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# Board Issues

## (1) Board effectiveness

- Setting corporate strategy and securing the resources to implement it
- Monitoring implementation by executive management

## (1) Board accountability

- to whom?
- how rigorous?

# Effectiveness

(1) One-tier vs two-tier boards

(2) Risk management by boards

(3) Independent vs Expert/Diversified  
Directors

# One-tier vs Two-tier

- RG: EU Recommendation (initially) that MSS provide flexibility for cos between the forms.
- Does choice already exist?
- Would EU recommendation increase choice?
- Does choice matter?

# Risk Management

- RG: greater disclosure; Comm. Rec. on risk management structures for listed companies
- Evidence of excessive risk taking outside banks?
- Banks, leverage and externalities
- The problem of hindsight bias
- More comparative work needed?

# Independence and other qualities

- RG: Review independence requirements
- Theory of independent directors
- Cannot be effective if not expert?
- Walker Report in UK (banks): effectiveness more important than independence
- An issue in relation to female directors? (UK 12.5% women directors; 5.5% female executive directors)

# Accountability: RG Proposals

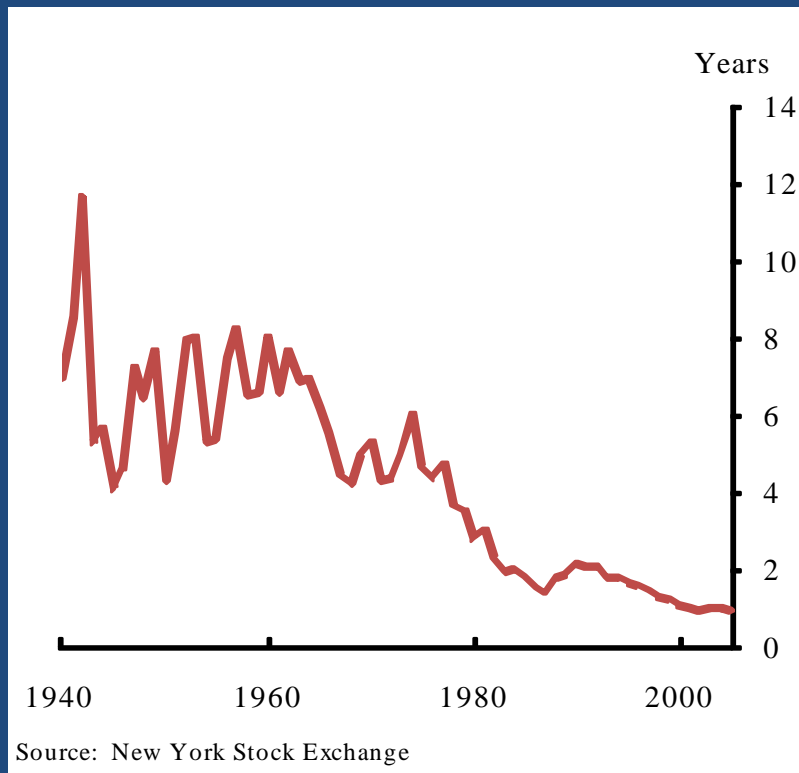
- There has been a decline of long-term shareholders
- Re-evaluate regulatory obstacles to long-termism
- Allow companies to reward long-term shareholders, and to
- Opt out of strong accountability

# Short-termism

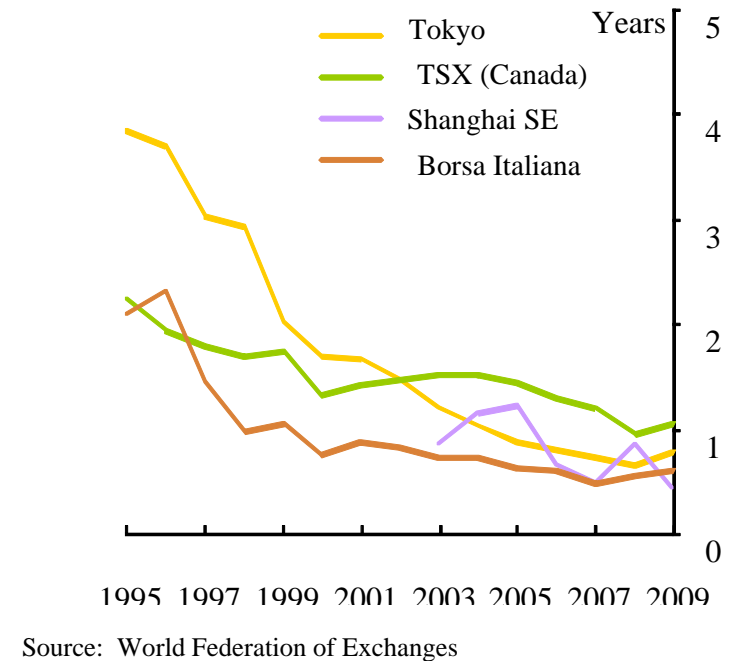
- Long-term focus reduces conflicts of interest among stakeholders
- Evidence of short-termism
- Possible drivers of short-termism
  - changing composition of institutional shareholders
  - incentives of fund managers
  - excessive discounting of future rewards ('hyperbolic discounting')
  - bidders overpay?
- How much do we actually know?

