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Russell Research

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Investment governance: A pragmatic update

INTRODUCTION

In a sense, there is nothing new to report on investment governance. It is part of the subject of governance in the wider sense, with the principles applied specifically to the governance of institutional investment portfolios. The key principles are well-established, and many relevant lessons have been drawn.

But the principles are not all well known, perhaps not even widely followed. And decision-making is never easy, because as humans we are subject to several well-documented behavioural flaws. So periodically it is worthwhile to remind ourselves of the principles, remember the lessons we have forgotten, and review the latest thinking about improving the processes involved in making decisions, so that those decisions can themselves be better.

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That is the purpose of this paper.

We start with an explanation of what governance is, and why it is important. Then we move to an anecdotal reminder of some of the lessons that studies have taught us. From there we outline some principles for creating a good governance structure. We expand on practical aspects that, in our experience, greatly facilitate the adoption of improved practices. And finally we review a very recent study, conducted in the UK, on the current state of the art, with results that confirm that progress towards best practices is painfully slow.

SECTION ONE: GOVERNANCE DEFINED, AND WHY IT IS IMPORTANT

It is actually easier to start by saying what governance is not. It is not management. Management is about running an enterprise. Governance is about seeing that it is run well. So management is judged by results; in contrast, governance is about process.

In practice, therefore, a simple definition of governance is that it is the decision and oversight structure established in any enterprise.

Dictionaries can provide abstract definitions, but we have found it much more practical to think immediately of governance as a structure that establishes the so-called “decision rights” in an organisation: who does what.

The contrast between management and governance comes through in another way. Process and outcomes are not the same. Processes can be good or bad; so can outcomes. There is no guarantee that good processes will lead inevitably to good outcomes. In other words, good processes can still lead to bad outcomes; and just because an outcome is bad, it doesn’t mean that the decision was based on a poor

process. Luck plays a part too, because in investment we are typically placing a bet on the future – and not just on the future, but also on how human beings will see the future. That is difficult to predict at all, and impossible to predict precisely; hence the chance of error, no matter how careful and sensible the process of assembling inputs and making the decision.

Nevertheless, it's common sense that a better process has a better chance of leading to a good outcome than a poorly designed process.

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Some studies suggest that good governance is worth money: for example, Ambachtsheer and Ezra (1998) and Ambachtsheer (2006). But in general these are small studies, and limited to clearly defined outcomes, such as the excess return from active management. It is much more difficult to generalise broadly. Indeed, one of the gurus on the behaviour of boards of directors says that it is fruitless to look for academic proof of the value of good governance. Ram Charan, in *Boards that Deliver*, states: "No matter how sophisticated the math, such research misses how directors actually interact, work together, and contribute." In other words, behavioural factors are difficult to quantify; and the variables that are relatively easy to isolate and define (such as "is the chairman also the CEO?") lead only to correlations, not to a clear connection between cause and effect.

As we will see, improving the process of making decisions is still an art, not a science, even though we can enunciate principles.

SECTION TWO: LESSONS REMIND US THAT THE ETERNAL VERITIES DON'T CHANGE

Studies of investment governance began in 1992. Within ten years, most of the "big picture" problems had been identified. Let's take a look at four of the lessons, before we look at the principles that underlie the search for better processes. Obviously we will grossly simplify the studies and lessons involved, in order to make the points clearly. Interested readers can pursue the references at the end of this paper.

Lesson #1: The motivation to avoid blame is pervasive

In 1992 social anthropologists O'Barr and Conley published a book called, provocatively, *Fortune and Folly*. After studying nine large US pension funds for two years, they concluded that the most pervasive cultural theme was the need to manage and deflect blame. They struck a nerve. The community said that anthropologists don't know enough about the intricacies of pension fund management to make any judgements about its quality; but they admitted that their decision-making processes left something to be desired.

As we will see, decision matrices today still often lack clarity.

