GEC	FTSE 100	9,903
110	General Accident	FTSE 100	3,179
111	General Cable	FTSE 250	423
112	GKN	FTSE 100	2,820
113	Glaxo Wellcome	FTSE 100	32,071
114	Glynwed	FTSE 250	819
115	Granada	FTSE 100	6,071
116	Grand Metropolitan	FTSE 100	9,418
117	GRE	FTSE 100	2,356
118	Great Portland	FTSE 250	566
119	Greenalls	FTSE 250	1,734
120	Guinness	FTSE 100	9,479
121	GUS	FTSE 100	7,060
122	Halma	FTSE 250	452
123	Hambros	FTSE 250	352
124	Hammerson	FTSE 250	964
125	Hanson	FTSE 100	10,613
126	Harrisons & Crosfield	FTSE 250	1,059
127	Hays	FTSE 250	1,494
128	Hazlewood Foods	FTSE 250	240
129	Hepworth	FTSE 250	727
130	Hewden Stuart	FTSE 250	379
131	Hickson	FTSE 250	151
132	Highland Distilleries	FTSE 250	429
133	Hillsdown Holdings	FTSE 250	1,237
134	House of Fraser	FTSE 250	414
135	Howden	FTSE 250	201
136	HSBC	FTSE 100	28,234
137	Iceland	FTSE 250	414
138	ICI	FTSE 100	5,820

	Company	Index	Capitalisation £ m
45	British Land	FTSE 250	1,702
46	British Steel	FTSE 100	3,419
47	British Telecom	FTSE 100	22,141
48	British Vita	FTSE 250	433
49	Brixton Estates	FTSE 250	402
50	Brown N Group	FTSE 250	387
51	Bryant	FTSE 250	296
52	BSkyB	FTSE 100	6,843
53	BTP	FTSE 250	484
54	BTR	FTSE 100	12,257
55	Bunzl	FTSE 250	848
56	Burford	FTSE 250	646
57	Burmah Castrol	FTSE 100	1,996
58	Burton	FTSE 250	1,858
59	Cable & Wireless	FTSE 100	9,571
60	Cadbury Schweppes	FTSE 100	5,323
61	Caledonia Investments	FTSE 250	593
62	Calor Group	FTSE 250	418
63	CAMAS	FTSE 250	239
64	Capital Radio	FTSE 250	420
65	Caradon	FTSE 250	1,307
66	Carlton	FTSE 100	2,415
67	Charter	FTSE 250	734
68	Chelsfield	FTSE 250	287
69	Christian Salvesen	FTSE 250	790
70	Christies International	FTSE 250	328
71	Chubb Security	FTSE 250	913
72	Coats Viyella	FTSE 250	1,336
73	Cobham	FTSE 250	468
74	Commercial Union	FTSE 100	4,129
75	Compass	FTSE 250	1,500
76	Cookson Group	FTSE 100	1,953
77	Cordiant	FTSE 250	483
78	Courtaulds	FTSE 100	1,795
79	Courtaulds Textiles	FTSE 250	433
80	Cowie	FTSE 250	520
81	Cray Electronics	FTSE 250	975
82	Croda International	FTSE 250	459
83	Daily Mail and General Trust	FTSE 250	1,358
84	Dalgety	FTSE 250	1,231
85	Danka Business Systems	FTSE 250	1,192
86	David S Smith	FTSE 250	901
87	Dawson	FTSE 250	217
88	De La Rue	FTSE 100	1,580
89	Delta	FTSE 250	578
90	Devro	FTSE 250	423
91	DFS Furniture	FTSE 250	425

Appendix H: Interviews

Through one-to-one interviews qualitative research was undertaken involving 120 subjects, comprising around one-third each of: company directors and senior executives; directors and senior fund managers in fund management organisations; regulatory and policy and opinion-forming organisations. All but six of these interviews took place in the UK, the others in New York. A list of all those interviewed, their titles and organisations at the time of interviewing is included in Appendix I.

A Objectives

The objectives of these interviews were to provide answers to the following:

1) What aspects of fund management influence the relationship between the institutional investor and listed company and how are these factors changing?

2) How do the information flows that take place between fund managers and the directors of listed companies influence their relationship?

3) What other factors influence the approach taken by a fund manager towards a company about whose performance it is concerned?

4) When a fund manager actively intervenes in the future of a company, how is this undertaken and what are the issues involved?

B Accessing an Elite

It was crucial to this research to access directors and senior managers of companies and fund management organisations actively involved in managing the relationship between the two - and not executives removed from the process.

The approach I adopted was one of 'networking' and not random selection. The first stage of this process was to write to a group of around 30 personal contacts who I thought might know someone in my target group well enough to support an introduction. Around ten friends, business contacts and former colleagues were able to help. I provided them with information about my study, and in most cases they suggested that I sent this same information to their own contacts with their endorsement.

With this material I also enclosed a copy of a paper I co-authored for the Social Market Foundation (Gaved & Goodman 1992) on 'Deeper Share Ownership'. This described some of the trends reviewed in Chapter 3 and a number of 'social market' based policy recommendations.

The endorsement of a mutual personal contact, enclosing a copy of the above paper and writing on 'LSE' notepaper all contributed to my success in arranging these and subsequent interviews[1]. The first interviews took place in May and June 1993 and set the pattern for 'networking' my way to interview subjects with whom I felt that I had little hope of success through direct personal contact.

The majority of interview subjects suggested by the end of their interview and of their own accord the names of other people 'I should speak to'. In a small number of cases I specifically asked for this sort of help; in only four or five cases was it directly refused - and in a few others I decided not to ask for further help. Overall, around three-quarters of interviews resulted in the offer of further contacts, should I need them; in practice, and partly to bring the interviewing programme to a conclusion by the end of 1993, I ceased to try to elicit new contacts after the end of October 1993, which corresponded with my having carried out interviews at 15 out of the top UK fund managers (the final interview in 1993 being with Mercury Asset Management, I also took the opportunity to conduct a double interview at AMP Asset Management in April 1994).

[1] Around 150 potential interview subjects in the UK were contacted through the networking process described. Of these, ten could not be arranged for logistical reasons so my success rate was around 114/140, or over 80%.

This networking process was not entirely random. Researching the interests (eg other directorships, membership of policy and opinion forming organisations) of my interview subjects helped me plan their interview and identify who they would probably know well enough to help me to another interview.

At the end of my research programme I had interviewed 38 directors (Executive and Non-executive) and senior executives of the companies in this universe.

Other interviews and mutiple non-executive directorships meant that I interviewed directors (executive and non-executive) of 99 listed companies.

C Conducting the Interviews

The objectives of the interviews are set out above. In the letters I sent to potential subjects I also said that I would seek to canvas their views about:

- The structural changes that are taking place in the ownership of large quoted companies.

- Changes in corporate relationships with different types of shareholder.

- The potential and practical impact of the changes in institutional ownership, voting and investment strategy that are already starting to take place in the USA, Europe and the UK.

This list provided sufficient scope for my interview subjects to establish that 1) they would be leading the interview (not me) and 2) we would be discussing the areas which they most wanted to talk about. The advance letter also established that the interviews would not be recorded, although I would make notes.

The reason for not using a tape recorder was that I felt that the interview subject would be more relaxed and able to talk about `sensitive' subjects which would inevitably arise (if an interview went well)[2]. This strategy was endorsed by the quality of the interviews that I was able to undertake.

In my initial letter I had suggested an interview of 30 minutes; on the basis that anything less would sound trivial, 45 minutes may have sounded as if the interview was too structured and an hour too presumptive. In practice, few interviews lasted less than an hour; most taking between a few minutes and a quarter of an hour more. The minimum length of interview was 30 minutes, the maximum nearly two hours.

Most of the people I interviewed were relatively relaxed about how much time they had available; how long they spent with me appeared to substantially depend on how interesting *they* found the interview and whether they were personally comfortable with me as an interviewer.

Working with company chairman and chief executives of major companies at this level is very demanding of the interviewer; for my research purposes I needed to cover as much of my agenda as possible - but to keep them interested I had to play to theirs.

Taking notes facilitated this process, as well as demonstrating that I was taking what they said very seriously; I was able to easily refer back to a previous comment in order to `tie things together'; this often helped pin down a third point - the one I was really trying to research. Two other techniques helped the interviewing process:

- Not being afraid to ask simple questions. This approach seems to works like cracking a nut; at the right stage of an interview it is possible to get to the core of an issue from a very simple angle.

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[2] Including for example: insider dealing by market makers; recent takeovers; personal experiences during corporate reconstructions; investment strategy of competing fund managers; failures of regulatory authorities; personal networking amongst senior fund managers.

- Not pursuing a subject beyond the subject's competence; a point at which they may feel that the questioning has become repetitive and the interview uninteresting. Rescuing an interview from a dead end can be very difficult; I discovered that the less it *felt* to the subject like an interview the more material I obtained.

The scope of the interviews was relatively broad, particularly with senior fund managers and company directors with a number of non-executive directorships. Interviews with, for example, more junior fund managers or investor relations managers were usually 'narrower' in focus but a lot more detailed with reference to the practicalities of company fund manager relationships.

D Analysis

I either typed up interview notes directly or dictated them on to tape for a helper to type. Interview summaries on average amounted to around 1,200 words, although were generally longer for fund managers as the subject matter was often more complex and varied than that obtained in company interviews.

The summary for each interview was organised into paragraphs. These were then:

- prefixed with initials to identify the person interviewed,
- allocated a code summarising its subject matter,

and then aggregated with similarly coded paragraphs from others in the same (because the same subject may arise more than once in an interview) and other interviews.

The aggregated interview notes were then used as the basis for the analysis described in Chapters 4, 5, 6 and 7.

Appendix I: Interview Subjects

Mr Rowley Ager	Director	Tesco
Mr John Ainsworth	Fund Manager	Hill Samuel Investment Management Group
Mr Sandy Anson	Policy Unit	Institute of Directors
Mr Nigel Atkinson	Head of Listings	Stock Exchange (London)
Mr Ralph Axford	Pension Fund Manager	Trafalgar House plc
Mr Peter Barnes Wallis	Investor Relations Manager	Rolls Royce plc
Mrs Elisa Bayer	Associate Director	Gerrard Vivian Gray
Mr Nicholas Beale	Project Coordinator	SCITEB
Dr Carolyn Brancato	Research Director	The Conference Board
Mr Alan Bowkett	Chief Executive	Berisford International plc
Mr Donald Butcher	Chairman	UK Shareholders Ass.
Sir Adrian Cadbury	Chairman	Committee on the Financial Aspects of Corporate Governance
Mr David Cairns	Secretary-General	International Accounting Standards Committee
Mr Jonathan Charkham	Former Advisor	Bank of England
Mr Richard Chevenix-Trench	Director	Barings International Investment Management
Mr Alan Clements	Chairman	David S Smith (Holdings)
Mr James L Cochrane	Senior Vice President, Research & Planning	New York Stock Exchange
Sir Brian Corby	Chairman	Prudential Corporation plc
Mr Michael Cormack	Investment Secretary	Scottish Equitable
Mr Bob Cowell	Partner	Makinson Cowell

Mr Andrew Curtis	Director	Nat West Stockbrokers
Mr Charles Curtis	Director	Morgan Grenfell Asset Management
Mr Job Curtis	Fund Manager	Henderson TR
Mr Iain Dale	Chairman	Dale Electric International
Mr Ged R Davis	Head of Group Investor Relations	Shell Limited
Mr Richard Davis	Director	Fulcrum Research
Mr Pete Deighton	Engineering Research/Sales	Smith New Court
Mr Roger Dickinson	Group Company Secretary	Anglian Water
Mr Mike Doherty	Chairman	Norcros
Mr Tony Dye	Deputy Chief Executive	UBS Asset Management
Mr Neil Dunford	Deputy Chairman	Morgan Grenfell Asset Management
Mr Ralph Edmonson	Investor Relations Manager	BAT Industries
Sir John Egan	Chief Executive	BAA plc
Mr Ken Fenlon	Investment Manager	Scottish Provident
Mr Brian Fidler	Finance Director	Christian Salvesen plc
Mr Kennedy C Foster	Secretary	Royal Bank of Scotland
Mr Valentine Furness	Director	SBC Portfolio Management
Mr Clive Gilcrest	Managing Director	Bestrustees
Mr Richard Giordano	Deputy Chairman	Grand Metropolitan plc
Mr S Green	Managing Director	Fraser Green Fund Management
Mr Ray Haines	Director	Lloyds Investment Managers
Mr Martin Hall	Head of Public Policy & External Relations	Stock Exchange

Sir Christopher Harding	Chairman	BET
Mr Mike Hart	Chairman	Foreign & Colonial Investment Management
Mr Andrew Hartley	Portfolio Manager	Scottish Equitable
Ms Jane Henderson	Fund Manager	Life Association of Scotland
Mr Gavin Hepburn	Chairman	Fife Indmar
Mr Paul Heward	Investor Relations Manager	National Power
Mr David Hurst-Brown	Executive Director	S G Warburg
Mr John Jackson	Chairman	Mishcon de Reya
Mr Blenyth Jenkins	Director, Corporate Governance	Institute of Directors
Mr Hugh Jenkins	Chief Executive	Prudential Portfolio Managers
Mr Bill Johnston	Director	NYSE
Mr Peter Jones	Head of Research	Gerrard Vivian Gray
Dr Henry Kaufman	President	Henry Kaufman & Co
Mr Brian Kent	Chairman	Staveley Industries
Mr Mike Keohane	Investor Relations Manager	Scottish Hydro-Electric
Mr A Ketteringham	Director of Public Affairs	TSB Group plc
Ms Lesley Knox	Director	Kleinwort Benson Investment Management
Mr Oscar Lewisohn	Deputy Chairman	S G Warburg
Mr Colin Lever	Senior Partner	Bacon & Woodrow
Mr David Lowe	Assistant Director	Singer & Friedlander Investment Management
Mr Geoffrey Madrell	Chief Executive	Proshare
Mr John Mackinson	Partner	Makinson Cowell

Mr John Mazoni	Group IR Manager	BP International
Mr Jeremy Marshall	Chief Executive	De La Rue
Mr John Martin	Head of Investment	BP Pension Fund
Mr Graham Mason	Director, Corporate Affairs	CBI
Mr John McLachlan	Investment Director	United Friendly Insurance
Mr Colin Mitchell-Rose	Chairman	Craig & Rose
Mr Gerry Mortimer	Associate Director	Smiths Industries
Mr Paul Myners	Chairman	Gartmore Investment Managers
Dr Sandy Nairn	Investment Director	Templeton Investment Management
Mr Colin Nicholl	Director, UK Investments	AMP Asset Management
Mr Peter O'Brien	Head of Investor Relations	Barclays Bank
Dr A O'Dochartaigh	Director of Communication	Bass
Mr Rod O'Donohue	Finance Director	Inchcape
Mr Gavin Oldham	Chief Executive	The Share Centre
Mr Danny O'Shea	Research Director	M&G Group
Mr D Bruce Pattullo	Governor & Group CEO	Bank of Scotland
Mr Mark Phelps	Fund Manager	Kleinwort Benson Investment Management
Dr David Potter	Chairman & CEO	Psion
Mr Julian Potter	Secretary General Committee	Institutional Shareholders
Mr Scott Prentice	Senior Investor Relations Executive	National Westminster Bank
Mr Ashley Rayfield	Investor Relations Manager	BT
Mr Robert Reiner	Vice President	Scudder Stevens Clark