# Holding Periods

US



Other Major Stock Exchanges



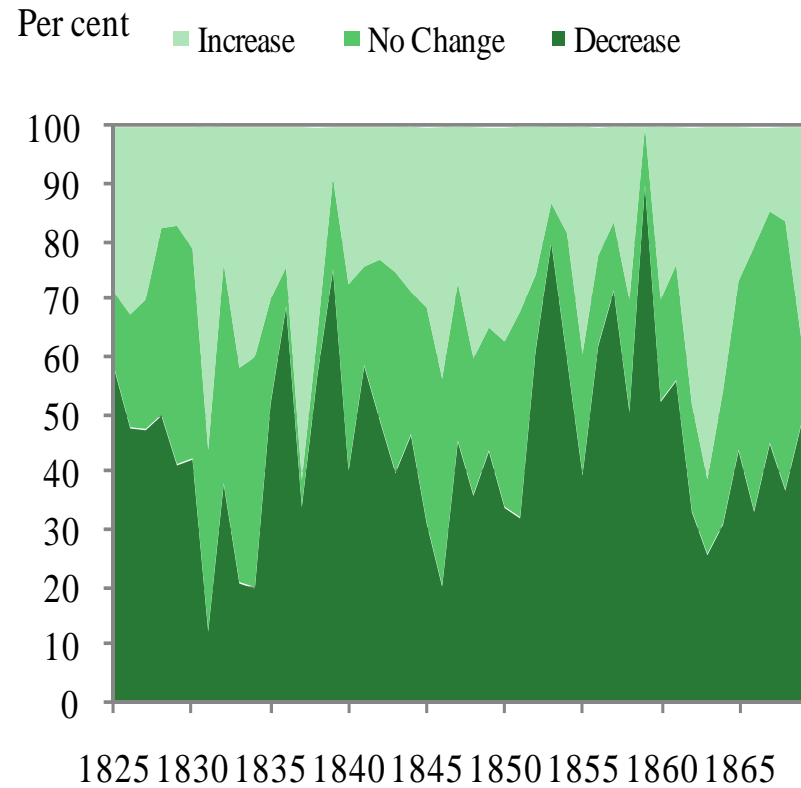
# High Frequency Trading

US Equities	60-70%
US Futures	40-50%
European Equities	30-40%
Asian Equities	5-10%

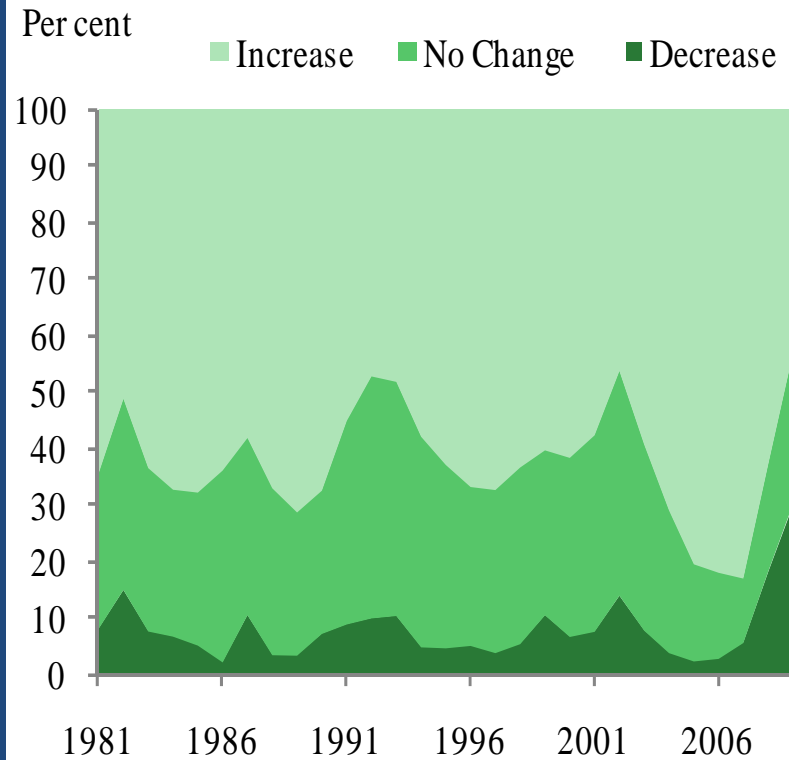
Source: Andrew Haldane, *Patience and Finance*, Bank of England, 2010

# Dividend Behaviour

## US Companies in 1800s



## World's largest companies today



Source: Haldane

# Suggested Solutions

- Reward long-term holders
- Opt out by shareholder vote of removal at will/frequent re-election provisions
- Shareholder or stakeholder governance – or managerial entrenchment?
- Need to make opt out attractive to shareholders: importance of the reversal decision
- Relationship with takeover rules and incentive pay schemes?