Lesson #2: Decision-making processes are often poor

Two years later this was confirmed in a survey of fifty of North America's most senior pension fund managers. When asked – to their surprise: they thought they had come to a symposium on excellence in pension fund management – their spontaneous responses were telling. Listing barriers to excellence, 98% cited "poor process", referring to decision structures, poor communication and inertia. No other factor reached the 50% mark.

The issue has not gone away. As recently as November 2, 2009, an editorial in *Pensions & Investments*, entitled "Not too big to fail", cited this very study in discussing pay-to-play and similar governance-related failures in very large public sector pension funds, concluding that "better governance would help avoid such problems".

Lesson #3: Background training is often inadequate

In 2001 the *Myners Review of Institutional Investment in the UK* quantified the qualifications of trustees of the UK's pension funds. Some had been selected because they were outstanding in other fields, some to represent constituencies, but not surprisingly it turned out that few had any background training for the roles they were expected to play.

Myners pointed out two things. One is that decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. The second is more subtle: decision-makers do not need to be experts; rather, they need to know enough to be able to assess the advice they are given by experts, and to have the experience and skill to mount a sophisticated challenge to the advice received. This notion is that trustees should be aware of what they need to know, and that what they need to know does not amount to being an investment expert.

The lesson has not yet been broadly learned. Boards of trustees often feel that they should rubber-stamp recommendations made to them by experts.

Lesson #4: Resources are often inadequate

The 1994 survey mentioned earlier cited, as its next most important barrier to excellence, inadequate resources. A Dutch study (Risseeuw and ter Wengel, 2001) took this a step further.

The academics involved divided Dutch pension funds into three sizes: large, medium and small. They measured the ambitions of the funds by the funds' stated objectives and by the complexity of their investment structures. And they measured the resources devoted to the decision-making operations of the funds. By and large, they found that the large funds had high ambitions and large resources, and the small funds had low ambitions and small resources. But the mid-sized funds had a mismatch: they had high ambitions, like the large funds, but devoted small resources to meeting them, like the small funds. The researchers emphasised that the mismatch was crucial, and that it was mid-sized funds in which the gap between ambitions and resources showed up most noticeably.

No matter what the enterprise, it is easy to identify three different types of roles: to govern, to manage and to do.

That the resourcing angle is of fundamental importance shows up, for example, in Clark and Urwin (2008), in which the authors use the dedicated resources as their measure of the governance of an institutional investment fund.

SECTION THREE: SOME PRINCIPLES FOR A GOOD GOVERNANCE STRUCTURE

These lessons will all find an echo as we look at the principles of good governance for institutional investment funds.

For a start, we observe that all enterprises have the same basic structure, so there is no need to reinvent the wheel when we are thinking purely of institutional investment. But there is no "one size fits all" solution to designing a governance matrix for a particular enterprise. What is necessary is to apply principles to a specific situation. And then periodically reassess the structure and its effectiveness.

Three roles in any enterprise

No matter what the enterprise, it is easy to identify three different types of roles: **to govern**, **to manage** and **to do**. The discussion here expands on the outline in Ilkiw (1996).

To govern means to enunciate the mission, create a plan, and ultimately review progress from time to time. Typically this is initially performed by the founder. As an enterprise grows, it may be performed by an expanded group. And in very large

enterprises, there is usually a board of directors elected or appointed to take on these tasks. In the field of investing, the role of governing can be played by an individual or a family, when considering personal investments; in institutional investing, involving trusts or life insurance companies, for example, a board takes on this role. It does not require day-to-day attention.

To do is obvious: it is to carry out the work of the enterprise, that is, to create the products or services embodied in the mission, every day. In a small business, this might also be done by the founder, or by a few employees.

As businesses grow the gap between the founder (or the board) and the employees grows. That creates the need **to manage**, that is, to have a person or a layer of people (or multiple layers!) available every day for the intermediate role of hiring and organising the workers in a way that facilitates the achievement of the mission, creating the environment for them to work efficiently, and smoothing away the inevitable day-to-day frictions that arise.