Mr Richard Regan	Manager, Investment Affairs	Association of British Insurers (ABI)
Mr John Rogers	Secretary, Investment Committee	National Association of Pension Funds (NAPF)
Mr Christopher Roshier	Director	European Capital
Mr A Ross Goobey	Chief Executive	Postel
Mr David Rough	Investment Director	Legal & General
Ms Nina Salimbeni	Fund Manager	Lazard Freres
Mr Mike Sandland	Chief Investment Manager	Norwich Union
Mr Geoff Saunders	Fund Manager	Standard Life
Sir Allen Sheppard	Chairman & CEO	GrandMet
Mr Robert E Sherby	Comptroller	AIG
Ms Anne Simpson	Joint Managing Director	PIRC Limited
Mr Humphrey Smeeton	Director	Ocean Trading
Mr George Sofianos	Director, Research & Planning	NYSE
Dr Anthony Spiro	Head of Investor Relations	Tompkins
Mr Colin St Johnson	Managing Director	Pro Ned
Mr George Stuart Clark	Director	European Capital
Mr Christopher Storey	Company Secretary	Vaux
Mr Graham Sweetman	Finance Director	Morgan Crucible
Mr Stuart Tarrant	Group Finance Director	Sedgwick Group
Mr Martin Taylor	Chief Executive	Courtaulds Textiles plc
Mr Martin Taylor	Joint Vice-Chairman	Hanson
Ms L Paige Thompson	MD; Domestic Listings	NYSE
Sir Peter Thompson	Life President	NFC

Mr Francis Tomlinson	Associate Director, Marketing	Nomura Capital Management (UK)
Mr Mike Trippitt	Group Finance Controller	TSB Group plc
Prof. David Tweedie	Chairman	Accounting Standards Board
Mr Stuart Valentine	Director of Research	Proshare
Dr Caroline Vaughan	Chief Executive	Newmarket Venture Capital
Dr Philip Ward	Director Investor Relations	SmithKline Beecham
Mr John Ward	Controller, UK Investments	AMP Asset Management
Mr Brian Watkins	Finance Director	John Mowlem & Co plc
Mr G. Weingarten	Partner	Goldman Sachs
Mr Brian Winterflood	Managing Director	Winterflood Securities
Mr Andy Wrathall	Public Affairs Executive	British Aerospace
Sir Ian Wrigglesworth	Director	Crabtree plc

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Appendix J

Appendix J.1: Summary of Case History companies

	Company	Resigning CEO	Announcement	TSR
CH.1	Cable & Wireless	James Ross	21-Nov-95	7
CH.2	Kingfisher	Alan Smith	27-Jan-95	-22
CH.3	Bradford Property Trust	John Burgess	28-Apr-95	-23
CH.4	Calor Group	Howard Robinson	07-Nov-95	3
CH.5	Lloyds Chemists	Peter Lloyd	13-Jun-95	-45
CH.6	News International	Gus Fischer	16-Mar-95	-20
CH.7	Powell Duffryn	WG Andrews	18-Jul-95	-23
CH.8	Hickson International	Dennis Kerrison	06-Nov-95	-26
CH.9	Kenwood Appliances	Tim Parker	29-Sep-95	-16
CH.10	McDonnell Information	Jerry Causley	15-Aug-95	-52
CH.11	Mowlem (John)	John Marshall	19-Oct-95	-31
CH.12	WEW Group	Peter Carr	07-Nov-95	-49
CH.13	Biotrace International	Brian Levett	24-Nov-95	-42
CH.14	Central Motor Auctions	George Inch	05-Sep-95	-27
CH.15	Hornby Group	Keith Ness	20-Oct-95	-23
CH.16	Intercare Group	Peter Cowan	18-Jul-95	-56
CH.17	JLI Group	Graham Scott	19-Jun-95	-35
CH.18	MR Data	Michael Elliott	25-Apr-95	-44
CH.19	OMI International	Gil Williams	02-Mar-95	-21
CH.20	Platignum	Rob Campbell	08-Aug-95	-73
CH.21	Raine	Peter Parkin	10-Apr-95	-45
CH.22	Rhino Group	Terry Morris	09-May-95	-79
CH.23	United Carriers	Allan Binks	30-Jun-95	-31
CH.24	Upton & Southern	Jeffrey Gould	18-Apr-95	-78
			Average	**-35.5**

Table J.2 Analysis of CEO resignations FTSE 100 companies)

	Resigning CEO (Announced)	Type	Timing/Replacement
Cable & Wireless	James Ross 21 Nov 95	Term	Immediate *(Richard Brown/1 July 96/H&R Block)*
General Accident	WN Robertson 26 April 95	Term	Advance/Successor/Internal *(RA Scott/DepCEO/31 Dec 95)*
Grand Metropolitan	George Bull 17 Oct 95	Chair	Advance/Successor/Internal *(John McGrath/DivExD/1 April 96)*
Kingfisher	Alan Smith 27 Jan 95	Term	Immediate/Successor/Internal *(Geof Mulcahy/Exec Chairman)*
Rank Organisation	Michael Gifford 8 Nov 95	Term	Advance/Successor/External *(Andrew Teare/10 April 96/ECC)*
Rolls Royce	Terence Harrison 21 Dec 95	Term	Advance/Successor/Internal *(John Rose/DivExD/30 April 96)*
Wolseley	Jeremy Lancaster 24 Oct 95	Term	Advance/Successor/Internal *(John Young/DepCEO/1 August 96)*

Table J.3 Analysis of CEO resignations from FTSE Mid-250 companies

	Resigning CEO (Announced)	Type	Timing/Replacement
Bradford Property Trust	John Burgess 28 April 95	Term	Immediate/Successor/Internal *(David Baker & Tim Watts/ExDs)*
Calor Group	Howard Robinson 7 Nov 95	Term	Immediate/Successor/Internal *(John Harris/Operations Director)*
Halma	David Barber 2 Aug 95	Split	Immediate/Successor/Internal *(Stephen O'Shea/Deputy CEO)*
Lloyds Chemists	Peter Lloyd 13 June 95	Term	Immediate/Successor/Internal *(Michael Ward/Finance Director)*
News International	Gus Fischer 16 March 95	Term	Immediate/Successor/Internal *(William O/Neill - until 24 Nov 95)*
Powell Duffryn	Bill Andrews 18 July 95	Term	Immediate/Successor/Internal *(Barry Hartiss/Deputy CEO)*
Waste Management	Edwin Falkman 25 July 94	Chair	Immediate/Successor/External *(Joseph Holsten)*

Table J.4: Analysis of CEO resignations (SmallerCap companies)

	Resigning CEO	Type	Timing/Replacement
Asprey *(Acquired Nov 95)*	Naim Attallah 11 Aug 95	Term	Advance *(Company*
Austin Reed	C Evans 30 Nov 95	Chair	Advance/Successor/Internal *(Christopher Thompson/FD/8 June 96)*
British Data Man.	Stephen Crown 15 Sep 95	Split	Advance/Successor/External *(Ian Pirie/Oct 96)*
Cordiant	Charles Scott 11 Jul 95	Chair	Immediate/Successor/External (Bob Seelert)
Costain	Peter Costain 27 Sept 95	Deputy Chair	Immediate/Successor/Internal *(Alan Lovell/Finance Director)*
Heath (CE)	Peter Presland 16 Nov 95	ExD	Immediate/Successor/Internal *(John MacKenzie Green/ExD)*
Hickson Int.	Dennis Kerrison 6 Nov 95	Term	Immediate *(David Wilbraham/Feb 1996/Laporte)*
Kenwood	Tim Parker 29 Sep 95	Term	Immediate/Successor/Internal *(Tim Beech/Finance Director)*
McDonnell Information	Jerry Causley 15 Aug 95	Term	Immediate *(John Klein)*
Meggitt	Kenneth Coates 4 Dec 95	Split	Immediate/Successor/Internal *(Michael Stacey/Divisional Director)*
Mowlem	John Marshall 19 Oct 95	Term	Immediate/Successor/Internal *(John Gains/Executive Director)*
Thorntons	John Thornton 6 Nov 95	Split	Advance/Successor/External *(Roger Pafford/Jan 96)*
WEW Group	Peter Carr 7 Nov 95	Term	Immediate/Successor/Internal *(Richard Boland/Group MD)*

Table J.5 Analysis of CEO resignations (Fledgling companies)

	Resigning CEO Announced	Type	Timing/Replacement
Avesco	David Murray 17 May 95	Split	Immediate/Successor/External *(David Nicholson/?????)*
Biotrace	Brian Levett 24 Nov 95	Term	Immediate *(James Keir/Feb 96)*
Central Motor Auctions *(Acquired Aug 96)*	George Inch 5 Sep 95	Term	Immediate *(Role>Brian Carter/Group MD)*
Coda Group	Rodney Potts 12 June 95	Split	Immediate *(Robert Brown/FD/12 June 95)*
Conrad Riblat	Peter Goldsmith 7 June 95	ExD	Immediate/Successor/Internal *(Philip Lewis/ExD)*
Cornwell Parker	Martin Jourdan 25 Oct 95	Split	Immediate/Successor/External *(James Moore/???)*
FII Group	Monty Sumray 31 Jan 95	Split	Immediate/Successor/External *(Charles Ryder/Claremont)*
Hampson Industries	Ian Walker 24 July 95	ExD	Immediate *(Christopher Davies/1 Feb 96)*
Hornby Group	Keith Ness 20 Oct 95	Term	Immediate *(Role>ExecChairman/Malcolm Thomas)*
Intercare	Peter Cowan 18 July 95	Term	Immediate *(following buyout)* *(John Parker/4 Dec 95/Barr & Wallace)*
JLI	Graham Scott 22 Feb 95	Term	Immediate *(Role>ExecChairman/Yoav Gottesman)*
Lovell (YJ)	Robert Sellier 23 Oct 95	Term	Advance/Successor/External *(David Heppell/1 Dec 95/G Wimpey)*
MR Data Group	Michael Elliott 25 April 95	Term	Immediate *(Role>ExecChairman/Colin Haylock)*
OMI International	Gil Williams 2 March 95	Term	Immediate *(Role>ExecChairman/Richard Duggan)*
Platignum	Rob Campbell 8 Aug 95	Term	Immediate *(Role>ExecChairman/Nick Smith)*
PWS Holdings	Lord Pearson 20 Jan 95	Split	Immediate/Successor/Internal (Peter Smith/DivDir/20 Jan 95)
Raine	Peter Parkin 10 April 95	Term	Immediate *(Roy Barber/Chairman)*
Rhino Group *(Electronic Boutique)*	Terry Norris 9 May 95	Term	Immediate/Successor/External *(J Steinbrecher/Electronics Boutique)*
Ross Group	Noel Hayes 5 April 95	Split	Immediate/Successor/External *(Marcus Evans/THG Worldwide)*
Sycamore Holdings *(Deans Holdings)*	Andrew Johnson 31 Jan 95	Term	Immediate *(Role>Chairman/Lars Ahrell)*
United Carriers	Alan Binks 30 June 95	Term	Immediate *(Role>Group MD/John Toyne)*
Upton & Southern	Jeffrey Gould 18 April 95	Term	Immediate *(Role>ExecChairman/Ron Trenter)*

Appendix J.6: Advance announcements of CEO resignation

	Company	Resigning CEO	Announcement	TSR
1	Asprey	Naim Attallah	11-Aug-95	-74
2	Austin Reed Group	C Evans	30-Nov-95	-17
3	Avesco	David Murray	n/a	-29
4	British Data Management	Stephen Crown	n/a	-28
5	Coda Group	Rodney Potts	12-Jun-95	-64
6	Conrad Ritblat Group	Peter Goldsmith	07-Jun-95	-42
7	Cordiant	Charles Scott	11-Jul-95	-32
8	Cornwell Parker	n/a	25-Oct-95	-59
9	Costain	Peter Costain	27-Sep-95	-61
10	General Accident	WN Robertson	26-Apr-95	-25
11	Hampson Industries	Ian Walker	24-Jul-95	-23
12	Heath (CE)	Peter Presland	16-Nov-95	-36
13	Lovell (YJ)	Robert Sellier	23-Oct-95	-58
14	PWS Holdings	n/a	20-Jan-95	-38
15	Ross Group	Noel Hayes	05-Apr-95	-64
16	Waste Management Int.	Edwin Falkman	25-Jul-95	-53
17	Bellwinch	Ray Davies	27-Jun-95	-39
18	British Telecom	Ian Vallance	24-Nov-95	-15
19	Hambros	n/a	15-Nov-95	-22
20	Huntingdon International	David Anslow	08-Feb-95	-70
21	OIS Intern. Inspection	n/a	19-Jan-95	-68
22	Rathbone Brothers	Michael Ingall	17-Feb-95	-20
23	Sutcliffe Speakman	n/a	06-Apr-95	-44
24	Sycamore Holdings	Andrew Johnson	19-May-95	-97
25	Wembley	Brian Wolfson	11-Apr-95	-74

Appendix J.7:
Companies < £10 million capitalisation during 12 months before announcement

	Company	Resigning CEO	Announcement	TSR
1	Billam	n/a	n/a	-42
2	Booth Industries	Robert Booth	20-Nov-95	-39
3	Campari International	Kit Maunell	24-Feb-95	-64
4	Campbell & Armstrong	J Naylor	17-Nov-95	-41
5	Craig & Rose	Colin Mitchell-Rose	30-Oct-95	-43
6	Daniels (S)	Peter Daniels	03-May-95	-50
7	Davies (DY)	Martyn Kemp	06-Oct-95	-59
8	EBC Group	Bert Cockroft	22-Nov-95	-35
9	Excalibur Group	Arthur Church	24-Jul-95	-34
10	Kynoch Group	Kevin D'Silva	12-Jan-95	-31
11	Lyles (S)	John Lyles	16-Nov-95	-18
12	Magnolia Group	Rodney Daffern	31-Mar-95	-37
13	Martin International	n/a	13-Jun-95	-19
14	Paramount	n/a	12-Jan-95	-15
15	Penna	Peter Needham	06-Dec-95	-31
16	PEX	Peter Bailey	31-May-95	-32
17	Prime People	n/a	25-Jul-95	-62
18	Quiligotti	James Walton	13-Apr-95	-17
19	Rossmont	Stanley Assiss	29-Dec-95	-21
20	Select Industries	Edward VanDyk	10-Jul-95	-47
21	Victoria Carpet	Michael Allman	29-Dec-95	-40
22	Westminster Scaffolding	TB Greenham	03-Feb-95	-72
			Average	-38.6

