Financial Reporting Council
Annual Open Meeting
19 October 2016

Introduction

Sir Winfried Bischoff

Chairman, FRC

I. Welcome

Good afternoon, everyone. I would like to welcome you to the Financial Reporting Council's Open Meeting. Over the past year, we have seen the scope of the FRC's work grow in line with our new role as the competent authority for audit in the UK, and, as we now move forward into Brexit, we will want to work collaboratively together with a number of stakeholders to foster sustained growth in the UK economy. Over the years, successive governments have placed their confidence in the FRC by granting us extra responsibilities, which we are told we have exercised effectively. We do not take this for granted, however, and we continue to challenge our ability to achieve our goals.

You, our stakeholders, have a crucial role in ensuring we perform that role well, which is why, in light of much reduced public trust business, we are reassessing our mission. We are reassessing if our mission and our definition of the public interest and the principles of the UK Corporate Governance Code still serve the needs of our wider stakeholders. As such, we have arranged this meeting a little differently this year and invited some leading industry experts to join the panel discussion to explore the opportunities and challenges that we face. We ask you, the audience, also to contribute to this debate and to give us valuable insight.

As you all know, the Prime Minister announced that Article 50 would be triggered by the end of March 2017. She also commented that there will be no running commentary, meaning that there will, by necessity, be a continuing knowledge vacuum in which markets will make assumptions and act accordingly. As regulators, we must not be complacent but we must tread carefully: no knee-jerk reactions. We carefully will consider what is best for the sectors and professionals that we regulate, and right for the long-term health of the stakeholders we serve. In a moment, our CEO, Stephen Haddrill, will outline key achievements during the year and look ahead to some of our forthcoming activities.

We have already taken some first steps in corporate governance. The Government's interest on making business for everyone means we are considering how our governance principles best meet the wider demands of all stakeholders or if they need to be adjusted. On accounting standards, Brexit may mean we need to apply and enforce international standards that at present come to us from the EU. Investors have told us that they want comparability between the accounts of UK-listed companies and those listed in other countries. On audit, the UK only recently, in June 2016, introduced new standards and rules based on the European audit directive. There is no mood or appetite to reverse this.

The UK has a proud record for high-quality audit work, but we may need to tweak the standards to ensure UK-based auditors continue to lead the world in quality. To do this though, we will need to agree arrangements for equivalence of audit qualifications and the portability of staff. After Brexit, it is likely that UK auditors will want to access important markets outside Europe including the US, China and other fast growing countries in Asia. Consequently some of the focus must be to ensure access to those markets. We will continue to implement the new Technical Actuarial Standards framework and carry out our disciplinary scheme in a proportionate yet effective manner.

Over the next year we will keep the needs of investors and all stakeholders at the front of our minds. We will remain focused on our priorities, measuring success by the impact we make, not by our level of activity. We will maximise that impact by working in close collaboration, as I said at the beginning, with the professional bodies, fellow regulators, and others to avoid imposing unnecessary burdens on those whom we regulate.

Thank you again for joining us. I will now hand over to Stephen, who will introduce our panellists, who I would also like to thank very much for their participation and their wise words. We will be happy to answer your questions at the end of this session and over refreshments afterwards.

Presentation

Stephen Haddrill

Chief Executive Officer, FRC

I. Preamble

Thank you, Sir Win, and thank you to everyone here for joining us today. I am going to talk a little bit about the last year. This is, in a way, our AGM, and then we will turn to some of the challenges for the future, for which I will be joined by our distinguished panel. One of the things that we are most and rightly proud of is our convening power as an organisation to bring people together to address major issues in a way that we probably could not do on our own. We have done this in the last year through our work on corporate culture. I am very pleased that we managed to put together a coalition of leading thinkers and authorities in this area, and we recently published our major work on corporate culture and the role of the boards. I am also very pleased that Philippa, who was a major part of that coalition, is going to be talking to us later on this evening.

II. Corporate Culture

As a regulator, we always tend to focus naturally on what the regulatory framework is and how well we are monitoring it and enforcing it. Law has a place; regulation has a place, but unless the spirit is right in companies and in the organisations that we are responsible for regulating, we are not going to see the outcomes that we are looking for. That spirit and culture of a business is therefore absolutely fundamental. The lessons from that culture work are very much about: the ownership of the board, taking responsibility for the behaviours it wants to see; the alignment of all the key decisions that the board is taking with that culture, particularly the appointment of the chief executive; making sure that decisions throughout the year on strategy and even major issues like merger are also aligned with culture and, if they are not, challenging them; and working out the metrics to test whether the culture is embedded in the organisation and bringing it to life in discussions with the shareholders, so that they support both the strategy and culture that goes with it. We had a major conference recently on that and we will be taking it forward.

III. Shareholder Engagement

I mentioned engagement with the shareholder. Our whole system depends on the governance code and comply or explain, which only works if we see shareholders and fund managers engaging with companies and companies with them. We have some challenges in that area, partly because the proportion of locally based British fund managers and shareholders is declining as a proportion of the total; it is now down to about half, which is one issue. Secondly, there is a view that it is sometimes okay to accept governance that is not up to the best standard if that company happens at that time to be performing very well. We need businesses that are sustainable in the long term and where long-term performance is underpinned. We frankly believe that, without good quality governance embedded in the business, sustainability will not come through.

IV. Role as Competent Authority for Audit

Our biggest role in terms of the number of staff and the amount of resource we put into it and the amount of legal underpinning we have is as the competent authority for audit in the UK. We were awarded that status by the Government on 17 June in implementing European legislation. A few days later people asked us whether we thought we were still going to be the competent authority and we still are. The message that we have heard from all quarters – the regulated and the beneficiaries of that regulation – is that they very much hope that this is an area where we will have stability.

V. Goals

What do we want to achieve? We have one major public goal, which is that we see through our inspections that 90% of the audits of FTSE 350 companies meet an acceptable and satisfactory standard – or at least in accordance with the audit standards that we have set. At the moment, the figure is below that. A year or so ago it was down at about 70%, and I do not think that is acceptable. It has pushed up in the last year. We need to maintain that progress and get it where we want to be. That is our big focus.

VI. The role of the Professional Bodies

We also have a new relationship with the professional bodies. We delegate to them our work in relation to non-public interest entities – non-public companies – and entities particularly in the insurance sector. That follows from the legislation that the Government has put in place. We want a strong partnership with the professional bodies. It is their responsibility as well as ours to raise standards in the audit profession and we look forward to working with them in order to do that, us in our area and them in theirs. It is absolutely essential that we both rise to the challenge in relation to audit.