In an investment organisation, the end product consists of investment decisions. This can in principle be done by anyone, but bearing Myners in mind, it is invariably done by investment professionals. The professionals need to be hired (and possibly fired) and organised into a coherent structure; this is the intermediate role of "management".

Of course it is possible that one person or group plays more than one role. That may work well in a given situation. But it is more useful to think of the three roles as different, and to think of people as wearing multiple hats when they play multiple roles, rather than simply to think of the people involved, because the latter creates confusion in job definition. This will become more apparent when we look at an example of an investment governance matrix.

And, as we will see, it is important to recognize that in any enterprise – whether it is a corporation, a charitable foundation, a community trust, an investment group, or whatever – the board works at the governing level.

An example helps to fix the ideas

Rather than dealing in abstractions, let's use an example of a governance matrix to illustrate the principles involved in its structure.

Identifying the different decisions – an overview

Exhibit 1, which is based on Ilkiw (1998), shows a commonly accepted sequential list of types of issues that characterise an investment fund, and the natural level of fiduciary responsibility associated with each issue.

Exhibit 1: The commonly accepted asset management decision process

Governing fiduciaries	Objective setting Asset allocation policy Investment strategy
Managing fiduciaries	Manager structure Manager selection
Operating fiduciaries	Investment decisions

Based on the earlier discussion, it will be apparent that the **governing fiduciaries** set the objective (decide the mission, in effect), select the basic asset allocation policy (essentially defining the enterprise's risk tolerance) and declare, in their investment strategy, the beliefs that will underlie the types of investment decisions that constitute the output of this investment enterprise (for example, why they

explicitly select active or passive exposure to some asset class, or deliberately over-weight or under-weight some sector). These are calendar-time functions.

The **operating fiduciaries** actually make the investment decisions. This is a real-time function.

The **managing fiduciaries** hire the operating fiduciaries. They select them as being fit for the purpose of making the relevant investment decisions, and structure them in such a way that, when the full complement of operating fiduciaries has been hired, the investment decisions in the aggregate reflect both the asset allocation policy and the underlying beliefs enunciated by the governing fiduciaries. As we will see, this responsibility also requires an oversight and evaluation of the operating fiduciaries, so the managing fiduciaries carry out real-time functions.

Identifying the different decisions – the detail

Now to an example of an actual governance matrix, a portion of which is shown in Exhibit 2 (the exhibit does not show the fund's permanent staff which perform some of the investment functions). Readers who work with institutional funds will recognize many of its elements.

Exhibit 2: Example of a governance matrix

	Setting strategy		Implementing		Operating		Educating
Decision / Fiduciary Group	Asset Allocation Policy	Rebalancing	Manager selection, structure and benchmarks	Portfolio holdings	Day-to-day operations	Performance reports	Investment Committee education
Investment Committee	Decides & oversees	Establishes ranges	Oversees		Oversees	Reviews	Participates
External Consultant	Prepares studies		Researches & recommends	Oversees		Provides some input	Provides some input
Group of Investment Managers				Decides		Provides some input	

Vertically: Along the left hand side, are the parties involved. They are given the right to make decisions, so they are fiduciaries. They are governing fiduciaries, managing fiduciaries or operating fiduciaries, depending on which of the three types of role they play. Each party can play different roles for different types of decisions.

Horizontally: Across the top, are some of the types of investment-oriented decisions this enterprise has decided to tackle. And each column potentially shows three crucial aspects of the decision process: who provides input, who makes the decision, and who oversees and evaluates its outcome.

Principle #1: Each type of decision should have clarity as to where the three words "inputs", "decides" and "oversees" go.

(In this example the precise form of input is specified.)

Seek clarity and avoid duplication

A corollary to this principle is that confusion results if "decides" occurs more than once, because shared decision making creates an environment for deflection of

blame: remember O'Barr and Conley. Similar confusion results if "decides" does not occur at all – and that happens frequently, typically with words like "recommends" and "approves" being used. These words do not automatically imply accountability for, or ownership of, the decision, so they lead easily to deflection of blame when things go wrong, as in investing they are bound to from time to time. If for some reason the word "decides" is frowned upon, there are ways around it. "Recommends with enthusiasm" or "approves with enthusiasm" (but not both in the same column!) will imply accountability, when the time comes.