Appendix J.8: Companies with 1995 TSR > -15%

	Company	Resigning CEO	Announcement	TSR
1	Acorn	Sam Wauchope	28-Jul-95	27
2	Allen	Donald Geenhalgh	04-Apr-95	5
3	Amstrad	David Rogers	28-Dec-95	93
4	BICC	n/a	n/a	-5
5	BNB Resources	David Norman	31-Jul-95	-8
6	BOC Group	Alexander Dyer	27-Jul-95	2
7	Boddington Group	Hubert Reid	n/a	-7
8	Bowthorpe	John Westhead	15-May-95	3
9	Breedon	John Shields	05-Apr-95	-14
10	British Airways	Colin Marshall	03-Nov-95	30
11	British Dredging	Michael Brown	10-Apr-95	-14
12	BTR	Alan Jackson	19-Jan-95	-9
13	Burn Stewart Distillers	Bill Thornton	n/a	17
14	Burtonwood Brewery	JG Dutton Forshaw	23-Mar-95	1
15	Cable & Wireless	James Ross	21-Nov-95	7
16	CALA	Tony Kelley	24-Oct-95	4
17	Calor Group	Howard Robinson	07-Nov-95	3
18	Carlclo Engineering	John Ewart	19-Jun-95	1
19	Chamberlin & Hill	John Bather	30-Mar-95	-10
20	Compco Holdings	RA Nadler	02-Jun-95	-5
21	Cosalt	EA Brian	20-Jan-95	5
22	English China Clays	A Teare	18-Dec-95	8
23	ETAM	Rodney East	27-Apr-95	-1
24	Evans Halshaw	Arthur Dale	06-Dec-95	13
25	Expamet International	Alex Orr	27-Jan-95	37
26	Farringford	n/a	16-Nov-95	227
27	FII Group	Monty Sumray	31-Jan-95	-14
28	Frogmore Estates	Phillip Davies	28-Apr-95	-12
29	GEI International	Michael Hale	30-Aug-95	41
30	Gerrard & National	Andrew Jones	29-Jun-95	12
31	Gowrings	n/a	09-Jan-95	31
32	Granada	Gerry Robinson	03-Oct-95	25
33	Grand Metropolitan	George Bull	17-Oct-95	-1
34	Halma	DavidBarber	02-Aug-95	-8
35	Helene	Norman Fetterman	19-May-95	-6
36	Henderson Administration	Jeremy Edwards	30-Mar-95	10
37	Hicking Pentecost	John Carlsen	15-Feb-95	2
38	IPECO Holdings	Christopher Johnson	15-Mar-95	17
39	Jacks (William)	n/a	17-Nov-95	5
40	Kalamazoo	Michael Langmore	22-Feb-95	13
41	Laporte	Ken Minton	23-Aug-95	10
42	Lincat Group	Martin Craddock	17-Nov-95	33
43	Lister & Co	Martin Parker	15-Aug-95	0
44	Locker (Thomas)	Peter Douglas	20-Dec-95	7

	Company	Resigning CEO	Announcement	TSR
45	London Electricity	Roger Urwin	08-Aug-95	18
46	Lookers	Ken Martindale	18-Jan-95	42
47	Low & Bonar	Jim Leng	23-Aug-95	34
48	Macdonald Martin	n/a	28-Feb-95	80
49	McLeod Russel Holdings	n/a	21-Nov-95	40
50	Meggitt	n/a	04-Dec-95	2
51	Metalrax Group	Eric Moore	30-Jan-95	7
52	Molins	Peter Greenwood	26-Apr-95	-11
53	More O'Ferrall	Russell Gore-Andrews	05-Oct-95	13
54	MTL Instruments	Barrie Marson	24-Jul-95	10
55	Nurdin & Peacock	n/a	01-May-95	-8
56	Oliver Group	Graham Dunn	22-Feb-95	142
57	Osprey Communications	n/a	10-Jan-95	4
58	Prestwick Holdings	n/a	28-Sep-95	4
59	Prudential Corporation	Nick Newmarch	21-Mar-95	-8
60	Queensborough Hold.	n/a	03-Nov-95	-13
61	Rank Organisation	Andrew Gifford	08-Nov-95	10
62	Rea Brothers International	Tony Hall	04-Apr-95	12
63	Rolls Royce	Terence Harrison	21-Dec-95	0
64	Ropner	Max Gladwyn	05-Oct-95	9
65	Rotork	Tom Eassie	27-Mar-95	1
66	Sanderson Electronics	n/a	16-Nov-95	43
67	Scholl	Neil Franchino	05-Sep-95	14
68	Scottish Radio Holdings	James Gordon	30-Nov-95	27
69	Secure Retirement	A Savery	15-Sep-95	14
70	Spandex	Charles Dobson	16-Mar-95	74
71	St James Beach Hotels	Richie Alleyne	07-Dec-95	25
72	Tams (John) Group	n/a	12-Sep-95	25
73	Tesco	David Malpas	21-Nov-95	38
74	Thorntons	n/a	06-Nov-95	-13
75	TI Group	Christopher Lewinton	20-Mar-95	-1
76	Trade Indemnity Group	Victor Jacob	20-Jan-95	26
77	Trinity Holdings	GH Hollyhead	28-Sep-95	19
78	Triplex Lloyd	Graham Lockyer	11-Jul-95	-8
79	Watts, Blake, Bearne	John Pike	01-May-95	-9
80	Waverley Mining Finance	n/a	21-Nov-95	18
81	Wolseley	Jeremy Lancaster	24-Oct-95	-3
			Average	15.5

Appendix K:

Case Histories of CEO resignations

1. Cable & Wireless
2. Kingfisher
3. Bradford Property Trust
4. Calor Group
5. Lloyds Chemists
6. News International
7. Powell Dyffryn
8. Hickson International
9. Kenwood
10. McDonnell Information Systems
11. Mowlem
12. WEW Group

13 Biotrace
14 Central Motor Auctions
15 Hornby Broup
16 Intercare
17 JLI
18 MR Data Group
19 OMI International
20 Platignum
21 Raine
22 Rhino Group
23 United Carriers
24 Upton & Southern

Case History No. 1 Cable & Wireless

1. Resignation of CEO James Ross announced 21 November 1995.

2. **SHAREHOLDERS**

Top 10 fund managers	Before Oct 95	After May 96	After May 1996	%
Schroder	3.81	4.20	Schroder	4.20
Prudential	2.98	2.93	MAM	3.28
MAM	2.84	3.28	Prudential	2.93
Standard Life	2.08	2.27	Standard Life	2.27
BZW	1.99	2.02	BZW	2.02
L&G	1.68	1.81	L&G	1.81
Hermes	1.56	1.49	Chase	1.81
Norwich Union	1.29	1.33	Hermes	1.49
Threadneedle	1.35	1.26	Norwich Union	1.33
ESN	1.14	0.00	Royal & Sun	1.30
Total	**20.72**	**20.59**	**Total**	**22.44**

Other major shareholders: In January/February 1995 the German telecommunications company VEBA acquired a 10.5% stake in C&W through stockmarket purchases. This followed the announcement of joint-ventures agreement between VEBA and C&W. This cross-holding remained in place during 1996 although recent announcements suggest that the joint-venture and shareholding agreements between the two companies will be unwound in 1997.

3. **PRESS COMMENT**

14 September 1995: 'Duncan Lewis, the chief executive of Mercury Communications who resigned without explanation on Tuesday, had threatened to resign several times since joining Cable & Wireless, Mercury's 80% owner, in 1991, according to colleagues. On each occasion he was talked out of it by Lord Young of Graffham, chairman of C&W. But not this time. Mr Lewis, 44, quit for 'personal reasons' though not family or health reasons which everyone suspects was code for saying that he had argued with either Lord Young or James Ross, chief executive of C&W. After just nine months as boss, Mr Lewis has severed all connections with Mercury and C&W but not to join a competitor.'
(The Times)

15 September 1995: 'Mr Lewis's departure ... [is] now seen to centre on a fundamental policy disagreement with the board [and] has inevitably raised questions about the logic of C&W's commercial strategy, the quality of the company's senior management and its direction. ... [An] analyst said yesterday: 'The company's overall strategy is a mystery to the market'. Investors seem to share their diffidence. Although all the large institutions

are represented among C&W's stockholders, most have holdings which are significantly smaller than would be expected for a company the size of C&W. One fund manager explained: 'It is difficult to be enthusiastic about C&W. There is no clear measure of success. Other companies steam ahead but C&W is always chopping and changing'. ... Mr Ross makes it clear that he has little time for City criticism of the company's strategy. He believes it is tied to last year's financial results, where profits declined after a faltering performance from Mercury. Pre-tax profits fell to £844 from £1bn on a turnover of £5.13. Mercury - the UK's second largest telecoms operator and BT's largest competitor - had allowed its costs to run ahead of revenues.' (Financial Times)

17 September 1995: 'Institutional investors have expressed concern about the role of Lord Young, executive Chairman of Cable & Wireless, in the wake of another abrupt management departure this week. ... One fund manager commented: 'If a company has a strategy that is not paying off, then the finger points at the chairman. I wouldn't say that there was huge satisfaction with him.' Mr Lewis was brought in to turn round Mercury, where profits fell last year by 16% to £203m before exceptional charges of £60m to cover the cost of 2,500 redundancies.' (Independent on Sunday)

18 September 1995: 'Cable & Wireless's top management badly needs to re-establish its reputation with investors. The City's confidence in C&W's strategy was at a low ebb even before the resignation last week of Mr Duncan Lewis, chief executive of the group's Mercury Communications subsidiary. ... Big shareholders and non-executive directors are not currently pressing for a shake-up of top management. But Lord Young, executive chairman, and Mr James Ross, the chief executive cannot allow the appearance of strategic drift to continue. They need to show not only that they know where they wish to take the group but also that they are making progress in getting there.' (Financial Times)

29 September 1995: 'Growing institutional pressure for more radical changes at Cable & Wireless will be strengthened by the re-emergence in the US press of a confidential memo by Duncan Lewis, who resigned unexpectedly as chief executive of Mercury earlier this month. ... the message to the markets is that C&W is going through a tough profits patch at the moment as a result of its involvement in a wide range of new ventures which will come good in the near future. But many institutions are not buying the 'jam tomorrow' argument. ... Unless Lord Young takes action to boost shareholder value now, including a top management reshuffle in which the City has confidence, then he can expect no mercy should he fail to deliver.' (The Guardian)

17 November 1995: 'Investors have two main concerns about Cable & Wireless: management and strategy. Yesterday's announcement by Lord Young that he will stand down as executive chairman in 15 months addresses neither worry. Now that a power struggle has broken out ... it is unclear who will be running the group or where it will be heading in the period before a new chairman is chosen. ... Investors are confused by C&W's continual talks with different possible joint venture partners. There is also scepticism over the group's much-vaunted 'federation', which is supposed to knit together its operations around the globe. But from the outside it is hard to decide whether Lord Young or Mr Ross bears the greater responsibility for the group's drift or whether they are equally responsible. The task for the non-executive directors is to bring the dispute to a successful and swift conclusion.' (Financial Times)

19 November 1995: 'Rarely has the boardroom of a leading British company witnessed such a damaging conflict. The non-executive directors and leading institutional shareholders are determined to bring the battle to an early close to prevent the damage spreading throughout the business. (Sunday Telegraph)

21 November 1995: 'Directors spent yesterday seeking a peace formula that would leave a united board and pacify investors. Shareholders have become increasingly concerned about the group's lack of direction, which has seen the share price fall by more than a fifth since disagreements between the two top directors.' (The Guardian)

21 November 1995: 'One City analyst said 'Institutions want to see a new chairman who has a record of serving shareholders well and who would go about it in a straightforward way at C&W.' (The Independent)

22 November 1995: 'Lord Young of Graffham, chairman of Cable & Wireless since 1991, and Mr James Ross, its chief executive, left the company yesterday after two days of crisis talks failed resolve a rancorous power struggle between the two men. (Financial Times)

23 November 1995: 'Shares in Cable & Wireless broke through their year-high yesterday in the wake of the ousting of Lord Young of Graffham ... and James Ross. The shares ended the day at 466p, up by 37p, or 8.6%. Their previous high was 449p. Analysts said that the shares climbed because C&W was now in a 'no-lose' situation. Investors think that the company will either be taken over or that the new executive team, which has not yet been appointed, will boost the value of the group.' (The Times)

4. SUMMARY

Factors	Cable & Wireless
1 Profits warning/decline	Yes
2 Reduction in dividend	No
3 Fall in share price	Yes
4 Rights issue	No
5 New chairman	No
6 Closures/redundancies	Yes (Mercury)
7 Other factors	Boardroom split between chairman & CEO
8 Shareholders involved	Yes

As James Ross was CEO at the time of the agreement with VEBA it is perhaps unlikely that VEBA will have taken a particularly active role in forcing his resignation, and that of Lord Young, Chairman. These events followed public disagreements amongst members of the C&W board, and it is more likely that the companies' top five or six institutional shareholders (each of whom had stakes of 2.0% or more) will have put pressure on the Chairman, CEO and other members of the board to resolve the situation. Out of these, the four largest shareholders (Schroder, Prudential, MAM and Standard Life) are likely to have played the dominant role. Given their size, it is unlikely that one of these acted as

a 'lead shareholder'. The most likely relationship is that of a loose coalition, operating with limited coordination, but characterised by common interests.

The dispute between Chairman Lord Young and CEO James Ross was resolved by the co-deputy chairman Win Bischoff taking the lead on the board as the most senior non-executive director. As Young was an executive chairman, and his position was anyway undermined by his role in the dispute, Bischoff became the *de facto* head of the board, although was also viewed (Financial Times, 21 November 1995) as being closer to Young than Ross.

In addition to the fall in share price and profits, the major issues were a lack of confidence in the strategic direction of the company and the very public boardroom split between Young and Ross on this issue.

Press accounts during September to November make repeated references to the views of institutional investors and the pressure they were putting on the company to resolve the strategic and boardroom issues. The share price was reported to have risen 9% to its 1995 high the day the resignations were announced.

Case History No. 2 **Kingfisher**

1. Resignation of CEO Alan Smith announced 27 January 1995.

2. SHAREHOLDERS

Top 10 fund managers	**Before** Feb 95	**After** July 95	**After** July 1995	**%**
MAM	8.06	9.74	MAM	9.74
Prudential	5.96	5.80	Prudential	5.80
Schroder	2.85	2.68	Schroder IM	2.68
Norwich Union	2.37	2.34	Norwich Union	2.34
Scottish Widows	2.35	2.29	PDFM	2.31
Citicorp	2.08	***2.08***	Scottish Widows	2.29
Standard Life	2.04	***2.04***	CIN	2.24
Threadneedle	1.90	***1.90***	BZW	2.17
Legal & General	1.80	1.82	Threadneedle	1.82
CIN	1.75	***1.75***	L&G	1.82
Total	**31.16**	**32.84**	**Total**	**33.21**

The two largest shareholders both before and after the resignation of Alan Smith were MAM and Prudential. After his replacement by Geof Mulachy (previously Chairman), Prudential reduced its stake slightly but MAM increased its holding by a fifth, from just over 8% to just under 10%. Both the size of its holding and subsequent action suggests that MAM will have taken a lead role in influencing the course of events, with Prudential taking a more secondary role.