VII. Corporate reporting

1. State of the Nation

We will be publishing our *State of the Nation* report on corporate reporting next week. We are now reporting on the state of the nation in our areas through three reports each year: one on corporate governance that comes out shortly after Christmas, which gives us all a bit of a headache with the turkey, and so the timing might be changed; one on audit, which we published back in the summer; and this one on corporate reporting. This one shows that the adherence to the accounting framework by British companies reporting, and listed companies in particular, is pretty good. It is not quite so sharp among smaller companies as it is among the big ones, and that is the subject of an ongoing piece of work to help smaller companies address that challenge.

2. Balance

There is one area that I must pick out, which is the question on balance. The Corporate Governance Code expects that companies will report in a fair, balanced and understandable way, and the law also talks about balance in reporting. This is sometimes a bit of a cultural challenge to the chief executive signing off the CEO's report. The expectation is that he or she will talk about not just the good things and the optimism but also the risks and the things that have gone wrong as well. Although there has been some improvement in that respect and improvement generally in the quality of strategic reports, that is an area where we need to see more attention paid.

VIII. Actuarial Standards

We are responsible for the regulation of the actuarial profession, and in that respect we set Technical Actuarial Standards; we do not set ethical standards. That is done through a contractual arrangement, at the request of the Government, by the Institute and Faculty of Actuaries, and we do not have a monitoring function – at the moment at least. It is not based on any statutory provision; the Government have decided not to do that. We keep the actuarial standards under review. We have had a major exercise during the last year consulting on a new set of standards, extending the scope of the standards to actuarial work rather than just to actuaries themselves, because a lot of actuarial work is conducted by non-actuaries. There is no organisation that can require non-actuaries to adhere to the standards, but we encourage their employers to make sure that they do. Hopefully before the end of the year we will be approving the final changes to the standards and reissuing them.

IX. Enforcement

1. Investigations

In relation to our holding to account and disciplining of accountants and actuaries who, in public interest cases, have not met the expected standards and have in some way been culpable of misconduct, we have been rightly criticised in the past for the length of time it has taken us to conduct those investigations. I could give you a fairly healthy length of excuses about the difficulty of doing that, but I would rather not. We are speeding up. Particularly over the last couple of years we have been holding to our plan to complete all the investigations within two years, and we are now looking at how we can bring that down and make it faster. We have also been pushing up the sanctions that can be applied. When I say 'pushing up', that is from a very low base.

2. Sanctions

The professional sanctions have traditionally been much lower than the sort of sanctions imposed by the FCA and the financial services regime. It is not necessarily appropriate to get to some of the heights that they aspire to, but at the moment there is a question of public confidence about whether the sanctions are high enough, and that is very much on our radar as well. Those are some of the major pieces of work that they engage in currently. Many of them obviously are ongoing. There will be plenty of time for questions at the end in relation to what I have just outlined, and if you have other points about our work, please raise those. For now, I will move forward.

X. Budget

We spent just over £30 million last year, against a budget of £34 million. It is quite interesting talking to our stakeholders; there are two views of this. Half of them say, 'We cannot believe how much you do with so little,' and the other half say quite the opposite. You will each know which camp you fall into, I suspect. Our operating costs were absolutely on the nail. Case costs are always rather difficult to estimate, because it depends upon the extent to which we reach a settlement with a firm or whether the firm takes the matter right the way through to the tribunal stage. If we then end up in the Court of Appeal, which we sometimes do, that obviously leads to a certain lumpiness in the figures there. We focus in particular on making sure that our basic operating costs are absolutely on the money. Our reserves are not that large. We were able to put a little into our reserves. It is an area of concern to me and to the board that our reserves are relatively low, and we have a schedule to try to increase them over the next three years to a more acceptable level. At the moment they are running at something like less than two months of our expenditure.

XI. Challenges

1. Brexit

As we move forward into a new environment, we have some quite healthy and serious challenges facing us. The first and most obvious one is the impact of Brexit. It is very hard for us to say at the moment what the conclusion is going to be, because it depends on the overarching settlement with the European Union. If we remain as members of the single market, the basis on which that happens is important. There is a perfectly credible scenario where in this area the Government might continue to apply European law, in which case very little will change for us. However, there are other aspects of Brexit where there are both opportunities and risks.

2. Immigration

Clearly, a big focus for the government politically is immigration. We regulate a profession that is very large and very successful and also has depended increasingly on the flow of people across borders. There are risks there that need to be understood and accommodated. There are also opportunities both to attract people to this country a little bit more easily than we have in the past and to make sure that there is real vibrancy based upon drawing people from the global accounting community into this country.

3. Public Trust in Big Business

The Prime Minister has, in the light of the referendum result, identified that there is considerable public concern and a lack of public trust in elites in our society. I do not dispute that for a minute. She has focused on a lack of trust in big business. She has put forward some quite specific proposals that would impact upon corporate governance, including employees and consumers being elected on to boards, and changes in the regulation of executive pay and how it is voted on. I hope and I believe that there was an understanding in the business community that there are real issues here to be addressed – that there is an issue about public trust. We have to recognise the reduction and failure of trust, and we must step up to the plate on it.

XII. International Standing and Investment Flows

The FRC is very willing to consider the proposals that the Prime Minister has put forward. We think it is most important in doing so that we recognise the considerable esteem that corporate governance in the UK is held in around the world. While we might have a problem at home, it is not one that is universally shared in international circles. Certainly, the flow of investment into the UK would suggest that international investors are pretty confident about the UK. That is a fact that we must hold on to and make sure that we do not compromise, because that flow of investment into the country is needed, perhaps more than ever. That is very important, but there is plenty of room for improvement and we are making our own contribution to the Government's thinking and to the thinking of the Business Select Committee that is going on at the moment.

Looking beyond Europe, post-Brexit we also have to consider how our international standing can be not just preserved but built on – it is already high – and whether we need to focus on different parts of the world than just the US and Europe, where the FRC has mostly sought to exert its influence and has successfully done so until now, so China, India, the major emerging and now fairly well emerged economies.

XIII. Widening Stakeholder Engagement

Against that background there are a few rather more specific questions I would like just to identify. We have to be honest about the state of the nation. I have told you that that corporate governance in this country is, at least by international standards, in good shape, but is it good enough? Is comply or explain really working well enough? We must make sure we continue to ask ourselves that, and we will do so. Are we going to be able to drive this focus on corporate culture that we believe is most important really successfully? We have given ourselves a good platform and a good start, but I do think it is at the heart of getting the right outcomes. We cannot do it all through regulation.

How are we going to widen stakeholder engagement while at the same time preserving our strong links with and our focus on investors and the shareholder community? We have got to get this balance right. The Prime Minister has quite rightly challenged all of us to make sure that companies understand that they depend not just on their equity capital, not just indeed on other sources of capital, but on the contributions of their people and on their engagement with society at large, and challenged them to ask themselves how they can do that. We have to ask that of ourselves as an organisation as well. I am very glad that our panel will be helping us focus a bit on that. We feel it is most important.