Asset allocation policy – a good structure

In this example, relating to a corporate defined benefit pension fund, the corporation's board of directors has appointed an investment committee (IC) to be its "named fiduciary" for the purposes of the law; in other words, the IC is essentially the board of directors of this pension fund.

Having set an objective (related to assets exceeding liabilities, and consistent with the sponsor's funding policy), they call for studies of how different feasible asset allocation policies help to achieve the objective, and simultaneously expose them to the risk of failure. In this case the studies are prepared by external consultants, who work closely with the fund's permanent staff – yes, you can guess this is a large fund, to be able to afford permanent internal staff – to prepare a recommendation for the IC. The IC doesn't simply rubber-stamp the recommendation. They discuss it and its range of possible outcomes, compare it with other feasible policies, challenge the consultant on the basis for the underlying projections, and so on. The idea is that, when the IC selects an asset allocation policy, it clearly owns the decision. In this case, it also knows that it needs to oversee how the decision is carried out and evaluate whether or not it helps keep them on track to achieve their mission.

Rebalancing – a gap exists

Here the IC evidently believes (this should be a belief that is explicitly stated) that from time to time the risk/reward characteristics of different asset classes depart from what they were when the policy was selected, giving rise to opportunities to succeed in doing better than expected. They have therefore permitted the staff to decide to depart from the basic policy, within established ranges. Note, however, that they have failed to set up a mechanism for evaluating whether this leeway adds to or subtracts from the fund's value.

Implementation – delegation to the right level of resource and expertise

The asset allocation policy is implemented by selecting a number of investment managers: here, external rather than internal managers.

They are selected, in this case, by the staff, on the basis of research and advice from an external consultant. The consultant is in day-to-day touch with the investment community and has an up-to-date set of files on the capabilities and availabilities of candidate managers. The staff doesn't have this information, but they are sufficiently familiar with the workings of the investment management community to be able to interview the candidates, after being briefed about them, and to select them. In addition, the candidates are so selected that they reflect the beliefs enunciated by the IC, and the normal portfolios they are expected to hold will add up, in the aggregate, to the selected asset allocation policy – that's the structural element mentioned in the matrix.

The consultant monitors the actual portfolios, as the staff doesn't have the budget to locate this capability in-house. If there are departures from the mandates given to the managers, or other concerns arise, the consultant reports to the staff, who review whether to retain or replace the manager.

Clearly these are real-time functions[1], and the IC does not get involved. The IC does, however, oversee and evaluate the results of the staff's decisions.

A recent extension to the structure

This example describes a structure as it existed two years ago. Today, after the global financial crisis, there would probably be an additional column for the function of risk management. Fiduciaries have learned that the risk environment changes; it does not stay constant from one asset allocation study to the next. Monitoring current conditions, and being prepared to take action (whatever that action may be – typically it would involve reducing risk exposure) is now seen to be an extremely important function. It would probably have a decision structure similar to that for asset allocation and rebalancing policy, with the governing fiduciary setting policy and accountable for oversight, and the managing fiduciary responsible for implementation.

Today, after the global financial crisis, there would probably be an additional column for the function of risk management.

This governance structure is based on Myners' conclusion that the best process is to delegate decisions to those best qualified to make them. And in determining who is actually best qualified for a particular type of decision, the principle can be explained as follows:

Principle #2: For each decision, ask three questions:

- *What are the knowledge requirements?*
- *What are the time requirements?*

  In turn, the time requirements are of two types:
  - *How much time is required?*
  - *Can this decision be made in calendar time, or is it a real-time decision? (In other words, does it require instant action, or can it be deferred until the next scheduled meeting of the decision makers?)*
- *Do we have someone, or a group, that meets these qualifications?*

  If not, depending on the culture of the enterprise, filling the spot offers a further choice:
  - *Should we hire someone?*
  - *Should we outsource the function?*

It is clear that the answers will vary with the composition of the existing fiduciaries and the culture of the enterprise.

