Profile: Guy Jubb

Governance, Corporate Responsibility, and Sustainability Essential to Protect Investment Value

For institutional investor Standard Life Investments, corporate governance, social responsibility, and sustainability are integral parts of its investment process to protect the value of its investments. The Head of Corporate Governance presents his wish list for the next steps.

Intro

Standard Life Investments, the organization for which Guy Jubb has worked for over 20 years (see also “Standard Life and Standard Life Investments”), sees company policies and practices in the areas of governance, corporate responsibility, and sustainability as an integral part of its investment process, particularly to safeguard the value of its clients’ investments. As a global investor and shareholder, Standard Life Investments has the financial strength and the professional reputation to actively encourage best-practice standards in companies’ management of social, environmental, and governance issues. Guy Jubb pioneered the development of Standard Life Investments’ corporate governance team. In this interview, he shares some of his views on what should be done next to effectively improve corporate governance, the audit of financial reports, and to make corporate reports more useful.

Brief Guy Jubb bio

Guy Jubb is Investment Director and Head of Corporate Governance at the Edinburgh, UK-based leading global investment company, Standard Life Investments, a subsidiary of Standard Life plc (see also “Standard Life and Standard Life Investments”). A Scottish chartered accountant, Mr. Jubb’s career spans merchant banking, corporate finance, venture capital, and fund management roles in London, New York, and his home town of Edinburgh. He pioneered the development of Standard Life Investments’ corporate governance team in 1992. Mr. Jubb has been deeply involved in developing best-practice approaches to corporate governance. He is co-chair of the Global Auditor Investor Dialogue and the Conference Board’s European Corporate Governance Council. He’s also a member of a number of influential committees, including the Investment Committee of the Association of British Insurers (ABI) and the Companies Committee of the Confederation of British Industry. He was also a member of the Corporate Governance Working Group, which assisted the UK government during its wide-ranging review of company law, and the European Commission’s Auditor Liability Advisory Forum. See also the corporate governance web page: www.standardlifeinvestments.com.

Standard Life and Standard Life Investments

Standard Life is a leading long-term savings and investments company headquartered in Edinburgh and operating internationally. Established in 1825, Standard Life provides life assurance, pensions, and investment management products to over 6.5 million customers worldwide. The Group has around 10,000 employees across the UK, Canada, Ireland, Germany, Austria, India, USA, Hong Kong, and mainland China. At the end of December 2009, the Group had total assets under administration of £170bn. Standard Life’s diverse business includes one of the largest life and pensions businesses in the UK, with more than 4 million customers, and Standard Life Investments, which currently manages assets of over £145bn globally. On July 10, 2006, after 80 years as a mutual company, Standard Life Assurance Company demutualised, and Standard Life plc was listed on the London Stock Exchange. Standard Life now has approximately 1.5 million individual shareholders in over 50 countries around the world. See further: www.standardlife.com and www.standardlifeinvestments.com.
Guy Jubb

Move away from boilerplate

“The information contained in corporate reports is the bread and butter that one consumes in assessing what the company has done or not done. In terms of making corporate reports more useful, let’s try and move away from boilerplate disclosures. It is, for example, often quite interesting to challenge what companies put forward as their strategy: ‘to increase shareholder value.’ In my book that isn’t a strategy, but just a statement of intent. It requires more articulation as to how the increase of shareholder value is going to happen. In addition, as a reader, you probably not only want to see the company’s strategy, but also how it has worked out; you want to see the results of it. Unfortunately, however, especially in reports from highly litigious countries such as the US, you feel the hand of the general counsel measuring each and every word.”

Reduce the risk of litigation

“In moving towards a more open style of disclosure, we also have to try to reduce the risk of litigation. Otherwise, moving away from boilerplate won’t happen. This means, among other things, that investors and their clients have to change their approach and culture in that regard.”

How realistic do you think that is?

“I am not convinced that one can leave it to market forces to cause that change of approach and culture. But attitudes can be changed. It is something that may require structural or similar catalysts to enable that to happen, as opposed to laissez-faire.”