XIV. The Regulatory Regime

In working with others to deliver the public interest, we have to recognise also that the corporate law regime – the regulatory regime within which companies operate – is a pretty fragmented one. Powers are divided between us and different regulatory bodies, and there are gaps in those powers. Just to give you one example, if we see something that has gone wrong in relation to financial reporting, we have the power to proceed against a failure by an auditor or a failure by a company director if he or she happens to be a member of one of the professional accounting bodies. We cannot proceed against a director who is not a member of those accounting bodies. That is clearly a mismatch and that reality is a million miles away from what the public would expect in looking at the FRC for taking that sort of action. We can join up some of those gaps by working with others, with the FCA perhaps or even with the PRA, but those gaps remain. It is a question of real public interest about whether that should continue in future. As I say at the bottom of this page, can enforcement to underpin integrity be a subject of genuine public confidence?

XV. Corporate Scandals

The focus on executive pay is obviously a huge lightning rod in relation to the question of public trust, and we need to consider what our contribution should be to that. There is the question of the ongoing flow of corporate scandals. It is perhaps not huge numbers, but the public is a bit fed up with the fact that they continue to arise, not necessarily just in this country, although there have been some notable ones, but around the world. Is there some failure in control beyond the control of the finances? Is that due to a failure of culture? Is it due to some other form of failure? Have boards got the grip they need in the modern company, in the modern world?

XVI. Today's Panel

These are some of the issues that concern us and I am delighted that we have a panel that I would like to join me up here: Helena Morrissey, Non-Executive Chair of Newton Investment Management and a real driver of gender balance in the corporate world; Julia Unwin, CEO of the Joseph Rowntree Foundation, and somebody who has addressed our board in the past and rightly sought to raise our eyes to this question of wider stakeholder engagement; Paul Johnson, who is the Director of the Institute for Fiscal Studies, a leading economist and commentator who has worked with us on actuarial matters in the past and given us real insight in that regard and also more generally in terms of the economic space; and Philippa Foster Back, who is Director of the Institute of Business Ethics and has had a tremendous impact on our work on culture. Welcome all. We all very much welcome your thoughts on what is going on at the moment in the public domain.

Panel Discussion

Helena Morrissey

Thank you, Stephen. It is a pleasure to be here. I am going to address all of the questions briefly around the context of the state of the nation. I am picking up some of the points that you have mentioned already, Stephen. If I characterise where we are today, particularly with the work the FRC has done on the corporate governance code, as if we are having a school-room assessment, then I think we would all agree there has been a long era of continuous improvement since Sir Adrian Cadbury a quarter of a century ago. We have continually tried to learn from mistakes; we have had several revisions to the code, of course, and there have been specific initiatives such as the focus on diversity on boards in this country, the previous stamping out of the practice of having the same CEO and Chair, and then, more recently and ongoing, the FRC's review of investors and how they adhere to the stewardship code.

Standing back from it, I would suggest that, although we look to continuously improve and although we are relatively good and probably best in the world, they are relative measures: relative to the past and relative to our global peers. Extending the education analogy, it is a bit like we are looking at each individual module in the curriculum, and then when we stand back and emerge from our education, we need to ask if we are equipped for the modern world. I would suggest not. I am not laying the blame at all at the doorstep of the FRC, because there is only a certain amount that you can codify – and that is an important point. We do not want to end up with another raft of regulation. In preparing for today, I looked back over some initiatives and it is a bit like: 'Here we go again.' We do not want to start all of that; there has been a huge effort.

However, I do think the Prime Minister's challenges since she became leader of the Conservative Party and the Prime Minister are a good call to review the whole and to reflect on the fact that, if we stand back, we still have, as Stephen said, corporate scandals, rising wealth inequality and a big unresolved problem about executive pay. We know that we have working practices in some companies here that people are talking about as Victorian – workhouses and so forth. There is a disconnect, as I see it, as there is a lot of talk and a lot of people trying in their own small way to improve it. We have to stand back and be self-critical at this juncture.

The financial crisis was the loudest and most deafening wake-up call that any of us could have had, but if I look at this year in particular, big business has grown further apart from the rest of society in 2016. Looking at the approach to the referendum, all sides were bad tempered about it and there really was no proper listening. There was no good discussion or an attempt to hear what were clearly disaffected groups in the country. I do not think there is much evidence yet that that has improved since the referendum either. It is all very well to have criticisms and say, 'We have got to do better,' and so forth, but we need to think about what to do specifically.

Before I pass on the baton, I am greatly encouraged that in the last few weeks I have been invited to participate in a whole raft of forums, like the Common Good Foundation, the Purposeful Company and the Working Group. Obviously groups like the Joseph Rowntree Foundation have been very longstanding in this field. It seems to me that there is now a drumbeat around this issue just as there was in a rather more microcosmic way around diversity on boards a few years ago, and we should join in. As I said, everybody should do their bit, focusing on the fact that we have to have a new relationship between business and society if we are to achieve sustainable growth, overcome our productivity problems and achieve a capitalism that works for all. This is beyond what the FRC can do. You can help monitor that the companies are doing what they say they do. The culture review was very timely and important, but it is up to everybody and not the same faces that I often see at the forums. It has to widen out.

Julia Unwin

About 40 years ago when we first started talking about corporate social responsibility, the phrase 'healthy high streets need healthy back streets' was the slogan sprayed over everything. If you look around at the state of our nation now, the indicators are not too brilliant. Thirteen and a half million people in our country do not have enough to get by. In many parts of the country, Northern Ireland being one, a quarter of children are growing up in poverty. The rental sector is competing with home ownership and offering increasingly insecure and expensive housing for our young people and, indeed, our rather older people. It is a gig economy, and there is a rise in self-employment that is fantastic for many and absolutely disastrous for those at the bottom end of the income distribution.

The Victorian conditions that Helena talked about are reflected in a form of casualised labour, very often rebadged as self-employment, active in all of our supply chains. These conditions are not great conditions in which to do business.

No one should have been surprised by the vote on the 23 June, because it was a vote of disaffection. It was not a vote of self-interest, as we know all too well; go to Port Talbot or Redcar, where they voted in the way they did against their own interests. It was a vote of disaffection and distrust. That speaks very profoundly to the agenda of our companies, primarily the UK-based ones but also the ones outside. The levels of poverty I have described were reflected yet again today by the chairman of Tesco reminding us that the bottom two or three deciles will find it hard to buy their food and their basic goods at a time when prices are rising. Prices will affect all of us in this room but will particularly impact on that group of people.

It is not a safe place to do business, because it wastes skills. We know that at the age of three the attainment gap is seen. That is no way to build the skills that we need for the future. It means by the time young people leave school they are way, way behind if they come from those poorer households or poorer areas. It is wasteful. It is incredibly expensive. Our conservative calculation is the cost of poverty to the Treasury is £78 billion a year. Believe me, that is conservative, because I have had people telling me that it must be more than that. It is wasteful and it is costly, and, as the Brexit vote showed, it is deeply risky. It leaves our society more divided, more unequal and more open to the sorts of responses that we saw in the referendum – and we may well see in terms of the sorts of politics that we can see on the other side of the Atlantic at the moment.