The final three columns in this example show how this IC looked at other issues, but we won't comment on them because they don't add to the two fundamental principles outlined in this section.

SECTION FOUR: WHERE DO MANY FUNDS FALL SHORT OF BEST PRACTICE?

In this section we deal with four broad ways in which funds tend to fall short of best practice: governance slippage, poor processes, over-elaborate oversight reports, and wasted time at board meetings. Each aspect itself is multi-faceted.

[1] Aficionados may note that "real time" here has two subtly different implications. The consultant's monitoring is almost continuous: possibly daily, certainly very frequently. Staff will get involved as required, to consider recommendations made by the consultant; because the need arises spontaneously and should be dealt with promptly, the staff too are considered to perform a real-time function, even though this function is only required occasionally.

Broad category #1: Governance slippage

Two particular aspects show up repeatedly in practice.

The first is that **the managing fiduciary role isn't properly clarified**. All too often a board over-reaches and attempts to play this role as well as its own governing fiduciary role, not recognizing that the managing fiduciary's tasks require real-time commitment and can't be done on a calendar time basis – or at any rate that it's simply bad process to confine it to calendar time exposure. Another occasion when a board sometimes over-reaches into managing fiduciary territory is when investment managers are selected, and the board gets briefed by the external consultant and interviews and selects the investment managers. Very often the board members haven't enough background exposure to know what to look for in a candidate: here inadequate knowledge is the issue. They aren't aware that a quick briefing followed by a candidate's well-honed presentation isn't enough for them to ask the sophisticated questions that properly challenge the candidate and help the managing fiduciary to distinguish among candidates on criteria other than appearance, track record and the polish of the presentation.

Solutions to this aspect of the problem are to use a selection sub-committee that does have the knowledge, or to delegate the task to an internal or external group (typically staff or a consultant) that has both the time and the knowledge required.

The second aspect is that **inadequate resources are devoted to governance as a whole**. As we have seen, this is particularly likely to happen with mid-sized organisations, where there isn't enough money available to hire someone internally. A solution that has sprung up is variously called "implemented consulting" or "fiduciary management", in which an external organisation is hired to do the job, the idea being that this external organisation is dedicated to doing this full-time (satisfying the time and knowledge requirements), and its scale enables it to charge something less than the cost of hiring one's own full-time staff.

Broad category #2: Poor processes

Three particular aspects show up repeatedly in practice.

The first is that **there is no explicit statement of investment beliefs to guide plans and actions**. The idea is that beliefs, policies and actions should be consistent with each other, and complete. It is typically a fruitful exercise to look at what is done (the actions), and infer the beliefs that might give rise to those actions. For example, to justify active management in an asset class requires the twin beliefs that there are superior managers and that a process has been put in place to identify them. Again, seeing wide ranges in the asset allocation policy statement, or observing wide differences in the exposure of an asset class from time to time, might cause one to infer that there is skill in timing asset class exposures and that that skill has been brought to bear on the case in question. Or a policy of over-exposure to domestic rather than foreign equities might suggest that domestic equities as an asset class have some quality (which ought to be explicitly identified) of greater significance to this fund than to funds elsewhere. The beliefs typically aren't capable of being proved right or wrong; but good process requires them to be defensible, as well as explicit. Check with the governing fiduciaries whether they have actually considered the implied beliefs; and when finally beliefs and policies and actions are in sync, test (over time) whether the beliefs are turning out to be justified.

The second aspect is that **often manager assignments don't follow fit-for-purpose criteria**. That's a mouthful! What it means is that managers have been selected for a role that they might not have been given, if explicit criteria for that role had been identified in advance and applied. This can happen, for example, when a small fund finds a manager who is good at one thing and gives the manager broad discretion to make all sorts of other decisions too: perhaps an equity specialist being

given a balanced fund mandate, for convenience – not a reason that meets best practice. Another rationale for such a structure might be that it's cheaper to do so – in which case it might indeed be defensible, if the cost of specialisation exceeds the benefit. Either way, the process needs to be defensible.