3. PRESS COMMENT

22 January 1995: 'Institutional investors are demanding blood at Kingfisher. They have seen more than £1 bn wiped from the value of their shares in the last year. They may have to wait until the preliminary results in March, but they do seem to want heads to roll. One theory is that Sir Geof Mulcahy, the executive chairman, will move more quickly than that, ousting his chief executive, Alan Smith, at once in order to pre-empt the complaints.' (Independent on Sunday)

22 January 1995: 'After the company's admission of its dire trading performance figures last week, the chief executive, [Alan] Smith, is likely to be leaving. He was recruited to bring expensive retail expertise to the group, but Woolworths, where he was most directly involved, has responded by returning to its former status as the white elephant of the high street. Kingfisher's electrical business, Comet, stunned analysts with the scale of its downturn. When chairman Sir Geoffrey Mulcahy does the round of his institutional shareholders, they will want to know who is to blame and what is being done to put things right. Since Smith's stint with Kingfisher has coincided with a downturn in performance, the City taskmasters are unlikely to see him as the route to salvation.' (Mail on Sunday)

24 January 1995: 'Irate institutional shareholders are calling for heads to roll at Woolworths-to-Superdrug retailer Kingfisher, in the wake of last week's profit warning. One fund manager said chairman Sir Geoffrey Mulcahy - once seen as a High Street visionary - should step down after the shares (down 6p to 393p) nearly halved in the past year.' (Daily Mail)

25 January 1995: 'Directors of Kingfisher, the beleaguered Woolworths and Comet retailer, are to visit institutional investors in an attempt to calm City nerves about the company's performance. Kingfisher has been under mounting pressure since last week, when the group announced a disastrous trading statement which showed that profits at Woolworths would fall by a third and Comet would make a loss for the year. Nigel Whittaker, the corporate affairs director, insisted that the meetings were routine and declined to comment further before the company's final results announcement in March. ... Some City analysts are surprised that the board is considering institutional visits when it has not completed its strategy review. Nick Hawkins, of UBS, said: 'They have not really decided what they are going to do so what will they say? They will probably get shouted at.'' (The Independent)

28 January 1995: 'Non-executive directors of Kingfisher, the troubled owner of Woolworths, B&Q and Comet, yesterday acted to halt the City's loss of confidence in the group by ousting chief executive Alan Smith and finance director James Kerr-Miur. Sir Geoffrey Mulcahy. ... The executive chairman ... will now revert to one of his former roles, as chief executive. Sir Nigel Mobbs, the non-executive deputy chairman, will become non-executive chairman while Kingfisher seeks someone to fill the role on a permanent basis. The shake-up follows a plunge in Kingfisher's share price over the last year - it was the worst performing stock in the FTSE 100 index last year - and a series of trading disappointments.' (Daily Telegraph)

28 January 1995: 'Sir Nigel Mobbs, Kingfisher's non-executive deputy chairman, deserves a degree of congratulation for initiating change within the retailers boardroom. The move shows a welcome willingness to respond to shareholders' disquiet ... The 5% bounce in the share price yesterday is a sign of investors' relief that something at last is being done after a year in which the stock fell by 40%.' (Financial Times)

28 January 1995: 'The shake up was greeted with dismay among investing institutions, who were surprised that Sir Geoffrey had survived the coup. One investor said: 'There is a credibility gap. There needs to be some pretty good explaining done when they come and see us. ... Sir Nigel Mobbs, who led the putsch and has taken over as acting chairman, said that shareholders would see that the right decision had been taken. He talked to about a dozen institutions yesterday and said they now understood the rationale.' (The Guardian)

4. SUMMARY

Factors	**Kingfisher**
1 Profits warning/decline	Yes
2 Reduction in dividend	No
3 Fall in share price	Yes
4 Rights issue	No
5 New chairman	Yes (Deputy chairman)
6 Closures/redundancies	No
7 Other factors	Failure to address problems at Woolworths/Comet
8 Shareholders involved	Yes

Deputy chairman, Sir Nigel Mobbs took the lead in reorganising the board, firing CEO Alan Smith and reappointing chairman Sir Geoffrey Mulachy as CEO. Although only deputy chairman, Mobbs became the *de facto* chairman and independent head of the board in January 1995.

The crisis was triggered by very poor Christmas 1994 trading results from the Woolworths and Comet chains. These problems were seen as both strategic and as indicating a lack of in-depth practical retailing expertise on the board.

Press accounts during January 1995 make repeated references to the views of institutional investors and the pressure they were putting on the company. Immediately after the resignation of Smith and reappointment of Mulachy as CEO, Mobbs had meetings with Kingfisher's major institutional investors in London and Scotland. The share price was reported as rising 5% the day the resignation of Smith was announced.

Case History No. 3: Bradford Property Trust

1. Resignation of CEO John Burgess announced 28 April 1995.

2. SHAREHOLDERS

Top 10 fund managers	**Before** March 95	**After** Sept 95	**After** September 1995	%
Schroder	7.52	8.43	Schroder	8.43
Stanhope PF	3.26	0.00	Gartmore	2.90
BA PF	2.50	2.47	BA PF	2.47
S & F	2.34	2.32	MAM	2.39
MAM	2.13	2.39	I&S	2.33
Equitable	2.08	0.00	S & F	2.32
BZW	1.92	1.99	BZW	1.99
Cazenove	1.68	1.46	Hermes	1.64
Hermes	1.66	1.64	GA	1.59
GA	1.63	1.59	Cazenove	1.46
Total	**26.72**	**22.29**	**Total**	**27.52**

Both before and after the resignation of John Burgess, the Chairman of Bradford Property Trust held 13.36% of the shares and a Non-Executive Director, Mr FJ Reddington, a further 5.63%. The latter was described in the company's 1995 annual report as 'a farmer who has long-standing family connections with the Company'. The CEO resigned shortly after his 61st Birthday.

3. PRESS COMMENT

18 May 1995: 'David Baker and Tim Watts have taken over as joint managing directors of Bradford Property Trust, following the retirement of John Burgess after 18 years as managing director.' (Financial Times)

15 June 1995: 'Lower property trading income last year hit profits at Bradford Property Trust, the UK's largest residential landlord. ... Bradford Property Trust has a long record of generating profits and dividend growth by buying old-style regulated tenancies. ... On a discount to net assets of 5%, Bradford looks expensive compared to conventional property stocks. But its impressive record of dividend growth, reinforced by yesterday's 10% increase, combined with a yield of 4.75%, make the shares better value than they look'. (Financial Times)

4. SUMMARY

Factors	
1 Profits warning/decline	No
2 Reduction in dividend	No
3 Fall in share price	No
4 Rights issue	No
5 New chairman	No
6 Closures/redundancies	No
7 Other factors	No
8 Shareholders involved	No

Case History No. 4: Calor Group

1. Resignation of CEO Howard Robinson announced 7 November 1995.

2. SHAREHOLDERS

Top 10 fund managers	Before Oct 95	After May 96	After May 96	%
M&G	4.07	4.21	M&G	4.21
Sun Life	2.71	2.80	Sun Life	2.80
BZW	1.79	1.44	Morgan Grenfell	1.66
Hermes	1.68	1.57	Hermes	1.57
PDFM	1.43	1.34	BZW	1.49
Britannic	1.36	1.36	Britannic	1.36
ESN	1.34	0.00	PDFM	1.34
Fleming	1.21	0.09	F&C	1.34
Morgan Grenfell	1.17	1.66	Schroder	1.32
Legal & General	1.10	1.13	L&G	1.13
Total	**17.86**	**15.60**	**Total**	**18.22**

Other major shareholders: The Dutch-based energy Group SHV held a 50.04% stake in Calor in August 1995, which through stock market purchases gradually increased to around 51.6% by the end of the year. As majority shareholder with a stake over ten times larger than any other shareholder, the resignation of Howard Robinson will have been a matter for SHV alone.

3. PRESS COMMENT

14 September 1995: 'Calor Group, the bottled and bulk gas supplier, yesterday blamed a mild winter and increased commodity prices for a 16% fall in first-half profits. .. Calor is trying to reduce its dependence on the UK bottled gas market by investing in new

projects in Central and South America with SHV Energy, the privately owned Dutch group that has a controlling stake in Calor.' (Financial Times)

8 November 1995: 'Calor Group said Howard Robinson, its chief executive, was leaving the group after a profit warning wiped £47 million off its stock market value.' (The Guardian)

8 November 1995: 'Howard Robinson is thought to have lost out in boardroom differences to John Harris, managing director of Calor's main liquid petroleum gas business, who will replace him at the head of the group.' (The Independent)

8 November 1995: 'Tension within the group is thought to have increased since April this year when Mr Robinson relinquished his role as managing director of Calor gas, the operating company in Britain and Ireland.. At that time, Mr Robinson made it clear that he wanted to concentrate on Calor's expansion into overseas markets and new business selling mains gas, refrigerants and gas for drinks dispensers. The company, meanwhile, said that it was also planning to appoint a new group finance director.' (Financial Times)

4. SUMMARY

Factors	Calor Group
1 Profits warning/decline	Yes
2 Reduction in dividend	No
3 Fall in share price	Yes
4 Rights issue	No
5 New chairman	No
6 Closures/redundancies	No
7 Other factors	Yes
8 Shareholders involved	No

Press accounts suggest that CEO Howard Robinson had focused too much on developing the international interests of Calor (Financial Times, 8 November 1995) and that following the fall in 1995 (half-year) profits announced in September 1995, and a profit warning on 7 November 1995, was ousted from the board (Independent, 8 November 1995).

Case History No. 5: Lloyds Chemists

1. **EVENT** Resignation of CEO Peter Lloyd announced 13 June 1995.

2. **SHAREHOLDERS**

Top 10 fund managers	Before May 95	After Dec 95	After Dec 95	%
Baring	7.45	6.20	PDFM	6.44
Gartmore	5.57	5.09	Baring	6.20
Lloyds Abbey	5.24	5.25	Lloyds Abbey	5.25
Prudential	3.97	3.49	Gartmore	5.09
L&G	3.26	2.68	Singapore	3.62
PDFM	2.84	6.44	Prudential	3.49
MAM	2.14	0.44	L&G	2.68
Equitable	1.65	1.93	Equitable	1.93
Hermes	1.61	1.59	BZW	1.78
BZW	1.56	1.78	Hermes	1.59
Total	**35.29**	**34.89**	**Total**	**38.07**

Other major shareholders: Just over 10% of the company's shares were held by Chairman Allen Lloyd (7.68%) and CEO Peter Lloyd (2.46%), at the time of the latter's resignation. Although only ranked sixth prior to the resignation, it is particularly notable that PDFM subsequently more than doubled its stake in the company, to become the largest shareholder by the end of the year. This suggests that PDFM may have taken a larger role in influencing events than its ranking indicates.

3. **PRESS COMMENT**

9 March 1995: 'Lloyds Chemists is set to close Supersave, its drugstore chain, with the loss of about 600 jobs. Peter Lloyd, chief executive, said that Supersave had been hit by the supermarkets' expansion into toiletries and the rise of local discount retailers.' (The Times)

14 March 1995**:** 'Peter Lloyd, chairman of Lloyds Chemists, the retail group whose share price slumped after he announced a massive restructuring of the Supersave Drugstore chain last week and refused to comment on the cost, estimated it at £13.4 yesterday and said that 750 jobs would go. Mr Lloyd said 105 of the loss-making Supersave stores would be closed, 27 would be converted to the group's Holland and Barrett healthfood format and the remaining would be turned into a new health and beauty format. ... City analysts were relieved the figure was no higher, but Goldman Sachs retail analyst Rod Whitehead said: 'While this does demonstrate that the company is willing to address the concerns of investors, damage has been done in terms of the credibility of management'.

14 March 1995 continued/ The shares, which fell by a quarter to 214p on the first announcement, nudged up 5p to 219p yesterday. A company spokesman admitted: 'Clearly, it has to some extent damaged confidence, but the company genuinely did not have the figure last week'.' (Daily Telegraph)

14 June 1995: 'A series of board changes have been announced by Lloyds Chemists after Mr Peter Lloyd relinquished his role as chief executive and resigned as a director due to ill health. Mr Lloyd, who has been ill for several months, has been a director on the Tamworth-based chemists and retail group for 16 years. He became chief executive in 1993 when his brother Mr Allen Lloyd, chairman and founder of Lloyds, split the role of chairman and chief executive.' (Birmingham Post)

14 June 1995: 'Lloyds Chemists chief executive Peter Lloyd has resigned and left the board because of 'stress-induced illness'. His chairman and older brother. Allen Lloyd, said he had received 'medical treatment' , but refused to give other details. ... Finance Director Michael Ward becomes managing director. He is replaced by Jonathan Fellows, who joins from Central TV. Some City sceptics were disappointed. They had wanted Allen Lloyd to accept a major shake-up, injecting new blood to improve performance, but he remains firmly in charge.' (Daily Mail)

14 June 1995: 'Peter Lloyd, who helped his elder brother Allen to build up the Lloyds Chemists group, yesterday resigned as chief executive of the group because of ill-health. Allen Lloyd, who founded the group in 1973 with a single pharmacy, said yesterday that his brother had become seriously ill through stress, about a month after the group had announced plans to reorganise its loss-making drugstore business in March. As a result the board had been reshuffled.' (Financial Times)

28 June 1995: 'Lloyds Chemists could soon feature in corporate action. ... The group has had a difficult time, with a wide-ranging reorganisation expected to hit this year's profits. They are likely to fall from £55.5 to around £42m. This month Lloyds was driven into management changes when its chief executive, peter Lloyd, resigned because of ill-health. The shares fell 3p to 211p. They touched 305p earlier this year.'
(The Independent)

4. SUMMARY

Factors	Lloyds Chemists
1 Profits warning	Restructuring charge of £13.4m
2 Reduction in dividend	No
3 Fall in share price	Yes (305p to 211p = 30%)
4 Rights issue	No
5 New chairman	No
6 Closures/redundancies	105 stores to close/750 redundancies
7 Other factors I	Failure to respond to competition
8 Other factors II	Resignation due to stress/ill-health

The group was seen as having failed to respond to competitive pressures on its Supersave chain, the result being the closure of 105 stores and loss of 750 jobs. When announced on 8 March 1995, CEO Peter Lloyd failed to tell investors how much these and other changes would cost, contributing to the 25% fall in share price on 8 March, (Times, 9 March 1995; Daily Telegraph, 14 March 1995). Costs of £13.4m were announced on 13 March 1995. On 13 June 1995 the resignation of CEO Peter Lloyd was announced, due to stress and ill health, following the earlier announcements.

Case History No. 6: News International

1. Resignation of CEO Gus Fisher announced 16 March 1995.

2. SHAREHOLDERS

News International is 81.2% owned by News Corporation, of which the largest shareholder is Rupert Murdoch. No information available on other shareholders.