There are things that companies can do in attending to their place in that economy. I think they are about attending to the human capital that you have. Stephen talked about the huge efforts that are put into understanding the nature of the financial capital with which we operate. Sports Direct showed something about an approach to human capital, which an economist I spoke to said indicated a level of flexibility in the workforce in terms of human capital that 30 years ago nobody ever imagined we could achieve. That flexibility was revealed very rapidly, and in a social media world there are very few hiding places. It also revealed a real mistrust for the operating model of that company, which I believe has been damaging there and may be damaging to other businesses.

It is fashionable when you talk about the operating environment and stakeholder engagement to look to Government to respond to these issues, and of course we have to do that, but we do have to recognise that the companies of the UK are in part shaping the economy in which they are then operating. The very long supply chains into every community and every economy across the country mean that in the great rejuvenating cities of the UK many companies are now talking about how to make that growth more inclusive, less risky, and more sustainable in the long term. I therefore think that for companies that are engaging with looking at the suite of stakeholders, yes, consumers matter; yes, workers matter. Both are fantastically important and you will devise ways of dealing with it. Just as we have learnt to account for carbon input, we have learnt to account for diversity. We have to learn to account for the social capital and the human capital that our companies are using.

Paul Johnson

I am often accused of being a bit miserable when I speak about the sorts of things I speak about, and I probably will be again today, but I will try to do a bit of upbeat as well. Let me start with miserable, because I am much more comfortable with that. Looking at the state of the economy, let us ignore 23 June and ask where we are. It is very easy to forget just what an extraordinary place we are in in any case. GDP per capita – national income per person – is the same now as it was in 2008. We have had eight years with no growth at all. We have not seen that in 100 years. Household incomes are the same now as they were in 2009, which means seven years with no growth at all. We have not seen that in 100 years. Interest rates are at their lowest levels since the Bank of England was founded in the seventeenth century. Productivity has not grown in eight years, which again has not been seen in a century.

We do not really understand quite why things are like that and we certainly do not understand where the economy is likely to go afterwards. Most forecasts made before June each year assumed we would move back to normal, 2% growth, about a year out. Those were the forecasts back in March. Maybe we would have done and maybe we will, but the truth is, following the financial crisis, the economy has behaved in ways that were not predicted by very many people and were not fully understood. Among the working age population, as the previous two speakers have alluded to, earnings have not grown. Indeed, if you are in your 20s, you will be earning less now than someone in their 20s a decade ago. If you are a family with children in the middle of the income distribution – not a poor family but an average family with children – you are now probably renting whereas a generation ago you would have almost certainly been an owner-occupier. Renting may be fine, but it is not people's aspiration. The economy has changed in really quite dramatic ways.

Whatever the long-run impact of the Brexit vote, we have now added a huge slug of uncertainty on top of that. We do not know what the impact of Brexit will be. We do not know what trading arrangements we will come to. We do know that there are some immediate impacts. We have seen a 20% decline in the value of the pound, which is a pretty astonishing change in a very short period, and that for sure will raise prices and, therefore, for sure will reduce living standards in the short run. In the long run, assuming that we do not remain part of the single market and customs union, we will grow more slowly than we otherwise would have done; how much more slowly is very hard to know. It does not mean that we will go into recession, but it probably means we will have a longer period of low growth, exactly as Julia says, probably hitting those who are already struggling the most.

There is a lot of uncertainty around where we are. I do not know what the Chancellor will do on 23 November at his first fiscal event, the Autumn statement, or at the Budget in March. It is a huge uncertainty that he has to deal with, because he does not know where the economy is going to go. There is a big uncertainty we currently have to deal with, because we do not know how he is going to respond to it. I am pretty sure it is not the end of austerity. We may not be running towards a budget balance, but I do not think we are running towards spending increases, with the possible exception of spending on infrastructure. That is all pretty gloomy and uncertain.

Let me try to finish with some positive. There are real positives. First of all, we have an older population who are, without question, far better off than they have ever been. We have not quite solved pensioner poverty, but we are pretty close. Pensioners are better off than ever and their incomes are continuing to rise. Unlike when I started work in this area 30 years ago, we are not the poor man of Europe when it comes to pensioner incomes. We have a far-better-educated population than we have ever had. One of the extraordinary things is that, for people in their 20s, earnings have been going down as their education has been going up. One of the big challenges and one of the big opportunities is that we do have a lot of highly educated people who clearly are either not being trained or being used in the way that is most effective for them. Incomes are no higher than they were 10 years ago, but they are still a lot higher than they were 20 years ago and we still have a much better in-work benefits system than we had 20 years ago, even if it is being reduced.

Beyond the top 1%, inequality has not shifted in a quarter of a century. We are not having run-away inequality across most of the population. There is an issue with the top 1%, who at least until seven or eight years ago were taking a bigger and bigger fraction of the total. Of course, our living standards are, on the whole, significantly higher than those of generations before us. We are living an awful lot longer. There is good news, but we have been in a period of unprecedentedly poor growth over the past decade in productivity and living standards, particularly for younger people. We are coming to a period of unprecedentedly serious uncertainty. How we as a nation, the Government and businesses respond to that is going to be the next big issue for the next several years.

Philippa Foster Back

Thank you for the opportunity to speak here again at the FRC. I have three points that I would like to make: something on the state of the nation, and then some practical suggestions on executive pay and governance. The Institute of Business Ethics has, hopefully, got a reputation for being practical and pragmatic in helping organisations move on with their agendas.

My first point is, as has been said before, the macro-problem for all of us: business's role in society. It would seem that business has collectively lost its clarity of purpose in being able to promote itself as being useful in society, which is beyond the tax issue. This I believe is in part due to the change over the last 40 to 50 years from a manufacturing-based economy to one of service, particularly public service, coupled with an education system that has shifted its own emphasis.

My second point is one that has done much to undermine public trust, as was alluded to earlier by Stephen: the whole issue of executive pay. We are all agreed in this room that change is clearly necessary. For some time there has been a feeling that remuneration has become so complicated that the givers do not know how much they are giving, nor the receivers understand how much they are getting. This does include the issue of the givers explaining to their shareholders and others what they are giving, and why they are giving so much. While remuneration reports are extensive, they are often not very clear on that point as to the reason for the level of executive pay.

What sort of change could be effected? I would suggest a very simple move back to straight cash with a requirement to use, say, 75% of the bonus to buy shares in the company, which would be held for, say, two to three years after leaving it. This would allow the recipient to receive dividends in the meantime. Of course that sounds very simple and, indeed, it is, but it has the merit that it would help disperse so much of the fog surrounding remuneration. I lay it out there for people to think about.