The third aspect can be called, in general, **implementation slippage**. Decisions are made but are not, or are sloppily, implemented. Or the beautiful consistency across beliefs, policies and actions that existed the day after the structure was examined fades as time passes, and it's never re-examined. The obvious solution is a periodic review of the governance process and how it is being implemented: a procedural audit.

Broad category #3: Over-elaborate oversight reports

When an oversight report runs to dozens of pages filled with numbers and bullet points, it constitutes a data dump rather than information. All too often, this is what overseers receive. Indeed, this is a prime reason why boards over-reach and do not delegate.

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It's worth a tangential diversion to explain two reasons why delegating is so difficult in practice:

1. Boards haven't thought about the difference between ultimate responsibility and immediate responsibility. Since they are ultimately responsible for everything, and they can't delegate that responsibility away, they may feel that they are responsible for actually carrying out everything by themselves. But in fact they can delegate the immediate responsibility to carry out a task, while retaining the ultimate responsibility. Another way of putting it is that they can retain the ultimate responsibility while delegating the *authority* to carry out a task.
2. A simple reluctance to delegate, because boards feel they will lose control: they no longer will know what's going on. And that feeling of loss of control is likely to be reinforced by a meaningless data dump instead of a carefully crafted and customised oversight report.

Those with the delegated authority to carry out a task typically have much more detailed knowledge (because they *need* much more detailed knowledge) about their area than the overseer does. That's how it should be. The problem arises when decision-makers (with pride, and therefore for all the right reasons) present the overseer with all the details that they themselves consider. An overseer shouldn't have to notice the tenth number on the seventh page to find out that something is going wrong: the fact ought to be presented in a way that jumps out. So it's worth taking the time to custom-design an oversight report, because not only does it save the overseer's time, it also helps the overseer to delegate with confidence.

It's an art to design such a report, and it needs to be customised. Here we outline the broad contents and the characteristics of a good oversight report.

First, the contents. What does the overseer need to know? Four things, essentially:

- (Looking forward in time) Are we on track to achieve our mission?
- (Looking at today) What is our current stance?
- (Looking backward) Where have we created or lost value?
- Are we being prudent?

It should be possible to answer these questions on a sufficiently small amount of paper that the report can be comfortably held in a purse or a jacket pocket. At any rate, that's the ideal.

The characteristics of the report are:

- **It is brief.** That means it focuses on the big picture. Yes, it should also be possible for the overseer to drill down; but where the drill goes isn't part of the main report. And drilling down is most likely to take place in areas that are going wrong; all the details of areas that are going right just constitute clutter.
- **It sets out the current situation.** Very often this means it's an exception report. If the overseer knows what the policy is, and only a few things are away from policy, it's only those few things that need to be reported.
- **It helps an evaluation of whether the delegated task is being done well.** The traffic light protocol (red, yellow, green) can be very helpful. It's the yellow stuff that needs a drilling-down and a discussion; and the overseer should probably have been alerted to the red stuff before the calendar-time meeting.
- **It is available promptly and regularly.** Ah, there's the rub! The greater the degree of customisation, the more difficult it is to produce the report promptly. We have no universal solution to this problem!

Broad category #4: Wasted time at board meetings

When a board over-reaches, or isn't sure what it needs to do, it typically fills its time with activity. But the activity doesn't help its decisions or its oversight unless it is specifically geared to that purpose.

In fact, it ought to be easy to decide how to structure the agenda for a meeting at any fiduciary level. Look across the row describing the responsibilities of that fiduciary level. Does the word "inputs" (or its equivalent) occur somewhere? If so, place on the agenda any decision for which input needs to be created, and arrange for the assembly and discussion of materials leading to the input. Does the word "decides" occur anywhere? If so, place on the agenda the issue to be decided, and arrange for the delivery and discussion of all the inputs. Does the word "oversees" occur somewhere? If so, place on the agenda any aspect that needs oversight, and arrange for the delivery and discussion of the relevant oversight report. Anything else is overkill and probably a waste of time.