3. PRESS SUMMARY

16 March 1995: 'Mr Gus Fisher, one of the small inner team of managers who helped Mr Rupert Murdoch run News Corporation, resigned unexpectedly yesterday. No explanation was given and ... no attempt was made to suggest that Mr Fisher, who in 1991 also became chief operating officer of the parent News Corporation, was leaving to pursue other interests. ... For the past year ... Mr Fisher was concentrating on his role at News International in London and less involved in the world-wide business. This suggests that his power within the organisation was on the wane.' (Financial Times)

18 March 1995: 'Rupert Murdoch, the media magnate, wrapped up a busy week at his Wapping headquarters by letting go John Dux, managing director of News International - the latest casualty, in part, of an embarrassing and potentially costly newsprint shortage at the publisher. ... The departure followed the announcement earlier this week that Gus Fisher, chief executive of news international, would be replaced by a long-time Murdoch associate, a fellow Australian, Bill O'Neill. The bloodbath was reminiscent of past visits by Murdoch to his many operations. He is renowned for his whirlwind visits to outposts of his empire, which sometimes lead to management shakeups. ... The clearing of senior executives was apparently triggered by a short-term shortage of newsprint. 'The newsprint shortage has finally hit home', said a senior editor at News International last night.' (The Independent)

18 March 1995: 'News International has been forced to cut back production of The Times, Sunday Times, Sun and News of the World because of a shortage of newsprint. ... News International - which this week announced the abrupt resignation of its chief executive, Gus Fisher - also said that John Dux, managing director of News International Newspapers, would leave the group.' (Title)

19 March 1995: 'Rupert Murdoch's News International moved yesterday to limit the damage following a newsprint shortage and the resignations of senior executives. ... Insiders say the newsprint crisis happened when group managers gambled on trying to force down its price because of the volume they ordered. But they were fighting a seller's market which has seen newsprint prices leap by more that 30%. The misjudgement threatens circulation losses.' (Mail on Sunday)

4. SUMMARY

Factors	**News International**
1 Profits warning	No
2 Reduction in dividend	No
3 Fall in share price	No
4 Rights issue	No
5 Chairman	Rupert Murdoch, controlling shareholder of News Corp.
6 Closures/redundancies	Paper shortages reduce print runs/circulation
7 Other factors I	Negotiations to secure newsprint mishandled
8 Other factors II	Impact on circulation and advertising revenues

The chairman of News International is Rupert Murdoch, majority shareholder (directly and through family trusts and shareholdings) of News International's parent company News Corporation. Murdoch is therefore effectively the controlling shareholder of News International and Gus Fisher's resignation followed a week long visit to the UK, reviewing the UK newsprint problem.

Although no direct job losses were reported (other than Gus Fisher's and a number of other senior News International executives), the failure to secure adequate supplies of newsprint at a time of rising prices meant that circulations of key News International titles had to be reduced (Sun, Times, Sunday Times, News of the World) and paginations reduced, hitting advertising revenues.

Case History No. 7: Powell Duffryn

1. Resignation of CEO William Andrews announced 18 July 1995.

2. SHAREHOLDERS

Top 10 fund managers	Before June 95	After Dec 95	After December 1995	%
M&G	12.74	13.49	M&G	13.49
Morgan Grenfell	6.42	7.25	Morgan Grenfell	7.25
BZW	6.09	5.81	BZW	5.81
AMP	4.30	4.76	AMP	4.76
Britannic	3.68	3.67	Britannic	3.67
Henderson	2.81	2.70	GT	2.90
L&G	2.32	1.92	Henderson	2.70
HSBC	2.21	2.15	HSBC	2.15
CCLA	2.11	0.08	L&G	1.92
L&M	1.87	1.70	L&M	1.70
Total	**44.55**	**43.53**	**Total**	**46.35**

3. PRESS COMMENT

2 June 1995: 'A strong contribution from Teeside and Humberside boosted full year profits and helped Powell Duffryn overcome the adverse effects on its fuel distribution division of a mild winter. Pre-tax profits climbed 10.5% to £36.9m in the year to March 31, as turnover advanced 8.6% to £791.3m. ... A maintained final dividend of 17p ... lifts the total payout to 24.8p (22.9p), from earnings of 33.7p (30.9p) a share.
(The Times)

28 June 1995: 'Mr Bill Andrews, who retires as chief executive of Powell Duffryn after the distribution and engineering group's annual meeting next month, received a 76% pay rise to "£295,000 last year. His basic salary rose from £168,000 to £185,000, according to the group's annual report, and he was awarded a £110,000 performance related bonus. Powell Duffryn said that the bonus reflected the group's performance over the last four years, during which pre-tax profits rose from £28.9m to £36.9m.' (Financial Times)

4. SUMMARY

Factors	Powell Duffryn
1 Profits warning	No
2 Reduction in dividend	No
3 Fall in share price	No
4 Rights issue	No
5 New chairman	No
6 Closures/redundancies	No
7 Other factors	None

Case History No.8: Hickson

1. Resignation of CEO announced 6 November 1995.

2. SHAREHOLDERS

Top 10 fund managers	Before Oct 96	After April 96	After April 1996	%
PDFM	20.89	21.95	PDFM	21.95
AMP	8.91	8.91	AMP	8.91
M&G	8.37	8.40	M&G	8.40
Britannic	7.14	7.34	Britannic	7.34
Prudential	4.03	3.99	Prudential	3.99
MAM	3.17	3.17	MAM	3.17
Clerical Medical	2.86	2.77	Baring	2.90
Schroder	2.84	2.12	Clerical Medical	2.77
Abbey Life	2.76	2.76	Abbey Life	2.76
BZW	2.6	2.56	BZW	2.56
Total	**63.57**	**63.97**	**Total**	**64.75**

3. PRESS COMMENT

7 March 1995: 'The company provided what Unilever ordered and was caught in the soap wars cross fire when Proctor & Gamble claimed the ingredient could damage clothes. ... The aim is to focus on pharmaceutical intermediates ... but there is no quick fix. ... Mr Kerrison reckons that it will take another 18 months to get PharmaChem back to where it was. But has he got that long? **Analysts say investors are becoming impatient** and would succumb to a bid if the price was right. The appointment to the chair, in October [1994], of James Hann, the outspoken former chairman of Scottish Nuclear, is seen as strengthening the company's communication skills.' (Yorkshire Post)

29 March 1995: 'Even though the City has already made allowances for the impact of the soap wars, [Hickson's] shares dipped 4p to 131p after investors were told the dividend was being cut from 8p to 5p.' (Yorkshire Post)

27 April 1995: 'Speciality chemicals group Hickson International has moved quickly to fill the finance director's post vacated by Michael Rowley with the appointment of Justin Court from Wellcome.' (Yorkshire Post)

16 August 1995: 'Analysts were disappointed that Hickson demonstrated little, if any, signs of recovery following its disastrous 1994. Although the impact of losing the Unilever contract was expected, the other hiccups were not.' (Financial Times)

6 November 1995: 'Hickson International. The chemicals group damaged by 'soap wars' and operational problems, today issued a profit warning and announced the departure of its chief executive. Chairman James Hann says a huge shake-up with the disposal of two subsidiaries and the closure of plants would mean 600 job losses and a £13 million exceptional charge.' (Evening Standard)

7 November 1995: 'The City saw yesterday's news as evidence that tough chairman James Hann was getting to grips with the business.' (Yorkshire Post)

9 November 1995: 'Mr Kerrison took over as chief executive after more than two years of boardroom and financial upheaval, during which the chairman, finance director and chief executive had resigned unexpectedly. .. 'Obviously the combination of the industrial accidents and the woes of the Unilever contract were beyond Mr Kerrison's control said one analyst. 'But he has never been able to get his arms around the business'.' (Financial Times)

12 November 1995: James Hann, the chairman of troubled chemicals company Hickson International, says he can turn around its fortunes after ousting chief executive Dennis Kerrison last week. ... Hann claims to have won the backing of its biggest shareholders - **Phillips and Drew Fund Management, Prudential & M&G** - for the recovery strategy. PDFM, which has increased its stake from 5% to 22% over the last two year years, is smarting from losses of around £40 million on its holding. ... Hann said that Kerrison failed to get to grips with Hickson's problems.' (Mail on Sunday)

4. SUMMARY

Factors	Hickson International
1 Profits warning/decline	Yes
2 Reduction in dividend	Yes
3 Fall in share price	Yes
4 Rights issue	No
5 New chairman	Yes
6 Closures/redundancies	Yes
7 Other factors	Yes
8 Shareholders involved	Yes

Hickson suffered a number of substantial problems in 1994, including a factory fire and the loss of a major contract with Unilever. But analysts and investors became concerned that the company was not effectively responding to these during 1995.

Chairman James Hann (appointed December 1994) held meetings with Hickson's major shareholders (PDFM, Prudential, M&G) during November 1995 on the management and strategic direction of the company (Mail on Sunday, 12 November 1995).

Case History No. 9: Kenwood

1. Resignation of CEO Tim Parker announced 29 September 1995.

2. SHAREHOLDERS

Top 10 fund managers	Before Aug 95	After Feb 96	After February 1996	%
Schroder	7.63	9.86	Schroder	9.86
BoS	5.86	6.42	BoS	6.42
MAM	4.95	1.66	HSBC	5.03
Baillie Gifford	4.50	2.20	Scottish Widows	4.30
Scottish Widows	4.30	4.30	Sun Life	4.08
Chase	3.44	3.11	Chase	3.11
Standard Life	3.37	0.76	NatWest	3.09
Sun Life	3.12	4.08	NFU Mutual	3.05
NFU Mutual	2.94	3.05	M&G	3.01
Liverpool Victoria	2.46	2.40	BZW	2.86
Total	**42.57**	**37.84**	**Total**	**44.81**

Tim Parker held 1.64% of Kenwood at the time of his resignation from the company.

3. PRESS COMMENT

30 September 1995: 'Tim Parker, chief executive of Kenwood Appliances, is soon to step into a new pair of shoes. He is leaving the teamaker and toasters outfit to become the new boss at C&J Clark; maker of the famous Hush Puppies brand and Britain's second largest private company.' (Daily Telegraph)

30 September 1995: 'Kenwood Appliances chief executive Tim Parker is getting out of the kitchen to join shoe firm C&J Clark. Kenwood shares tumbled 25p to 235p after the surprise announcement, but steadied to 250p after it said that there were no 'black holes'. Kenwood has grown substantially since Parker led a buyout from Thorn EMI 10 years ago, but its shares are below the 285p at which they were floated in 1992. That caused some disenchantment. Standard Life cut its stake, But Parker says his move is 'just a case of Man gets Bigger Job'. ... He has 750,000 shares. He says: I have no

intention of selling. I think they are undervalued.' Kenwood faces tough competition from giant rivals, but a 5.5% yield should prop the shares.' (Daily Mail)

4. SUMMARY

Factors	Kenwood
1 Profits warning/decline	No
2 Reduction in dividend	No
3 Fall in share price	No
4 Rights issue	No
5 New chairman	No
6 Closures/redundancies	No
7 Other factors	No
8 Shareholders involved	No

Case History No. 10: McDonnell Information Systems

1. Resignation of CEO Jerry Causley announced 15 August 1995.

2. SHAREHOLDERS

Top 10 fund managers	Before July 95	After Jan 96	After January 1996	%
Fidelity	9.96	10.45	Fidelity	10.45
Prudential	8.73	9.23	Prudential	9.23
MAM	8.12	0.09	Schroder	5.27
Commercial Union	4.25	3.90	PDFM	4.75
Clerical Medical	3.62	2.75	Commercial Union	3.90
PDFM	3.31	4.75	BZW	3.26
BZW In	3.23	3.26	Bankers Trust	3.02
Morgan Grenfell	3.05	0.70	Clerical Medical	2.75
Citicorp	2.71	1.44	BoS	1.79
L&G	2.40	1.50	Baring	1.66
Total	**49.38**	**38.07**	**Total**	**46.08**

At the time of his resignation, Jerry Causley held 2.39% of the shares in McDonnell Information Systems.

3. PRESS COMMENT

11 January 1995: 'About 332m - 30% - was wiped off the value of McDonnell Information Systems, the computer software group, triggered by its second profits warning in four months. [The] shares slumped 32p, from 106p to 74p, in MDIS, the

biggest of a string of computer business flotation flops last year, after it said that 1994 profits would significantly undershoot revised market expectations.' (The Independent)

11 January 1995: 'An immediate casualty of MDIS's troubles appeared to be Ian Knox, who has resigned as finance director and will be succeeded by Richard Barfield, his deputy, who joined in September. Ian Hay Davidson, chairman, and Jerry Causley, chief executive, intend to remain in their posts.' (The Times)

1 March 1995: 'McDonnell Information Systems, the computer software company that issued two profit warnings within 10 months of coming to the market last March, yesterday unveiled plans to cut 100 jobs and slash its research and development budget 20%. Two-thirds of the cuts will be made in Britain.' (Daily Telegraph)

1 March 1995: 'In spite of its troubles, MDIS has protected its cash position, allowing it to maintain an uncovered dividend. This puts the shares on a 10% yield. If the group can achieve its intended cost reductions this year earnings should cover the dividend.' (The Times)

1 March 1995: 'McDonnell Information Systems, the computer software group, is in fence mending talks with institutional shareholders in the shadow of halved full year profits less than 12 months after going public. ... Mr Causley yesterday admitted that he had his work cut out in winning back City credibility, as MDIS's institutional roadshow, taking in the likes of Prudential, Mercury Asset Management, Commercial Union and Fidelity, swung into action. The company ... blamed the profits setback on delays in securing orders from public sector clients, including local authority councils and the police, allied to disappointing orders for its new PRO-IV IBS banking system. (The Independent)

2 May 1995: 'Doug Thompson, the McDonnell Information Systems director responsible for the computer services group's international business units and its international banking systems software, has resigned from the company. ... Following Thompson's departure, Causley will take over direct responsibility for the group's overseas operations.' (Financial Times)

16 August 1995: 'Analysts said they were 'appalled' yesterday as computer software company MDIS put out its third profit warning in less than a year, along with interim results showing a fall into the red. Chief executive Jerry Causley resigned after 25 years in the company.' (Daily Telegraph)

16 August 1995: 'Shares in McDonnell Information Systems slumped 30% to 62.5p after the ... group issued its third profits warning in 11 months, reported a dive into the red for the first half of the year and announced that its chief executive, Mr Jerry Causley, had resigned. Mr Causley's duties will be taken up by Mr Ian Davidson, the non-executive chairman, until a replacement is found. The last profits warning in January prompted the resignation of the finance director.' (Financial Times)

16 August 1995: 'Hired originally as an archetypal 'trophy' chairman designed to bolster the company's credibility, Ian Hay Davidson has been forced into a much more active role. Out goes the chief executive, Jerry Causley, the 'visionary' who failed to deliver.