I would also say that the underlying change should be on a greater emphasis in developing bonus criteria around living business values and meeting the company's purpose, not just on receiving or achieving those results. The latter, as we know, as has been proven in many of the corporate scandals, can always be achieved through cutting corners. That can have some very serious long-term repercussions for the organisation, let alone for the staff. Perhaps there should be less emphasis on the numbers and more on the behaviours to achieve them, which might create a stronger and more sustainable business in the long term.

My third point is about governance and the emerging agenda, as has been alluded to. I am not convinced that more laws or regulations are necessary, having become a fan of what I call nudge law, for instance the provision, without sanction, in the Model Slavery Act that requires companies to publish a statement about how they are addressing the issue in their supply chain. This has had a truly international effect on companies from New Zealand all the way through to the USA, as it affects any UK company with turnover of more the £36 million in this country. As to who is policing it, it is civil society, who is doing so proactively. They are monitoring the statements that have already been put out, which in turn is driving better behaviour and concentrating the business mind on the business principles of their supply chain. That really is an instance of how to change behaviours without bringing in a tick-box approach.

I use the same analogy for Section 172 of the Companies Act 2006 – to require directors to explain how they are fulfilling their statutory duties in the way they run their businesses. It could be a practical way forward. Those duties apply to all directors, whether in the listed or private sector, and take into account, as part of promoting the success of the company, employees, suppliers, customers, impact on the environment, and a reputation for high standards of business conduct and the consequences of decision-making. In talking with board members and directors, it has often become quite obvious that they were not as familiar as one might have expected on Section 172, and a real re-education on this would be helpful.

In addition, requiring directors collectively to produce a statement could perhaps fall to the FRC as an example of fulfilling its public interest role in monitoring those statements. Because every company is different, it would not and could not be a tick-box exercise. Actual brainpower would be needed to fulfil this.

I have one final thought for the FRC on revising the governance code. As is being introduced in New Zealand, companies should have a code of ethics and an ethics programme as a demonstration of a company's commitment to high standards of ethical behaviour. You probably would expect me to pick up on that one. The Institute of Business Ethics is celebrating its 30th anniversary next week, as we were launched the day after the Big Bang. While I have seen much progress in companies in embracing the agenda and recognising the whole issue about how they do their business and how important behaviours are, there is still much more to do. I welcome the FRC taking a leading and collaborative role in trying to lead on this complex agenda.

Questions and Answers

Stephen Haddrill

It is Q&A time, but I get to ask the first one, as I have taken that as my right. Can I just explore a couple of things that have been said? I have to say, I woke up in a really good, optimistic mood this morning and it has dissipated over the course of this event, despite Paul's valiant attempts to cheer us up at the end. The reason I woke up in a good mood is because I had been to the Indian Institute of Directors' Golden Peacock Awards. This is a fabulous event. This is a society that has a great disparity of wealth and real poverty that is much greater than ours, but there is a real sense that it is motoring and getting somewhere. They get through that to some extent; I am not speaking necessarily for the poorest, but there is optimism. We seem to have lost some of that optimism. We feel stuck. My question is: do we have the tools in a global society to get ourselves unstuck? We are talking about changes to corporate governance that I can see could really make a difference. I can see transparency really makes a difference, but is it enough?

Paul Johnson

Yes. To the extent that we have problems, they are mostly man-made and they can be unmade by people. I am the worst perpetrator of this, but it is too easy to be too downbeat about things. We can spend too much time attacking big business and rich people and so on and suggesting that they are not paying any tax when they are paying enormous amounts of tax, and suggesting inequality has been rising inexorably. It has not. We are suggesting that there is a huge amount of tax avoidance going on; there is certainly less of it than there was. We can create more problems than we solve by making everyone think things are worse than they are and that there are too many people who are misbehaving. The majority of people are not misbehaving. The majority of people are behaving perfectly well, but there are some problems with the structure of the system.

There is a secret in Whitehall: that they know perfectly well how to make the economy grow but decide not to, for perfectly good reasons. Extra runways would help the economy, but it takes quite a long time to make them happen. More housing would be good both socially and for the economy. More roads would be good. Doing different things to the education system would be good. There are a whole set of things that we know we can do to make things better and have decided not to up until now. There are costs to them, often environmental ones, and we have to bear those in mind. Given the uncertainties I have described about the course we are steering over the next few years, there are big choices we have to make around the agreements we come to on trade, around the way that the tax and spending system responds and so on. We have it within our grasp to do the right thing. The question is: will we do it?

Helena Morrissey

I want to make a different point. Of course it is within our grasp, but at the moment a lot of the people in governments and countries and companies are still working as if we are living in the era before the democratisation of power. The internet and the avalanche of information that we now have instantaneous access to is massively transforming the nature of power. We are moving away from hierarchical command and control powers, where you can tell people what to do, to a much more diffused, democratic and networked power. I do not think we will get the solution unless there is more recognition and a change in how we connect with people in society who now need to be brought along and have the wherewithal to make their objections known. I do not often see that in the dynamic of the conversations that I am having.

Julia Unwin

I cut to the quick of not being sufficiently optimistic, because we have really good grounds for optimism at the moment, because there is opportunity. There are issues that are now at the political level and that of an audience like this, such as the need to invest in housing, where there is greater consensus than there has been before. That is how to drive the economy in a different way. The big concerns of most employers and most businesses are about productivity and employee engagement. Many of the old tools do not work. Just as Helena said, we need a new set of tools.

Businesses seeking employee engagement know that you have a different relationship with that human capital and that the easiest way to engage your own employees is to engage with their progression, their ability to perform at work, and the ways in which they can contribute to the business. The big agenda for the Government is, of course, what is happening outside of London and what is happening in the towns and cities in the UK, where there is a very interesting discussion about the nature of inclusive growth and growth that is not just visible in those low-paid sectors that we have traditionally traded on.

We are going through a massive period of transition with a very different labour market, very different people in the labour market, and very different demands on the labour market. Automation and artificial intelligence seem to me to be huge risks, but I see lots of reasons for optimism that people are looking at taking the opportunities.

Stephen Haddrill

Of all the things that you have said that you are thinking about, what is the top thing that the FRC needs to do? What is the one thing for us?

Philippa Foster Back

The major thing is opening up the dialogue. As you said at the beginning, you do have convening power and it is about making sure the widest possible audiences are brought together to make sure that their voices are heard. Voices are not always heard, and that is something you can probably do. In a sense, you need to find a way also to embrace those companies that do not normally fall under your bailiwick such as the large private companies and so forth. They need to be brought into this. They are caught by the Modern Slavery Act. There are ways and means.