Let's apply this, in particular, to board meetings. Most of the time all that is necessary is a calendar-time focus on the oversight of the big picture. If there are yellow or red lights attached to something, time for an in-depth discussion should be added; otherwise not. Periodically (once a year, perhaps) spend time on an in-depth review of everything, even the things that are going right; it isn't necessary to do all of that in a single meeting – the in-depth reviews can be spread over the year. And one of the aspects that should be subject to an in-depth review is the governance process itself.

In a board self-assessment, here are some items that can be useful:

- Ask each board member to identify areas in which they feel they have knowledge and skills, and areas in which they feel education would particularly help them.
- Ask them to make "exception report" comments ("particularly good" or "can be improved") on their leader, the other board members, the staff, regarding the composition of each group, their effectiveness, the team feeling, the way meetings are conducted, and the reports received.
- Ask them to comment on the external service providers.
- Ask them how they feel about their own contributions: whether they feel valued, whether there are aspects in which they feel under-utilised.

Depending on the interaction and the culture, these statements by the board members might go to their chair or to an external party to assemble them and shape them into a form that makes for a useful discussion. There's no right or wrong way that fits all circumstances: the intricacies of personal interaction become all-important.

SECTION FIVE: A RECENT CASE STUDY: INVESTMENT GOVERNANCE IN UK PENSION SCHEMES

We asserted earlier that the same issues keep recurring, over and over again, around the world. In November 2009 a survey of the investment decision-making practices of UK defined benefit pension schemes (Kelly-Scholte and Kothare, 2009) was published, dramatically illustrating our assertion.

Here are some of the findings reported in the study, conducted for Russell by IFF Research, one of the largest independent research companies in the UK:

- **Lack of clear accountability:** Approximately one in three respondents believe that multiple groups are responsible for each of the different investment decisions. For each of several types of decisions (investment strategy, liability-driven investing, portfolio structure, active versus passive, manager selection), the average number of groups perceived to be responsible exceeded 1.
- **Insufficient delegation:** The bulk of decision-making on each of the investment issues cited continues to be retained at the level of the board of trustees.
- **Need for greater education:** 75% of respondents have no knowledge of the concept of fiduciary management (outsourced decision-making at the level of managing fiduciaries).
- **Too much board time on investment matters:** Trustees of schemes that have an investment committee (IC) spend much the same proportion of their time on investment matters as trustees of schemes that don't have an IC. That suggests time poorly spent, with efforts unnecessarily duplicated. Quite simply, if you have an IC, a full board should spend less time on these matters than if you don't have an IC.
- **Over-confidence in the governance structure:** Despite evidence of non-conformity with agreed principles of best practice, 86% of respondents are confident that the scheme's current decision-making processes are suitable to meet future challenges. However, 40% are not confident in their ability to respond quickly to new situations.

Not nearly enough time is spent, either in business courses or at any other level, on studying decision making as a process that can be improved by the application of principles.

AND A FINAL OBSERVATION

The thoughtful reader will have noticed the omission of a significant aspect of governance. We have dealt with the decision structure, but we have said nothing about how to improve the decision process itself. That is deliberate. The subject is far too extensive to deal with in this paper. It has to do with the role of the leader; the interaction of the members of each fiduciary level; how the independent views of each member are expressed and assembled and contribute to the ultimate decision; how to avoid the leader, or the most knowledgeable or vocal person on an issue, from effectively becoming a one-person sub-committee whose views are rubber-stamped; and so on.

Not nearly enough time is spent, either in business courses or at any other level, on studying decision making as a process that can be improved by the application of principles. In this paper we simply refer the interested reader to a recent book that explains many of these principles: the Mauboussin book cited in the references.

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