Do you see any other main barriers that should be lifted to make this move away from the boilerplate happen?

“There is a communication barrier and often a minimalist type of approach. In other words, many companies only seek to comply with the various International Financial Reporting Standards and different regulatory requirements and such. Whereas if they had a more enlightened reporting approach, they could be a bit more expansive than they are right now.”

Embrace stewardship

“Another governance aspect that has emerged is stewardship (see also ‘The concept of stewardship’). I wouldn’t have necessarily made such a song and dance about it without the benefit of hindsight on the financial crisis. We are bearing scars of not holding boards to account for how they steward the assets under their control.”
The concept of stewardship

Stewardship in an organizational context refers to management’s responsibility to properly utilize and develop the resources of the organization, including its people, its property, and its financial assets. Reporting on stewardship is of particular importance to the shareholders and other long-term stakeholders of an organization, according to Mr. Jubb, because “it provides them with the reporting ingredients on what the board has been doing and how it has been doing in relation to the essential stewardship factors, such as long-term sustainability, corporate culture, risk appetite, environmental care, and relationships with society.”

What would you like to see the company doing in establishing better stewardship?

“Directors should explicitly recognize that they both direct and steward the company’s assets that are entrusted to them in a manner that is in the best interest of the company and its long-term shareholders. This dual recognition should be emphasized during the director-induction and board-evaluation processes.

“We should put the concept of stewardship right in the heart of the corporate reporting system. It is very rare that you see a corporate report referring to stewardship.”

Develop a stewardship reporting matrix

What would stewardship reporting look like? How would it be different than what you see at the moment?

“First of all, these reports would refer to the actual stewardship function in the organization. A stewardship report should focus on what the board has been doing and how it is being done. Narrative reporting and stewardship reporting go hand in hand in many respects.

“What I envisage is a stewardship reporting matrix with, on one axis, the essential stewardship factors, such as long-term sustainability, corporate culture, environmental care, and relationships with society. I haven’t mentioned the ‘r word’ yet, but risk appetite is another essential stewardship ingredient. Risk appetite links in with culture as well.

“Then on the other axis, one could plot down the various reporting ingredients like the remuneration report, which might for example—or should these days—have a tick in both the cultural box and in the box relating to sustainability in terms of long-term deferment of remuneration. One could then perhaps go to the CSR¹-type report, which might have more to do with long-term sustainability and the relationships with stakeholders. This is an embryonic vision of such a matrix, but one could build this vision out into a real matrix, which has stewardship factors on the one hand and reporting ingredients on the other.”

Balance information for economic decision making and stewardship

“There is also an ongoing question—and this goes directly to the heart of the conceptual framework of the International Accounting Standards Board (IASB)—as to whether corporate reports can serve two masters: shareholders and sell-side analysts. I think there is a distinction between the decisions made by shareholders and made by financial analysts:

¹ CSR = corporate social responsibility.
• Shareholders generally are there for the long term. They are concerned that the value of their investment will steadily increase over time. Therefore, they want to assess stewardship and use that information to hold the board to account.

• Sell-side analysts, on the other hand, are primarily interested in information that can help them in short-term economic decision making and analysis, and are less concerned about stewardship. Their motive is to gain insight and generate views designed to encourage their clients—institutional or private—to buy and sell shares with the view of making a commission on it.

“Current corporate reporting is predominantly focused on economic decision making, but increasingly there are decisions that are born out of stewardship and sustainability. Useful corporate reports should balance information for economic decision making and stewardship.”

Better integrate corporate reporting

“Corporate reporting tends at the moment to be very compartmentalized. You have, for example, social responsibility and sustainability reports often being churned out independently, but they are integral to the longer-term wealth and health of the company and to its reputation. Corporate reporting could be better joined up. The IASB’s work on management commentary could yield a useful link that would make this happen. It is important that companies embrace the spirit of management commentary guidance, and do not turn a blind eye to its potential to make corporate reports hang together (see also ‘Some examples of integrated reporting’).”