Helena Morrissey

Be radical in your thinking. I was trying to get out the fact that you have had a lot of incremental change. Some of the Prime Minister's challenges like workers on boards might have people in this audience recoiling or worrying about whether that would actually serve the purpose she has in mind, but those should be entertained. While Philippa is right to say, 'Make sure there is good and broad engagement using your convening power,' do not go to the lowest common denominator. There has to be a vision of where we get to. Test out some of the things that have gone wrong since the financial crisis and ask whether any changes that you make now could help to catch them.

Paul Johnson

At the broad level, it is about building trust and understanding between business and wider society. Going back to what I was saying earlier, there is a largely wrong but very pervasive and dangerous belief out there that in some sense business is one thing and is in it for tax avoidance and huge pay and profits and so on, and then there is the rest of the world. There is some poor behaviour, clearly, but obviously business is the economic world and it is behaving very often in positive ways. The FRC potentially has a really important role that goes beyond the individual misdemeanours towards the trust and understanding of that business as a whole. A really significant part of the problem that has happened in civil society more generally is that lack of trust and understanding and engagement with business.

Julia Unwin

There is a really important issue about who the asset holders are in our companies and businesses and the ways in which they are engaged for the long term. I obviously speak as somebody who runs a charity with a reasonably large endowment, but all the asset holders in our country have driving power in our economy and are too rarely engaged in these discussions about long-term growth.

Stephen Haddrill

Thank you; I am feeling much more excited now than I was a few minutes ago. I will take questions.

Mohammed Amin, UK Shareholders' Association

I represent private shareholders. What lessons would the panel draw from the many decades of continental European experience with worker directors on supervisory boards?

Helena Morrissey

I am not an expert [on European company boards] but from what I have heard and from discussing it with the team at Newton who work in the environmental and social governance team, the problem is you often get a parallel, two-tiered board, sometimes deliberately such as in Germany, but otherwise you get a parallel discussion and the real board members alongside the full one. The review that is now under way that is looking at the definition and the responsibility of the director is an important starting point before you decide who should be on the board. I would point to examples like Volkswagen, where you had workers on the board and problems still emerged. It is not a panacea for all ills. We should be thinking, as Julia said, about broadening the stakeholders. Whether there is a stakeholder committee alongside the board or whether there is some form of employee charter, the worker's voice needs to be heard. The question is whether you create a two-tiered structure that ultimately does not improve governance and does not include the worker perspective.

Julia Unwin

There is a lot of experience of the risks of having representative directors and people who do not have only the responsibility of the whole business. Bits of the public sector have tried this and experimented. There are more imaginative and clever ways of getting a much wider range of views involved that do not involve just putting somebody in the invidious position of carrying a particular agenda.

Stephen Haddrill

It is worth bearing in mind that there are lots of different, specific models across Europe; there is not just a single one. The model we have here is the unitary board, which picks up on what Julia was saying. The unitary board where everyone is equally responsible is quite an important principle to try to hold on to. How you fit it in with the other framework of corporate governance is what requires the thought.

William Touche, Deloitte

Like Stephen, I was deeply depressed to hear what the panel said earlier. Like always, when it turns to discussion we end up more optimistic. I would like to offer a different headline. Britain has some outstanding companies; it has an outstanding economy. It has led the world in governance and will continue to do so, as we have heard earlier, and you have a continual mission of renewal and continuous improvement or whatever. I would like to dump trust in business because it is negative and it focuses on where the problems are first, without offering solutions. I would like to change the debate and offer a headline that we can all get behind, which might say something like ‘Towards Tomorrow’s Company’, because this economy is going to have to deal with some huge things. We have some outstanding companies, and digital was mentioned earlier. We do not have the skills in this country. We need to import tens of thousands of engineers if we are going to continue to lead digital in Europe as we want to, as the industry wants to, and as this Government seem to want to. I would like to offer a different vision and a different headline that we can rally behind, which is ‘Towards Tomorrow’s Company’.

Philippa Foster Back

I would not disagree. How people use language is absolutely crucial. The Institute has been doing a survey every year of the British public on trust in business. In percentage terms, it has always bounced around the middle and slightly upper 50s, so it is not broken, but it is dented. There is more that can be done. I am a glass-half-full person and I very much like to focus on the positive, because working day-to-day with companies, some of the largest in the world, and seeing how they are trying to do in business in the right way and make a difference I find immensely exciting, because they are doing so much. It is a very small, representative group that we are talking to, but picking up on Paul’s point, generally people go into work wanting to do the right thing. They do not want to go in to extract value from their customers, but if they are set the wrong targets maybe that is the way they have to behave. That is the shame, and you then get to other issues. I am positive about it.

Stephen Haddrill

Paul, when the Prime Minister spoke at the conference she alluded to the need for companies to demonstrate to their employees that they are investing and raising their capability and you get a virtuous circle going. Do you see that happening? Is that something that the system is delivering sufficiently?

Paul Johnson

However positive we want to be, we are fooling ourselves by saying there is not a big problem. The big problem is that we have gone 10 years with no improvement in productivity and no improvement in wages, and young people now are earning less than young people a generation ago. There is a problem. We can be positive about what the solutions are, and the solutions clearly have something to do with or are related to the training and investment and upskilling that goes on within companies and the education that young people have.

Do we know collectively the way to do that? Do Government know the set of policies you need to implement to sort that out? I am not sure. Are there individual companies that are absolutely clear about it? Of course there are. Are there others that are doing less? Probably. There are things that will have to change as part of this. The most rational argument against free immigration from an economic point of view from the rest of Europe is that, over the long run, free immigration has allowed some companies a bit of a free ride in terms of ‘we cannot find the skills; we will bring them in’. If you cannot bring them in, you are going to have to train them. That is the best argument I can come up with for some kind of constraint on who can come in and how we can make the economy change as a result of the situation we are now in. I do not know how empirically strong that argument is, but it is the best one I can come up with.

It is also associated with three other things about the young labour market. One is we are still nationally terrible at training those who do not go through university. It is a minefield for young people to get through a whole range of different vocational qualifications, a lot of which are useless and some of which are very good. It is very difficult for them to know what a good apprenticeship is and so on. A second problem is we are underutilising those highly skilled graduates that we have. A lot of them are moving into the labour market into jobs that clearly do not require their graduate skills. We clearly need to sort that out. Thirdly, again focusing on young people, the rate of wage growth for a large fraction of them has been terrible. It is not just that 26-year-olds now are earning less than 26-year-olds 10 years ago; they have been in work for five years and have not had a pay rise. We need to think very hard about how we are developing people in that age group and in those ways.

Stephen Haddrill

I see people from an investment background and an investment community in the room. Does anyone want to comment on the contribution that investors and fund managers can make in terms of engagement with companies?