Out too goes the company's investment bank, Barings, already in truth well out of it, having unloaded a large part of its stake in the company onto hapless investors during the flotation. Issued at 260p, the shares were yesterday trading at 62.5p.' (Independent)

20 August 1995: 'The tale of MDIS is a tangled one, from which few players emerge with credit. The murkiest involvement is that of Barings, leader and dominant player in the syndicate of venture capitalists that saw its equity stake soar in value from £5m to £110m. Between £40m and £50m was taken in profit, although Barings itself hung on to 9% of the company. Barings, as well as being a leading shareholder, was also the company's advisor on the flotation.' (Independent)

21 December 1995: 'Shares in McDonnell Information Systems more than halved today as the troubled computer services group warned that it is passing its final dividend and taking a £20 hit this year to cover rationalisation costs. The warning ... provoked a 32p drop in the shares to 29p, leaving it with a market capitalisation of just £30m. The shares were floated at 260p. ... The £20m exceptional provisions will cover 170 redundancies and a write-down on the disposal of surplus freehold property arising from McDonnell's rationalisation programme.' (Evening Standard)

4. SUMMARY

Factors	McDonnell Information Systems
1 Profits warning/decline	Yes
2 Reduction in dividend	No - but uncovered
3 Fall in share price	Yes
4 Rights issue	No - but floated in 1994
5 New chairman	No
6 Closures/redundancies	Yes
7 Other factors	Third profits warning in 11 months
8 Shareholders involved	Yes (Prudential, MAM, Commercial Union, Fidelity)

Case History No. 11 Mowlem

1. Resignation of CEO John Marshall announced 19 October 1995.

2. **SHAREHOLDERS**

Top 10 fund managers	Before Sept 95	After March 96	After March 96	%
PDFM	23.68	23.68	PDFM	23.68
Morgan Stanley	15.30	10.04	Morgan Stanley	10.04
Baring	5.88	5.91	Baring	5.91
Sun Life	4.95	4.53	Morgan Stanley	4.74
Norwich Union	2.55	2.97	Sun Life	4.53
First Quadrant	2.42	0.00	Norwich Union	2.97
Co-op	2.38	2.38	Cursitor Alliance	2.84
Fidelity	2.15	2.15	Co-op	2.38
BZW	1.97	1.97	Fidelity	2.15
Cursitor Alliance	1.95	2.84	BZW	1.97
Total	**63.23**	**56.47**	**Total**	**61.21**

3. **PRESS COMMENT**

25 March 1995: 'Mowlem has achieved all that could have been asked of it when it went cap in hand to shareholders last March. The shares, up 1.5p at 83p yesterday, are now trading close to asset value. Further gains can be expected this year from improved efficiencies with Mowlem now tackling its French scaffolding problems. (Financial Times)

22 September 1995: 'Shares in construction and scaffolding group John Mowlem dropped 4p to 65p today as it revealed massive half-year losses.' (Evening Standard)

23 September 1995: 'John Marshall does not sound very confident that this time he will finally find a buyer for the City airport. The Mowlem chief executive has been looking for one, on and off, for years, but to get even the knock down price of £319 m, at which the airport stands in Mowlem's books, looks hard. ... Stressed out already by a 15% drop in its order book and other disasters in France and eastern Germany, which have forced it to make provisions of £17.8 m in the first half, it has had enough.' (Daily Telegraph)

23 September 1995: 'John Mowlem, the building contractor, yesterday announced 700 job losses and the sale of several non-core businesses as part of a wide-ranging restructuring.' (Financial Times)

19 October 1995: 'Beleaguered construction group John Mowlem today shocked the City as it parted company with chief executive John Marshall.' Chairman Kenneth Minton says: 'Marshall and the board have decided it was appropriate that they separate. ... Though he has sat on Mowlem's board since 1987, Marshall was only appointed as chief executive in August 1994. ... The shares slumped 3p to 53p on the news.

20 October 1995: 'The market has become so blase about the travails of the construction sector, and especially of J Mowlem, one of its more troubled constituents, that it pretty much shrugged off the departure of the company's chief executive, John Marshall. The shares lost just 3p to 58p, [which] means that they have lost almost 90% of their value since they peaked in 1989. After the announcement a month ago that the company had plunged into a £31.8m loss, manly thanks to the heavy costs of re-focusing itself on a profitable core, it was perhaps no surprise that senior heads would roll.' Ken Minton, chairman since the summer, has clear views about where he should take Mowlem and his ideas clearly did not chime with Mr Marshall's. (The Independent)

27 October 1995: 'In an industry which has been hammered by recession, low inflation, and the shrinkage of government spending, is the problem really one of under-performing managers? Robert Donald, construction analysts at NatWest Securities [said] 'the losses are wholly indicative of the fact that the industry has a grotesque need for restructuring, and certain people at the top are either not performing or are an obstacle to the necessary changes'. (Investors Chronicle)

20 October 1995: 'Mr Marshall's downfall was Mowlem's decision, as an ailing builder, to take on Eagle Star over the Carlton Gate housing development in Maida Vale. Insurance companies do not get to be as rich and powerful as Eagle Star by being over-generous in court, and the latter dug its heels in. Mowlem had been looking for £20 million in damages, but ended with costs of £14 million, which were rolled into last month's halfway loss. (The Times)

4. SUMMARY

Factors	Mowlem
1 Profits warning/decline	Yes
2 Reduction in dividend	No
3 Fall in share price	Yes
4 Rights issue	No
5 New chairman	Yes
6 Closures/redundancies	Yes
7 Other factors	Yes
8 Shareholders involved	No

Significant problems during 1995 which contributed to CEO John Marshall's resignation were: the continuing failure to find a buyer for City airport; unsuccessful litigation with Eagle Star; and problems at Mowlem's French and German subsidiaries.

Case History No. 12: WEW Group

1. Resignation of CEO and Chairman Peter Carr announced 7 November 1995.

2. SHAREHOLDERS

Top 10 fund managers	**Before Oct 95**	**After April 96**	**After April 1996**	**%**
Fidelity	9.86	9.91	Warburg Pincus	23.51
Gartmore	5.74	0.64	Fidelity	9.91
PDFM	4.96	4.56	Chase	5.79
Schroder	4.69	4.69	NatWest	5.26
L&G	3.28	3.36	Schroder	4.69
Lucas PF	2.78	2.78	PDFM	4.56
Citicorp	2.30	2.11	L&G	3.36
M&G	2.24	2.24	Lucas PF	2.78
Abu Dhabi	1.99	1.75	SBC	2.55
BZW	1.72	1.72	M&G	2.24
Total	**39.56**	**33.76**	**Total**	**64.65**

3. PRESS COMMENT

21 June 1995: 'Shares in WEW Group, the owner of the What Everyone Wants discount stores, fell 4p to 20p yesterday as it warned of a trading downturn, partly blaming the arrival of the National Lottery. The group made pre-tax profits in the six months to January of £5.81m but said yesterday that it will move into a loss for the second half of the year. Analysts had expected the full-year outcome to be around £6m.' (Daily Telegraph)

29 October 1995: 'Troubled discount clothing retailer WEW Group is to announce that chairman Peter Carr is stepping down and development director is resigning. The moves come when the What Everyone Wants chain is suffering from like-for-like sales more than 20% down on last year. The scale of the decline is causing alarm in the 80-store company, which has been cancelling orders from suppliers. The problems have also focused attention on the WEW boardroom, where the only non-executive directors represent US investment house Warburg Pincus, which holds 28% of the shares. The company is actively seeking to recruit two independent non-executive directors. ...

29 October 1995 cont/ With the share price languishing around 16p against a rights issue price of 56p early last year, potential bidders are believed to have been looking at WEW. Gerrald Weisfeld, who sold the group five years ago to Philip Green's Amber Day, has approached Warburg Pincus in London and the United States about mounting a bid. However, Warburg Pincus is showing a hefty loss on its investment in the company, with its average buying price around 55p, so it is not keen to sell at the current levels.' (Mail on Sunday)

5 November 1995: 'The shares remain in the doldrums, having lost most of their value over the last two years, on Friday's closing price of 16p. Ever since a profits warning in June that said that the second half might show losses, the City has feared the worst. Part of the problem is the failure of the group's discount stores format to spark the imagination of shoppers. Chairman Peter Carr has few fans in the City, and there is little to commend the shares.' (Independent on Sunday)

8 November 1995: 'Group pre-tax profits showed a 25% increase to £4.1m (£3.25) on turnover up at £122.1m (£111.7m). ... The final dividend is held at 0.35p for a maintained total of 0.7p, payable from earnings of 1.65p (1.35p). (Financial Times)

8 November 1995: 'What Everyone Wants, the regional fashion chain, added to the retailing gloom yesterday, reporting that last year's like-for-like sales fell 9.4%, and have continued to plummet since year end. WEW is to make management changes in a bid to reverse the sales decline. Managing director Richard Boland, hired from Sears home shopping division, Freemans', this summer, becomes chief executive. James Millar, former chairman of William Low, ... is to join the group as chairman. Peter Carr, who had filled both roles, remains as a non-executive director. David Ramage, development director, is to leave to pursue other interests.' (Daily Telegraph)

4. SUMMARY

Factors	WEW
1 Profits warning/decline	No
2 Reduction in dividend	No
3 Fall in share price	Yes
4 Rights issue	No
5 New chairman	Yes
6 Closures/redundancies	No
7 Other factors	20% sales decline
8 Shareholders involved	Yes - Warburg Pincus

The most important factor was the accelerating decline in like-for-like sales from around 10% at the beginning of 1995 to around 20% during year.

US investor Warburg Pincus held 28% of the company's shares and the only non-executive positions on the board during 1995.

Case History No. 13: Biotrace

1. Resignation of CEO Brian Levitt announced 24 November 1995.

2. **SHAREHOLDERS**

Top 10 fund managers	**Before Oct 95**	**After April 96**	**After April 1996**	**%**
Baring	7.79	7.79	Baring	7.79
Gartmore	5.04	0.43	NatWest	4.95
British Gas PF	3.62	2.51	Hermes	2.79
Newton	3.43	1.78	British Gas PF	2.51
Hermes	2.79	2.79	BoS	2.37
BoS	2.68	2.37	Newton	1.78
Chase	0.71	0.71	Rutherford	1.30
Equitable	0.52	0.52	Chase	0.71
Northern Trust	0.44	0.44	Equitable	0.52
Citicorp	0.24	0.31	Northern Trust	0.44
Total	**27.26**	**19.65**	**Total**	**25.16**

3. **PRESS COMMENT**

25 November 1995: 'Biotrace International said that it had terminated the contract of employment of its chief executive, Brian Levett. The company also said that it is likely to make a loss for the year of about £1.5 million on a turnover broadly similar to that of the previous 12 months.' (The Independent)

25 November 1995: 'New acting chief Terry Clements declined to explain the full background to Levett's abrupt departure. The company was brought to the market two years ago by Levett. (Daily Mail)

25 November 1995: 'Following investment in developing its European and US markets - announced at the interim stage - the group said that the impact of this expansion, coupled with increased competition and expenses incurred on the upgrade of one of its products, was 'greater than envisaged in the half year report. ... Mr Clements declined to comment on why Mr Levett's contract had been terminated, but it is understood that his departure is not directly related to the trading performance of the group.' (Financial Times)

1 December 1995: 'Shares in Biotrace, the maker of kits to detect microbiological contamination in food and drink, slumped 22p to 42p following a profits warning. Chief Executive Brian Levett has been sacked. (Investors Chronicle)

4. SUMMARY

Factors	Biotrace
1 Profits warning/decline	Yes
2 Reduction in dividend	No
3 Fall in share price	Yes
4 Rights issue	No (but recently floated)
5 New chairman	No
6 Closures/redundancies	No
7 Other factors	Yes
8 Shareholders involved	No

Biotrace was floated in 1993.

Failure to respond to competition, over-rapid expansion in Europe and US, cost over-runs of product upgrades (Financial Times, 25 November 1995).

Case History No. 14: Central Motor Auctions

1. Resignation of CEO George Inch announced 6 September 1995

2. **SHAREHOLDERS:** Insufficient information available

3. **PRESS COMMENT**

19 July 1995: 'CMA yesterday announced it had returned to the black after a reorganisation last year tipped it into losses. Turnover was up 8% at £5.61m and the group made £205,000 pre-tax in the six months to April 30, against a loss of £420,000. ... There is again a dividend of 0.5p, payable from earnings of 0.9p. The group moved to a full listing in April. Mr George Inch, chief executive, said: 'Tough trading conditions experienced in the first half are continuing into the second half.' (Financial Times)

7 September 1995: 'Shares in car auction group CMA stuck yesterday at their low for the year of 58p as the market digested the implications of the resignation of chief executive George Inch. Mr Inch was seen by analysts as a casualty of his own drive to focus on the remarketing of vehicles through electronic databases rather than conventional auctions. ... At its half year results in July, the group indicated that trading conditions were tough. Two days ago it issued a profits warning, saying that at best it would only break even in the second half of the year. ... Insiders said the warning gave ammunition to board members who argued that the pace of change should be slowed. Others saw the hand of the Myers family, which effectively controls the group through its shareholding.' (Yorkshire Post)

7 September 1995: 'CMA ... lost its chief executive this week and warned full-year profits would be no more that the £250,000 achieved last year. Its shares fell 15% to 58p. George Inch, chief executive since November 1993, masterminded CMA's move into 'remarketing ... But after two years of diversification and with a glut of cars for too few buyers, it seems that the board wanted a rest. ... The Myers family, which owns over half of CMA, supported the move.' (Investors Chronicle)

4. SUMMARY

Factors	Central Motor Auctions (CMA)
1 Profits warning/decline	Yes
2 Reduction in dividend	No
3 Fall in share price	Yes
4 Rights issue	No
5 New chairman	No
6 Closures/redundancies	No
7 Other factors	Failure to concentrate on core auctions business
8 Shareholders involved	Myers family - majority shareholders

Significant problems during 1995 which contributed to CEO George Inch's resignation were: the continuing weakness of the UK car market coupled with an excessive focus on the use of computer databases and remarketing techniques (Yorkshire Post, 7 September 1995).

The controlling shareholder of CMA is reported as being the Myers family (Yorkshire Post, 7 September 1995, Investors Chronicle, 7 September 1995). Nigel Myers is an executive director and has a direct holding of 6.7% and is a joint trustee to a further 25.5% with Mrs H Bellin, who is not a director but has a declared holding of 6.6%. These together total 38.8%. From newspaper comments it would appear that other family/trust holdings may account for a further 12% or more of CMA's issued share capital.

Case History No. 15: Hornby Group

1. Resignation of CEO Keith Ness announced 20 October 1995

2. **SHAREHOLDERS**

Top 10 fund managers	Before Sept 95	After March 96	After March 1996	%
Morgan Stanley	10.20	9.26	M&G	10.00
M&G	9.98	10.00	Electra Fleming	9.89
Electra Fleming	9.87	9.89	Morgan Stanley	9.26
Hermes	8.55	9.07	Hermes	9.07
Citicorp	8.28	8.12	Citicorp	8.12
L&G	7.81	7.83	L&G	7.83
Laurence Keen	6.27	6.28	Laurence Keen	6.28
Gartmore	4.47	0.43	Hill Samuel	6.28
Fidelity	4.30	0.00	NatWest	3.93
Abbey Life	4.16	0.24	Hambros	2.44
Total	**73.89**	**61.12**	**Total**	**73.10**

CEO Keith Ness owned 1.25% of the company's shares at the time of his resignation.