Some examples of integrated reporting

“One of the reports I looked at earlier this year—and was very impressed with, partly because they had some problems they had to address—was the Siemens 2009 annual report. If you read the report, you will note the frequent use of personal pronouns, ‘I’ or ‘we,’ and ‘I and the other committee members.’ It was written very much from the heart, as personal statements by the directors who were signing up to the individual components of it, as opposed to individual directors hiding behind the platitude ‘the board considered…’

“Let me also refer to the Siemens 2008 compliance report, which is a subset of their annual report—and actually quite an interesting one. It sets out, for example, things like the strategic objectives for the future in four bullet points (although these are mainly in the compliance area, I hasten to add). Other subheadings are ‘Avoiding corruption risks,’ and ‘Analyzing and remediying abuses,’ which go into a large degree of precision: ‘In May 2008, the compliance organization also took over the processing of fraud cases. The total value of property damage or loss recorded and pursued in fiscal year 2008 amounted to over €16 million.’ It cites the month and gives you a feeling of the dynamics.

“Another rather interesting example of integrated reporting is the telecoms company Cable & Wireless, which is listed in the UK FTSE 100 index. If you go to page 48 of their 2008/2009 annual report, you will see a statement by the independent directors that sets out their views about how the corporate governance has operated. This is particularly important in the light of the controversial management-incentive arrangements that are in place.”
Shareholders should be more assertive

“Shareholders in general, but institutional shareholders in particular, have an implied responsibility and should be more assertive in the way in which they challenge boards regarding the decisions they take and their corporate governance. They should do so without wishing to micromanage, yet paying due attention to detail. They should engage constructively and assertively. But if they do significantly disagree with an issue that is not being resolved, they have a choice of whether they sell the shares or whether they vote their shares against resolutions—possibly against individual directors. When individual directors discover that they have even 20 percent of shareholders voting against them, they don’t like that; it is often quite an effective lever for change when other endeavors have not proven effective.”

Give more consideration to corporate culture

“In how many companies do board members actually ask themselves, ‘Do you feel sufficient consideration is given to corporate culture in the board’s evaluation?’ The tone from the top can be critical to getting the culture right, but how often is this assessed? Board evaluations need to hard-wire such an assessment into their evaluation processes.”

Make corporate reports more understandable

“The one point that I should like to home in on is clarity. I certainly recognize the complexity arising from the accounting standards in general. Do people understand what is being reported? I have significant and serious doubts. Even for a professional accountant there is often an impenetrable density in terms of financial reporting, especially when it comes to financial organizations. One cannot understand with confidence what is being reported, and if you ask for an explanation, the response often compounds one’s miscomprehension.”

Who should fix it now?

“Improving understandability should be one of the things at the top of the IASB’s priority list. The weak link is not necessarily the IASB, but rather the Foundation, the International Accounting Standards Committee Foundation (IASCF), which has allowed the situation to develop. When I look at the structure and composition of the IASCF, I just wonder whether it is the right sort of oversight structure, and question how well in touch it is with users of financial reports. To address some of these issues, it may be that one needs a tone from the top in accounting standard setting, different to that which has been the case for the last decade.

“But having said this, I recognize that the International Financial Reporting Standards (IFRS) are easy to criticize. Over the last ten years, there have been great strides made in creating international uniformity and a more robust financial reporting framework. So I don’t disassociate myself from the good things that have flowed from the IASB.”

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2 Guy Jubb explains, “Shareholder activism’ is getting to be a little bit of a sort of tired phrase now, similar to the way the term ‘shareholder value’ has aged.”
Better explain fair value judgments

“The whole structure of fair value accounting is of itself very complex in terms of mark to market, mark to model, and the variations in between. I support fair value accounting, but I should like to see greater use of explanatory footnotes to enhance the understanding of users. Also, I should like to see the audit committee being more explicit in terms of the work it has done, on behalf of the shareholders, to satisfy itself that the fair values and the judgments underlying them are reasonable and appropriate.”