Sarah Wilson, Manifest

There is a lot of common sense coming from the platform, as I would have expected. The problem, though, is the pace of change. Helena talks about being radical and effectively putting a stick of dynamite under everybody, but it takes a long time to work through the system. Helena talks about networking conversations, but the Financial Conduct Authority really discourages those kinds of conversations in terms of social media and outreach. People do not understand finance. They genuinely do not understand business. When I was at school, which is ancient history now, we had an investment club. I do not think they exist anymore. Certainly, I do not think there are any corporate social responsibility investment clubs. I could employ 100 apprentices a year, and I would ideally love to, but there are lots of supply chain problems.

The investment community really can play its part. The City should throw open its doors and start employing apprentices. That is one thing. Number two: more education. It is true that people think every director is a fat cat. That is not true. We have an outlier problem, so we do need to get some things into perspective. The media needs to take a leap out of Paul’s book and say ‘Yes, there are catastrophes and icebergs out there, but not everything is a catastrophe.’ We must not talk ourselves into a hole in the ground.

Stephen Haddrill

Enormous numbers of people probably do not recognise that they are invested in corporate Britain through pensions and so on.

Julia Unwin

That is why I use the phrase ‘asset ownership’. I really welcome the approach that you have taken. Paul’s points about what is happening to young people, who are the next generation of managers and leaders, is something that we ought to take incredibly seriously. I welcome the fact that investors and investment managers are now much more focused on what is going to happen, because that is the long term. That is a well-made point.

Helena Morrissey

To chip in briefly, firstly the investment community could do so much more. It is still siphoned off a bit to these ESG teams I referred to. These issues are not regarded as mainstream. I get told so many times by CEOs that they are not ever asked about diversity or human capital or the community work that they do, and that needs to change.

Secondly, picking up on your point, apparently if you rank the sectors that graduates in the country are interested in joining, anything to do with finance is now number 12. In my days it was number one. We have to do something about the image. I am not suggesting colluding, which would be problematic, with the FCA, but we have to not just change the perception but do things that merit people thinking it would be a good career in which they could do something of sociable purpose and be part of this joined-up community.

Finally, picking up on the point made by the gentleman from Deloitte, if we do not recognise we have a problem, we cannot fix it. I want to echo the point that it does not mean that everyone is bad; it just means that we have to recognise that we have not solved this issue of how to have profit with purpose.

Philippa Foster Back

I wanted to add that there is a scheme I believe is still going called Young Enterprise, which picks up people in schools. I was immensely taken with the energy behind that. It probably needs more support and help to be promoted in all schools so that we go back to the entrepreneurial spirit, because it is certainly there in those young people.

Stephen Haddrill

We had a number of suggestions about the role of the FRC. We should do more to open the dialogue. We should be radical and not be too consensus-driven. We should build trust and understanding. We should focus on who the real asset owners are, and we should pay more attention to the private company. Does anyone disagree with any of those points?

Maurice Moses, EY

It is not that I disagree with them, but some of the things that we have experienced in the last few years are so basic in terms of the lapses in ethical behaviour and decision-making. The mis-selling in the City, Wells Fargo and Sports Direct, as has already been mentioned. You do not need to be particularly clever to realise that this is bad business at its most basic level. As much as it is interesting to talk about what we can do to improve the economic policy and activity in the country sitting in this room, that is really a job for Government. I am not sure what impact the FRC can really have on that.

As a regulator there is a role to be played to improve corporate behaviour. How does one achieve that? The initiative in terms of culture and trying to get to the bottom of that is really important. We have seen big businesses, both public and private, behave atrociously, quite honestly. These businesses have paid billions of pounds in compensation. I really want to know whether the profession could have done better in spotting these situations and reporting on them. This is what helps to make our world a better place.

Stephen Haddrill

To some extent, the frustration I expressed earlier about some of the gaps in the regulatory framework around the place and how it never quite bites as we would like is a reflection of that.

Panel, are we at risk of boiling the ocean? Should we just get tough where we can and knock these scandals on the head? Is that really what it takes or does it take more than that?

Helena Morrissey

I do not think you should be afraid of really censuring companies when they get it wrong. That is part of the cocktail of things that has to happen. You cannot change behaviour by waving a magic wand in a few areas. You have to censure companies that break the rules or are behaving badly. I do think we tend to slightly skirt around that as a community.

Stephen Haddrill

Should we do more?

Helena Morrissey

I do not see why not at this stage, otherwise more rules will be set; more legislation will come. There is a very a different example with the 30% Club, and it is arguably much easier, but when the penny dropped that it was in companies' self-interest to do something about lack of diversity on the board, they did something about it. Some did in a very enlightened, leadership way before it was fashionable, and others had to be dragged kicking and screaming and were somewhat ashamed and embarrassed by not having any women or diversity on their board. We have to keeping playing with the formula until we do not get the scandals and the bad behaviour.

Stephen Haddrill

How do you balance the carrot and the stick?

Philippa Foster Back

I entirely agree with the comment that has just been made. None of this is rocket science. It really is going back to, in City parlance, treating your customer fairly, but also in more ancient parlance of doing unto others as you would have done unto yourself. It is the golden rule. The best way to produce trust is through the business relationship of consistently delivering good service and goods to the quality and price agreed and paid for in time. As I say, it is not rocket science but people overcomplicate life, and through complexity they lose sight of the clarity. Businesses are trying to get back to it. In the first instance we are hearing talk around getting back to what their purpose is. We hear people saying they are 're-looking at their values' as a common phrase.

There are some very simple things around processes for doing that and embedding them within organisations. All of that goes to the common good, because ultimately there is a lot of proof that if you do business ethically, you do better business and you see that come through at the bottom line – and more particularly you see it come through in your workforce and productivity and all these other things. It is not rocket science; it is just being sensible about how you do your business.

Julia Unwin

It has never been more important, because there have been those scandals and there will be more, because there is so much exposure possible now. The exponential growth of what we politely call transparency – and is actually other people having a window into your business – is something that we have not, as a whole society, bottomed yet. We do not know what that or the power of social media in all its various forms means. To boast, they add huge value and cause massive disruption and expose difficulties and so will lead to a loss in trust unless all of us respond rather differently to that. That does require us to be open when it goes wrong but also to be ready to deal with the accusations whether right or wrong, and how we respond to them.

Stephen Haddrill

You have the audit regulator here and I see a number of quite senior auditors in the room. What is the role of that profession in this debate?

Paul Johnson

I was hoping to answer the last question. Two things are really important here. One is clearly that in a number of organisations there has been a failure of culture and leadership, and supporting and helping firms to have an appropriate and positive culture is clearly part of what the FRC and other organisations like the Banking Standards Board, which I am a member of, needs to do. The failure of banking and other industries has been very difficult but is potentially possible to sort out with regulation. In the end, however, you cannot really do it unless the organisation as a whole has an appropriate culture. That is a difficult thing to change, but it is possible with the right leadership.

The second part of it is: how can you change things at a higher level when you have got things going wrong? It is quite interesting to look at what has happened on tax, which I know a bit more about than some of this other stuff. There was some pretty poor behaviour among British companies up until a few years ago in terms of tax avoidance. There is less of it now. I cannot prove it but I am confident that it is true.