3. **PRESS COMMENT**

25 March 1995: 'Hornby's annual results bore out the profits warning delivered in December by the USM-traded toys group. Despite strong sales in its core brands ... pre-tax profits dropped to £611,000 (£1.5m).' (Financial Times)

25 March 1995: 'The fall in profits at Hornby was blamed on aggressive pricing in the export market, increased advertising support and higher production costs. The company has cut the interim dividend to 5p a share from 9p, Earnings per share fell from 9.5p a share from 10.9p.' (The Times)

31 March 1995: 'Who is .. Hornby chairman Malcolm Thomas kidding when he says 'we now intend to build on the considerable successes achieved during last year'?. 1994 - the year in question - was a disaster with pre-tax profits falling from £1.5 m to £611,000. ... The shares at 117p are on a forward PE ration of 12. A big support comes from the 5.3% yield. But Hornby only pays a final dividend each year so once it goes ex-dividend it's time to sell.'

13 April 1995: 'It's hard to be confident about Hornby, given so many things take it by surprise. And that's despite directors' recent share buying. Then there's the issue of chief executive Keith Ness's generous salary package. His 1994 pay has not been published but £230,000 would be embarrassing given the group's total pre-tax profit last year was a poor £610,000. ... Hornby has some issues to address. Until then, better to sell.' (Investors Chronicle)

17 October 1995: 'Hornby ... is 'actively seeking' a successor to Mr Keith Ness, who is to cease being chief executive at the end of this week. The board announced yesterday that Mr Peter Newly, a non-executive director, would undertake the role until a new one is appointed.' (Financial Times)

17 October 1995: 'Hornby Group ... announced a boardroom shake-up yesterday, with Keith Ness, chief executive, ceasing to be a director from the end of the week and Malcolm Thomas stepping down as chairman in the New Year.' (Daily Telegraph)

20 October 1995: 'Mr Ness has been the driving force in the company and his sudden exit even surprised some large investors, despite Hornby's uneven performance since its 1986 flotation. ... However, **it is understood larger institutional investors decided in the last few months that Mr Ness had to go** if the company was going to make the best of its Hornby and Scalextric brands. The cost of meeting Mr Ness's three-year rolling contract was a price considered worth paying.' (Investors Chronicle)

4 SUMMARY

Factors	Hornby
1 Profits warning/decline	Yes
2 Reduction in dividend	Yes
3 Fall in share price	No
4 Rights issue	No
5 New chairman	No
6 Closures/redundancies	No
7 Other factors	Yes
8 Shareholders involved	Yes

Investors Chronicle (31 March 1995) refers to the dividend yield of 5.5% providing 'big' support for the share price. (But also advises that once the 1995 dividend has been paid, the shares should be sold.)

Problems during 1995 which contributed to the resignation of CEO Keith Ness were; impact of price competition on profits, high marketing and export market development costs, failure to concentrate on core Hornby and Scalextric brands and an excessive pay package (Times, 25 March 1995, Investors Chronicle, 13 April 1995; 20 October 1995).

Investors Chronicle (20 October 1995) commented that 'it is understood larger institutional investors decided in the last few months that Mr Ness had to go' and that 'the cost of meeting Mr Ness's three-year rolling contract was a price considered worth paying'.

Case History No. 17: Intercare

1. Resignation of CEO Peter Cowan announced 18 July 1995.

2. **SHAREHOLDERS:** Insufficient information available

3. **PRESS COMMENT**

7 May 1995: 'The saga of Intercare, the medical products supplier is not a happy one. In February 1994, chairman and founder Peter Cowan sold 600,000 shares at 140p 'for personal reasons'. In July of that year he issued a profits warning and the share price tumbled to 43p. This year the price began to rise again and after a 20p increase in a fortnight, the company was forced to admit two weeks ago that its executive directors, led by Cowan, were exploring the possibility of bidding for the company.'
(The Observer)

8 July 1995: 'Intercare Group, the healthcare products supplier, is in talks with two of its executive directors about the sale of the optical division. ... The move follows a breakdown in May of talks between the company and its executive directors about a management buy-out for the company.' (Financial Times)

19 July 1995: 'The chief executive and finance director of the Intercare medical products group, who tried to take it private earlier this year, are to buy the more profitable of its two divisions. ... Mr Cowan will retail his 8% stake in Intercare, which would use the sale proceeds to develop its electrical wheelchair side.' (Financial Times)

4. **SUMMARY**

Factors	Intercare
1 Profits warning/decline	Yes
2 Reduction in dividend	No
3 Fall in share price	Yes
4 Rights issue	No
5 New chairman	No
6 Closures/redundancies	No
7 Other factors	Yes
8 Shareholders involved	No

The resignation of CEO Peter Cowan followed the buyout by Cowan and the Finance Director of Intercare's largest subsidiary.

Case History No. 17: JLI

1. **EVENT** Resignation of CEO announced 22 February 1995

2. **SHAREHOLDERS**

Top 10 fund managers	Before Jan 95	After July 95	After July 1995	%
M&G	14.11	14.11	M&G	14.11
Aberforth	5.99	5.99	Aberforth	5.99
BoS	5.86	5.86	BoS	5.86
Schroder IM	5.75	5.75	Schroder	5.75
Framlington	4.81	4.81	Framlington	4.81
Postel	4.69	4.69	Hermes	4.69
L&G	4.60	4.6	L&G	4.6
Morgan Grenfell	4.15	4.25	Morgan Grenfell	4.25
Scottish Amicable	3.76	3.76	Scottish Amicable	3.76
Colonial Mutual	3.57	3.57	Colonial Mutual	3.57
Total	**57.29**	**57.39**	**Total**	**57.39**

Other major shareholders: None

3. **PRESS COMMENT**

9 February 1995: 'Popcorn and peanut packer JLI became the latest victim of the snack food wars yesterday, when it issued a profits warning and announced the closure of one of its Leeds factories.' (Yorkshire Post)

9 February 1995: 'Disappointing sales of nuts in the Christmas season hit the snack foods division of JLI and prompted the company to issue a profits warning yesterday. ... To improve performance, Mr Yoav Gottesman, chairman, said the division would be broadening its range into 'non-potato related' areas. (Financial Times)

9 February 1995: 'The shares of JLI Group tumbled 13p to 70p yesterday after the dried fruit and nuts supplier sounded a profits warning in the wake of a poor Christmas for its snack foods division.' (Daily Telegraph)

23 February 1995: 'JLI Group, the food processing company that issued a profit warning earlier this month, has reorganised its group structure and management, resulting in the departure of Graham Scott as chief executive. ... Yoav Gottesman, the chairman, said there were no plans to replace Mr Scott.' (The Times)

23 February 1995: 'Mr Yoav Gottesman, executive chairman, said that Mr Scott was asked to leave because the company did not need both a chief executive and a full-time chairman. Mr Gottesman said: 'We are removing a layer of management and creating a more focused management team'. The move follows the closure of a popcorn factory in Leeds after the group issued a profits warning.' (Financial Times)

4. SUMMARY

Factors	JLI
1 Profits warning/decline	Yes
2 Reduction in dividend	No
3 Fall in share price	Yes
4 Rights issue	No
5 New chairman	No
6 Closures/redundancies	Yes
7 Other factors	No
8 Shareholders involved	No

Case History No. 18 MR Data Group

1. Resignation of CEO Michael Elliott announced 25 April 1995.

2. SHAREHOLDERS

Top 10 fund managers	Before March 95	After Sept 95	After September 1995	%
L&G	7.96	7.96	L&G	7.96
Universities	6.41	6.41	Universities	6.41
Baring	5.44	5.67	Baring	5.67
John Govett	3.63	3.63	John Govett	3.63
Equitable	2.81	2.81	Equitable	2.81
MAM	2.48	2.48	MAM	2.48
Matheson	2.47	2.47	Matheson	2.47
Morgan Grenfell	2.24	2.33	Morgan Grenfell	2.33
BoS	1.97	1.97	BoS	1.97
Northern Trust	1.84	1.84	Murray Johnston	1.95
Total	**37.25**	**37.57**	**Total**	**37.68**

JA Redmond, Chairman, held 3.21% in April 1995 (resigned 30 July 1995).

3. PRESS COMMENT

25 April 1995: 'MR Data Management, a little company specialising in document processing, seems to be having a few problems distributing information to its shareholders. For example, although there was no official confirmation yesterday, managing director Michael Elliott appears to have left the company - fact apparently picked up by one or two smarter brokers, who seemed to be selling stock. Despite rumours that another director was on the way out - the shares have fallen 60% over the last year or so ... The firm lost several board members the year before last. It looked to be rebuilding its image before delays over completing sales of data management systems to certain police forces sparked a profits warning last summer.' (Daily Telegraph)

28 April 1995: 'On Monday chief executive Michael Elliott resigned after rumours of disputes with chairman John Redmond. Now Elliott has been followed out of the door by executive director Michael Bushell. This is the second boardroom clear-out engineered by Redmond. Two years ago he ousted a respected management team to appoint Elliott. Since then MR's shares have more than halved to 92p.' (Daily Mail)

1 June 1995: 'MR Data Management was forced to issue a profits warning yesterday after its shares fell 35p to 55p, their lowest ever level. The [company] forecast that operating profits for the year to 30 June would be about £4.7 m, with pre-tax profits of £3.5 after exceptional items. Mr Barry Kelly, acting chief executive, said the company had previously been expecting pre-tax profits of about £6m. ... He stressed 'shareholders have seen the worst. We are in a strong position and have a bright future.' A profits warning last July resulted in a 19% fall in the share price. Mr John Redmond, chairman, said then: 'The effects of our reorganisation are complete and we are now in a stronger position to market our business services in the area of information management.' (Financial Times)

1 June 1995: 'Shares in MR Data Management plunged almost 40% yesterday after the document processing specialist warned that profits for the year to end-June will be less than half City expectations. ... MR Data expects to report profits of around £3.5m ... MR's house broker Cazenove is thought to have been expecting profits of £7m, while other analysts were looking for £8m.'

4 June 1995: 'Former French Connection chairman George Wardle is expected to be appointed chairman of MR Data Management, the troubled data management group. Wardle is being recruited to turn around the company, which in three years has issued two profit warnings and undergone two rounds of board upheaval. MR issued its latest warning last week.' (Sunday Telegraph)

1 August 1995: 'John Redmond, until recently the chairman, has resigned his non-executive position - and there is talk of further blood being shed in the boardroom.' (Daily Telegraph)

11 November 1995: 'MR Data ... suffered another casualty yesterday, with the departure of finance director Brian Boswell. ... Mr Boswell's resignation follows the exit

of chief executive Michael Elliott and director ... and the retirement of chairman John Redmond earlier this year.' (Daily Telegraph)

4. SUMMARY

Factors	MR Data
1 Profits warning	Yes
2 Reduction in dividend	No
3 Fall in share price	Yes (around 40%, to lowest ever level)
4 Rights issue	No
5 Chairman	Resigned June 1995.
6 Closures/redundancies	No
7 Other factors I	New chairman June 1995, entire board replaced by end 1995
8 Other factors II	Second profits warning and board upheaval in 2/3 years

John Redmond, the chairman of MR Data responsible for the resignation of Michael Elliott on 25 April 1995, himself resigned in June 1995 and was replaced by George Wardle.

Case History No. 19 OMI International

1. Resignation of Chairman and CEO Gil Williams announced 2 March 1995.

2. SHAREHOLDERS

Top 10 fund managers	Before Feb 95	After Aug 95	After August 1995	%
NatWest	13.64	6.16	MAM	12.31
MAM	12.31	12.31	Clerical Medical	8.06
British Gas PF	6.40	6.40	British Gas PF	6.40
Thornton	6.15	6.31	Thornton	6.31
Hill Samuel	5.76	5.76	NatWest	6.16
BA PF	4.96	4.96	Hill Samuel	5.76
Sun Alliance	4.92	4.92	BA PF	4.96
BZW	3.24	3.24	Sun Alliance	4.92
BoS	3.16	3.16	BZW	3.24
Irish Life	2.98	2.98	BoS	3.16
Total	**63.52**	**56.2**	**Total**	**61.28**

3. PRESS COMMENT

3 February 1995: 'OMI International's profit warning this week was a huge blow to the company's credibility. Shares in the industrial logistics group fell 7.5p to 33.5p on the news. Under the guidance of chief executive Gill Williams OMI has been working hard to retrieve its reputation following a profits collapse two years ago. But profit delays in the fourth quarter has upset the profits outlook to March 1995 ... Mr Williams maintains that 'we just have a timing problem'. But analyst Stephen Williams at James Capel has slashed this year's forecasts from £2.1m to £1.3m and has maintained March 1996 estimates at £4.6m. 'The forward PE ratio of only 7 tells its own story', he declares.' (Investors Chronicle)

3 March 1995: The market value of OMI International, the supplier of measurement technology products and services tumbled by £9 million to £11.2 million yesterday after Mr Gil Williams was ousted as chairman and chief executive. Mr Richard Duggan, who has taken the position of executive chairman pending the appointment of a new chief executive, said that **shareholders and the board had lost confidence** in Mr Williams.' (Financial Times)

3 March 1995: 'Little OMI International, designer of electronic control systems, sacked its chairman and chief executive Gil Williams yesterday, two weeks after a profits warning. The shares crashed from 28p to 15.5p, after 41p earlier this year. ... The decision to replace Williams follows a rise in costs in some parts of the business.' (Daily Mail)

4 June 1995: 'Gil Williams was fired in March from the helm of OMI - after it issued a profits warning in January. This had come just three months after the company raised £9.5 million in a rights issue priced at 37p a share. The shares stood at 15p on Friday. (Mail on Sunday)

9 June 1995: 'Shareholders in OMI International have had a torrid time, The shares have collapsed, two profits warnings have been issues, a final dividend passed and full-year losses increased from £73,000 to £4.2 million. Little wonder that executive chairman Gil Williams was forced out in March'. (Investors Chronicle)

4 August 1995: 'Mr Williams, ousted in March two weeks after the company put out a profit warning, has issued a summons on the company for next week, but the case is unlikely to come to trial until the end of the year. ... **'There is pressure from shareholders to pay him nothing'**, the new chairman, Richard Duggan, said yesterday. (Daily Telegraph)

4. **SUMMARY**

Factors	OMI International
1 Profits warning/decline	Yes
2 Reduction in dividend	Yes
3 Fall in share price	Yes
4 Rights issue	Yes
5 New chairman	Yes
6 Closures/redundancies	No
7 Other factors	No
8 Shareholders involved	Yes

The Financial Times (3 March 1995) quotes Mr Richard Duggan, newly appointed chairman of OMI as saying that 'shareholders and the board had lost confidence in Mr Williams' (the CEO).