Make management commentary a priority...

“The IASB rightly moved management commentary up its priority list. I think that it will be the future of corporate reporting. Interestingly enough, management reporting was not a priority of the IASB until there was engagement by investors, including Standard Life Investments, to move management commentary up the batting order. It is going in the right direction (see also ‘Enhanced Disclosure’).”

Enhanced Disclosure

“Various groups around the world tried to present corporate reports that are understandable and on a plain English basis. It is not very easy. Last year, a shareowner-led working group that I was involved with published enhanced disclosure guidelines to assist directors, audit committees, and investors. You might be interested to have a look at those examples at the working group’s website: www.enhanceddisclosure.org.”

...and find an appropriate form of assurance for it

“What is perhaps not going in the right direction as of yet is finding the appropriate form of verification and assurance for management commentary. Currently auditors in the UK, for example, are merely required to assure shareholders that the narrative report is consistent with the financial statements. But in their audit work they could be well aware of other trends and other matters, such as those arising from their review of post-year-end transactions and events that could contradict the information in the management commentary. If, for example, the directors say in their narrative report: ‘Since the year-end, our order book has increased by 20 percent,’ the external auditors could at least provide a useful degree of professional assurance that would enable investors to place reasonable reliance on it.”

Report on governance changes

“A lot of corporate governance reporting is replicated year on year. It is effectively much the same, particularly when companies are dealing with such things as the role of their audit committee or the role of their remediation committee. It might be useful to have a statement of corporate governance change, providing a snapshot of the key corporate governance changes over the last 12 months (see also ‘Explore the use of short-form reports’).”
Explore the use of short-form reports

Over the last decade, corporate reporting has undeniably mushroomed, especially in the financial sectors, according to Mr. Jubb in his foreword to the paper *Making Corporate Reports Readable—Time to Cut to the Chase* (published by the Institute of Chartered Accountants of Scotland (ICAS) in February 2010). “But more does not mean better,” he says. Mr. Jubb sees the use of short-form reports as a blueprint for change: “The short-form report is a manifestation of what can be done to enable clear messages to be delivered about a company’s past, present, and future. ...It provides all the important information in less than 30 pages and in the future could harness alternative reporting technology, such as XBRL, to deliver a comprehensive suite of useful information. It banishes boilerplate narrative, which of itself is a major step toward achieving relevance and clarity.”

For more details, see the [news release](#) and the [full report](#) on the [ICAS website](https://icas.org.uk).

Place compliance information on your website

“One thing that we haven’t discussed yet is the method of communication. A sort of a-la-carte reporting by providing online menus is part of the way forward, along the lines of XBRL. There is a whole library of information that companies just have to produce for compliance reasons. Companies should just put that in a menu format on their website.”
Key recommendations from Guy Jubb

1. Shareholders in general, but institutional shareholders in particular, should be more assertive in the way they challenge boards regarding the decisions they make, and their corporate governance.

2. A statement of corporate governance change, providing a snapshot of the key corporate governance changes over the last 12 months, could usefully inform stakeholders.

3. Useful corporate reports should balance information for economic decision making and stewardship.

4. Management commentary will be the future of corporate reporting, and should therefore be made a priority.

5. Moving away from boilerplate disclosures requires more articulation of the organization’s intentions as to how these are going to be delivered, and how these have worked out.

6. In moving towards a more open style of disclosure, investors and their clients have to change their approach and culture in regard to litigation.

7. Improving the understandability of financial reporting should be at the top of the IASB’s priority list.

8. Greater use of explanatory footnotes for fair value accounting should enhance the understanding of users.

9. The audit committee should be more explicit in terms of the work it has done on behalf of the shareholders, to satisfy itself that the fair values and the judgments underlying them are reasonable and appropriate.

10. A-la-carte reporting by providing online menus is part of the way forward.

We welcome your feedback on these recommendations. To provide us with your feedback, please complete this brief survey.