Why is there less of it? It is partly to do with the way the public debate has been conducted. Some of it has been conducted in a rather poor way, but it has been quite effective at, as it were, making people much less willing to take risks and sail close to the wind in some of their behaviour. It has also been damaging in some ways in terms of the sense that everybody's been misbehaving. This is where you need to get the right balance between making it unacceptable to behave in a particular way and calling out those who are doing badly without tarring the entire corporate sector with those problems. I am not going to comment on the role of auditors.

Anthony Carey, Mazars

I am not an auditor myself but am obviously with a firm that undertakes a number of leading audits. We are looking at and undertaking a joint project with a United Nations spin-out organisation of human rights reporting and assurance and working with a number of colleagues in the room on that project. A number of us have also been looking at how you might provide assurance in culture. One of the issues for us as a profession is looking at what we assure and how we assure it, which is also linked to what is reported on, because clearly there is a direct link. For the profession it is asking: what is our role in helping to create long-term, sustainable success in business in assurance, in reporting and in other ways? Having offered up what our role is, perhaps I will ask you, Stephen, how do you see the regulator's role in promoting long-term, sustainable success in business? Would you be looking at that holistically as to what form of regulation is most likely to help achieve that goal, just as we should as a profession?

Stephen Haddrill

Yes, and that is what the Companies Act talks about. The regulatory regime is quite multifaceted, but it rests on that pillar in the Companies Act that the responsibility of the company and the directors is to grow long-term shareholder value. Since the things that we do grow from that root, we should do. In corporate governance we have increasingly made sure that the code harks back to that, so we changed the remuneration provisions of the code a couple of years ago to emphasise the importance of the board taking account of how remuneration and incentives would drive the long-term sustainability of the business, rather than just responding to recruitment and retention issues. That is just one example.

You talk about reporting; there is a question for us and perhaps people will want to comment on this. We have followed quite rigorously the idea that the corporate report covers the matters that are material to the shareholder, principally, and that we do not want it getting overblown with other matters. This debate challenges that. Clearly we need to have a sense of balance, because the thing has got to be accessible. It has still got to be material, but who is it material to? Saying that, I am effectively breaching company law in raising the point, but it is an issue that flows from this discussion. Absolutely we have to address that issue.

Nick Land, FRC member

I agree with more or less everything that is being said, including Paul's abject pessimism, because although Helena mentioned it, we have not factored in robotics and artificial intelligence, which is going to hit emerging markets very quickly and is going to hit employment practices in the UK within five or six years. I am just trying to keep it a bit grounded, because we have talked about a lot of interesting things, and most responsible companies would agree that, if you have the right ethical behaviour, engagement and investment in your people, you will make more money. The vast majority would absolutely agree with that and try to do it.

What can the FRC do about this? We cannot solve all of Paul's problems. I am not trying to apportion any blame now, but we operate, which Stephen has referred to, through the Companies Act, where companies' responsibilities are primarily and legally to the shareholders. We have talked a bit about coalitions, in that coalitions with Philippa's institute and others have been very successful. I do think we need to think, as others have in the past, about how we align everything we are talking about and what we and good companies wish to happen with what their shareholders want. The truth of the matter is that most shareholders in my limited experience are, of course, interested in everything we have said here but primarily, and understandably, want to know what the strategy is and what the dividend is.

I was very struck by what you said about tax. I did a little workshop for Philippa the other day on tax and tax avoidance. One of the boards I sit on is Vodafone, which was erroneously accused of tax avoidance in the UK. We went through quite a difficult period in the UK of consumers protesting, so I did a bit of research with investor relations in Vodafone. I asked if any shareholder had ever asked about tax, and they said, 'Yes – they asked, "Why are you paying too much tax?"'

I am not trying to pick on an industry. I am trying to say that it seems to me, from what the FRC can do, that we have to align with many people. We probably need a coalition with many. We have somehow got to get better alignment with a very disparate group of shareholders. We have got some great institutions there that take a long-term view, but we know half the investors sit outside of the UK. We know that a number are short term, activists etc., so how can we bring that group together? I am sure it is something that the IA worries about as well, because unless we can get a coalition there, it is going to be quite difficult in some areas for companies to fully respond as the panel would like them to respond and as I agree they should respond.

Helena Morrissey

Obviously the investor forum has been set up to try to encourage a more long-term and coordinated approach, following John Kay's review in 2012. It is a completely correct assertion that the investor community has not tied in with the long-term sustainable nature as a whole. It is one where you want to go for the highest common denominator and not hide behind the fact that we do not hold the whole shareholder register here in the UK, because we can again set the standard. We are trying, as Julia mentioned earlier, to get asset owners to set mandates that are long term and to stick religiously to long-term views, even if it results in underperformance in a particular quarter, such as improving workers' conditions. That has to be all part of the incremental change that I was rather vaguely alluding to at the beginning. We need to hold up not just the bad examples but the good examples of companies that have been awarded by a premium put on their shares by shareholders. Many of us subscribe individually to the idea that a responsibly managed company is ultimately going to have a sustainable, competitive advantage, and we do want to invest for five years or longer. We need to live and breathe by our own propaganda, join ourselves up with asset owners and make sure to raise it when meeting with company owners. A brilliant idea to move away from quarterly earnings was to report monthly earnings, because then everyone would completely disregard it as noise and people would focus on the long term. It is right to be critical.

Nick Land

I am not trying to blame investors.

Helena Morrissey

I do not think it matters if you are. We have to accept we are all culpable.

Nick Land

We need the right sort of encouragement. Somehow building an even stronger coalition is essential if the FRC is going to help with some of the problems that we are talking about.

Julia Unwin

There is quite a lot of movement from asset owners on that. The question is who they are and how they operate. It is very small scale at the moment. It operates very differently in the US. We are at a time of change, partly because of the greater transparency I was talking about, and asset owners are themselves under more pressure to justify what they are doing.

John Hoare, ShareAction

I am also a non-fat-cat director of the Corporate Responsibility Coalition, so thank you for the kind things you said about civil society and the Modern Slavery Act. I have a brief response to the point about what shareholders are asking for. A lot of shareholders need to remember whose money they are investing. It is millions and millions of pension savers, who have an interest in companies doing the right thing. I take the point entirely that many are. They have an interest in their environment; they have an interest in employment conditions, in the growth of the economy and all of those things. Investors need to remember that it is other people’s money.

Stephen Haddrill

That is a very strong point to end on, so thank you very much.

Helena Morrissey

I have been sitting here and all the time on the dial there it says ‘hold fast; sit sure’ and it has been very heartening as a thing to look up to.

Stephen Haddrill

You have held fast and sat sure and you have done a tremendous job for us. I ask you to thank the panel.