Case History No. 20: Platignum

1. Resignation of CEO Rob Campbell announced 8 August 1995.

2. **SHAREHOLDERS:** Insufficient information available

3. **PRESS COMMENT**

18 January 1995: 'Platignum, the supplier of stationery products, is passing the interim dividend after incurring losses of £1.4 million in the six months to September 30'. (The Times)

9 August 1995: 'Loss-making stationery products supplier Platignum looks to have a problem. Yesterday, chief executive Rob Campbell and finance director David Bridge resigned. The Smaller Companies Investment Trust recently sold its entire 4.89% shareholding. The shares retreated from 8p to close at 7.5p following the resignations and could come under selling pressure today'. (Daily Mail)

2 September 1995: 'Expect action at Platignum ... there is talk of a substantial acquisition and rights issue being announced soon. The group has an uninspiring record, it has a stock market valuation of around £ 2 million with its shares at 8p. Ahead of the 1987 crash they were almost 250p. Last month in a boardroom shake up chief executive Rob Campbell and finance director David Bridge quit'. (The Independent)

4. SUMMARY

Factors	Platignum
1 Profits warning/decline	Yes
2 Reduction in dividend	Yes
3 Fall in share price	Yes
4 Rights issue	No
5 New chairman	No
6 Closures/redundancies	No
7 Other factors	No
8 Shareholders involved	No

Case History No. 21 Raine

1. Resignation of CEO David Vincent announced 10 April 1995.

2. SHAREHOLDERS

Top 10 fund managers	Before March 95	After Sept 95	After September 1995	%
Scottish Amicable	8.56	8.56	Scottish Amicable	8.56
PDFM	8.01	8.01	PDFM	8.01
Gartmore	7.00	7.78	Gartmore	7.78
Chase	4.56	4.56	Chase	4.56
MAM	4.16	4.16	MAM	4.16
Fleming	3.61	3.61	Fleming	3.61
BZW	3.31	3.33	BZW	3.33
Citicorp	2.98	2.98	Citicorp	2.98
AMP	2.72	2.72	AMP	2.72
Baring	2.16	2.16	Baring	2.16
Total	**47.07**	**47.87**	**Total**	**47.87**

Other major shareholders: None

3. PRESS COMMENT

10 March 1995: 'Investors in Raine, the housebuilder, were reeling yesterday after a collapse in half year profits and a bleak warning on prospects. The shares crashed from 47p to 30p, a 10-year low and less than a third of the price they traded at a year ago. Besides the dent in their capital worth of shareholdings, investors' pockets are also going to be hit by a 50% cut in the interim dividend to 0.5p. Raine will have to dip into reserves to make the payment as earnings per share are only 0.38p, down from 1.06p. Taxable profits for the six months to December dived from £3.4 m to barely more than £1 m. Peter Parkin, chairman, said: 'It is appropriate to express caution on earnings

prospects for the full year in acknowledgement of the uncertainty surrounding the markets for both house building and contracting in the UK.' (The Independent)

10 March 1995: 'Shares in housebuilder, construction and shopfitting group Raine plunged by more than a third yesterday after it announced a severe fall in interim profits and a halving of the dividend payout. ... It signalled that it would pull out of its Coventry-based Plumb Contracting shop refitting operations which have been devastated by a lack of investment by major retailers. Further disposals are likely as it refocuses on core house building and contracting activities.' (Title)

10 March 1995: 'Shares in Raine lost a third of their value yesterday as the housebuilder surprised the City with a slump in profits and halved the dividend. ... Increased losses were revealed in Plumb contracting, the shopfitting arm, and west Venture, the Californian housing company hit by an earthquake that last year cut motorway access to the main development site. Chairman Peter Parkin said he was taking on the chief executive role from managing director David Vincent to oversee a 'limited restructuring'. Roy Barber, the 'company doctor' who has been a non-executive director for five years, is becoming chairman. He said Mr Vincent, who will revert to running the Hall & Tawse contracting and social housing arm, 'has been refocused'. ... Plumb is to be sold or closed by the end of the year and may result in a provision in the full year accounts. West Venture would also be on the market, but the company has accepted that there are no buyers and has decided to try to minimise losses by continuing to trade.' (Daily Telegraph)

10 March 1995: 'Raine ... rocked by earthquakes and shaken by the refusal of Britain's housing market to recover, is to trim its operations and withdraw to a core of house building and contracting. ... As part of the plan to concentrate on core activities, Mr Parkin is to resume being chief executive and his chairmanship will be taken by non-executive Roy Barber.' (Yorkshire Post)

11 April 1995: 'Chief executive and former chairman of the troubled Derby-based Raine Industries Mr Peter Parkin resigned **following pressure from institutional shareholders**. ... Mr Roy Barber, a Raine non-executive director for four years who has taken over as group chairman, said Mr Parkin will continue to be employed on a consultancy basis . Mr Barber said institutional investors had reacted adversely to Mr Parkin's move to chief executive. 'They did not think the change was radical enough in view of the company's decline over the last three years,' he explained.' (Birmingham Post)

11 April 1995: 'Shareholder pressure has forced the removal of Mr Peter Parkin as chief executive of Raine, the .... Group he has run for the last nine years. Raine announced last month that it was halving its interim dividend to 0.5p after the pretax profits fell 69% in the six months to the end of December. ... Mr Parkin last month said he would stand down as chairman in favour of Mr Barber but continue as chief executive, but after the interim results institutional shareholders made it clear that they wanted a change at the top. ... Shareholders' dissatisfaction increased after a string of acquisitions mainly for shares failed to stop a profit slip. Two deals in particular were criticised: the £28.5m purchase of Walter Lawrence, the struggling UK and US housebuilder in 1992; and the £26.3m acquisition in 1989 of Plumb Holdings. ... The number of Raine shares has more

than trebled from 50m to 188m since 1986 ... The company's share price, which was 136p in April three years ago, rose yesterday by 1.5p to 29p only just above its low point of 24p at the end of March.' (Financial Times)

4. SUMMARY

Factors	Raine Industries
1 Profits warning/decline	Yes
2 Reduction in dividend	Yes
3 Fall in share price	Yes
4 Rights issue	No
5 New chairman	Yes
6 Closures/redundancies	Yes
7 Other factors	No
8 Shareholders involved	Yes

The Financial Times (11 April 1995) said that 'Shareholder pressure has forced the removal of Mr Peter Parkin as chief executive of Raine' and a similar comment was made by the Birmingham Post: 'Mr Peter Parkin resigned following pressure from institutional shareholders' (11 April 1995).

Case History No. 22: Rhino Group

1. Resignation of CEO Terry Morris announced 9 May 1995

2. **SHAREHOLDERS:** Insufficient information available

3. **PRESS COMMENT**

7 January 1995: 'Shares in the video games retailer Rhino, which lost half their value during last year, fell further yesterday after the group issued a profits warning. Rhino said that it expected to make a pre-tax loss of about £2m, worse than brokers' estimates. The shares dropped a further 2p to 17p.Smith New Court is forecasting losses of more than £2.5m for the year. Management blamed discounting by competitors and the reluctance of customers to buy games before Sega and Sony launch new computer systems later this year. ... However some blame Rhino for initiating the price war. It was been aggressively expanding market share and has 112 stores under the Future Zone name. (The Independent)

7 January 1995: 'Like its real-life namesake, Rhino group is an endangered species. The company has built itself into the country's largest computer games retailer just as they are disappearing into fashion history. ... Subscribers to the most recent rights issue at 44p a share may not be too happy to see the shares now at 17p. At least borrowings are still manageable and Rhino has belatedly decided not to open any more stores until the market improves. (The Times)

23 February 1995: 'More than 30% was wiped off the value of shares in Rhino Group, when the retailer of computer and video games announced a cash call along with confirmation of previously flagged trading losses. The shares fell 4p to 8p as the group revealed it needed a £3.7m rights issue ... to fund capital requirements. The announcement came as Rhino reported that in 1994 it fell £2.67m into the red, against a restated £1.13 profit in the previous year. The company, which issued a profits warning in January, has also passed the dividend (0.5p). (The Independent)

13 April 1995: 'Electronics Boutique, the US-based computer and video game retailer, has made a tender offer to acquire up to 29.9% of Rhino Group, ... which launched a rescue rights issue in February. The rights issue, which was partly underwritten by Panmure Gordon, was under-subscribed by 50%. The 25.2m shares not taken up were placed with Electronics Boutique yesterday, giving the US retailer 17.9% of the enlarged share capital of Rhino.' (Financial Times)

10 May 1995: 'Rhino Group founders Bev Ripley and Terry Norris are among the casualties in a shake-out of the troubled video games retailer's board following the arrival of Electronics Boutique, the American retailer that made a tender offer to increase its stake to 29.9% after picking up the rump of Rhino's recent £4m rights issue'. (Daily Telegraph)

3 September 1995: 'Electronics Boutique President Joseph Firestone has little time for Rhino founders Bev Ripley and Terry Norris, who left the board in May shortly after Electronics Boutique took control. Electronics Boutique president said: 'The company was in big trouble as it had no financial reporting systems and no stock control.' The sales mix and pricing was poor and there was no staff training. Electronics Boutique appointed its own man John Steinbrecher as Rhino managing director.' (Mail on Sunday)

4. SUMMARY

Factors	Rhino Group
1 Profits warning/decline	Yes
2 Reduction in dividend	Yes
3 Fall in share price	Yes
4 Rights issue	Yes
5 New chairman	No
6 Closures/redundancies	No
7 Other factors	Over-expansion, lack of controls, failed rights issue
8 Shareholders involved	Yes - Electronics Boutique

A 'rescue' rights issue in February 1995 was under-subscribed by 50% and was left with Panmure Gordon, which partly underwrote the rights issue. These shares were subsequently acquired by Electronics Boutique (Financial Times, 13 April 1995), which also made market purchases to increase its stake to 29.9% (Daily Telegraph, 10 May 1995).

Factors cited by Electronics Boutique President Joseph Firestone and others in the Mail on Sunday (3 September 1995) included: over-expansion, lack of stock and financial controls; poor sales mix and pricing and no staff training.

Terry Norris, CEO and joint-founder of Rhino, were effectively fired by Electronics Boutique on 10 April 1995 following the latter's acquisition of a 29.9% stake in the company (although it appears that Norris may have briefly stayed on the board as a non-executive director).

Case History No. 23: United Carriers

1. Resignation of CEO Allan Binks announced 30 June 1995.

2. **SHAREHOLDERS**

Top 10 fund managers	Before May 95	After Nov 95	After November 1995	%
PDFM	18.45	18.12	PDFM	18.12
Fidelity	7.95	0.00	Hermes	8.81
MAM	7.76	8.35	MAM	8.35
Henderson	2.95	0.00	Schroder	4.43
Scottish Widows	2.70	2.70	Morgan Grenfell	3.17
AMP	2.56	2.56	Fleming	2.95
BoS	2.21	2.72	BoS	2.72
Schroder	1.77	4.43	Scottish Widows	2.70
Norwich Union	1.77	0.00	AMP	2.56
Derbyshire CC	1.70	1.70	BZW	2.04
Total	**49.82**	**40.58**	**Total**	**55.85**

At the time of his resignation (May 1995), Allan Binks held 8.97% of United Carriers; TM Smith (Company Secretary) 1.18% and NP Sargent (Finance Director) 1.09%. The latter resigned on 29 September 1995 with immediate effect. A significant (5.76%) shareholding was attributed to AL Aston, who was not a director of the company during this period.

3. **PRESS COMMENT**

14 March 1995: 'United Carriers, the parcels and freight group that blotted its copy book last year, sounding two profit warnings within nine months of going public, has returned full-year profits £110,000 ahead at £1.85m. This performance compares with analysts' revised forecasts of around £2m, or £4.8m ahead of the first profits warning last may. Despite the disappointing figures and earnings of 5.4p a share, holders collect a 3.3p final dividend on May 17, making 4.9p for the year. The shares, floated at 153p in February last year, closed unchanged at 90p. Doug Rogers, who took the chair following a boardroom shake-up in November, when managing director Michael Howe resigned

from the group, admitted the group's performance since flotation had been unacceptable.' (Daily Telegraph)

17 March 1995: 'Two profits warnings since flotation at 153p have earned United Carriers antipathy. First time it was too little business, second time too much. New chairman Doug Rogers, who has a track record in turn-round and sell-off, has been brought in. Former chairman Allan Binks has been demoted to chief executive.' (Investors Chronicle)

4 July 1995: 'Allan Binks, former chairman and chief executive of United Carriers Group, has resigned from the board of the group and all its subsidiaries, less than eight months after he stepped down as chairman and almost exactly six months after John Toyne became group managing director.' (Financial Times)

4. SUMMARY

Factors	United Carriers
1 Profits warning/decline	No
2 Reduction in dividend	No
3 Fall in share price	Yes
4 Rights issue	No
5 New chairman	Yes
6 Closures/redundancies	No
7 Other factors	No
8 Shareholders involved	No

Case History No. 24 Upton & Southern

1. Resignation of CEO Geoffrey Gould announced 18 April 1995.

2. **SHAREHOLDERS:** Insufficient information available

3 **PRESS COMMENT**

17 March 1995: 'Ron Trenter, 50, a former chief executive of Texas Homecare, has become executive chairman of Upton & Southern Holdings, the North East department store group nearly bankrupted by last year's acquisition of the Reject Shop chain. ... Trenter, who was approached by one of Upton's non-executive directors, thinks that Upton can be turned round. ... Upton's share price, which has fallen from 63p to 3.5p over the last year, did not respond to Trenter's appointment. The company publishes its interim figures in about a month's time; the market will be waiting for these to judge whether it needs another rights issue. Trenter's arrival raises a question mark over the position of Upton's chief executive, Jeffrey Gould.' (Financial Times)

4 April 1995: 'Jeffrey Gould, the man who led Upton & Southern's disastrous bid for the Reject Shop, has resigned as chief executive of the Middlesborough department store group. .... Within months of the acquisition, Upton & Southern warned its shareholders that the Reject Shop's trading position was materially worse off than had been represented at the time of the acquisition.' (Financial Times)

5 April 1995: 'Jeffrey Gould's resignation suggests he is now paying the price for the disastrous acquisition of the Reject Shop chain last year which has once again cast a big question mark over Upton's future. ... Uptons ... was on the brink of collapse in 1992. The group made a brief return to the black in the second half of 1993 before it ran into trouble with the purchase of the 31-strong Reject Shop chain. Uptons' long-suffering shareholders were tapped for nearly £10 m in two rescue rights issues following the deal. Announcing the second cash call in October last year, Uptons warned that it would be forced to cease trading if the money was not forthcoming.' (Northern Echo)

20 May 1995: 'The Reject shop chain was put into receivership yesterday by its parent company Upton & Southern with liabilities of around £8m.' (Title)

4. SUMMARY

Factors	Upton & Southern
1 Profits warning/decline	No
2 Reduction in dividend	No
3 Fall in share price	Yes
4 Rights issue	Yes
5 New chairman	Yes
6 Closures/redundancies	No
7 Other factors	Problems with Reject Shop chain
8 Shareholders involved	No

The acquisition of the Reject Shop chain, masterminded by CEO Jeffrey Gould, was a disaster (Northern Echo, 5 April 1995) for Upton & Southern and nearly bankrupted the company (Financial Times, 17 March 1997). Gould resigned on 18 April 1995 and the Reject Shop was put into receivership on 19 May 1995.

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