

GUYATT, D., 2005. Finance and accounting: meeting objectives and resisting conventions. *Corporate Governance*, 5(3), 139-150.

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I. Key points

- Challenges associated with long-term responsible investment:
 - **Short-termism:** fund managers, especially active fund managers **are encouraged to invest in a short-time horizon through performance review and bonus incentives**
 - **Gravitation towards the defensible:** investors prefer to adhere to tried and tested conventions, which are easier to be accepted in the market. Responsible investment is still new and unconventional.
 - **LTRI separate from core investment:** there is a lack of integration between non-financial criteria and mainstream investment. Some investors do not believe in the merit of such integration.
- Practical implications for investors:
 - Involve in collaborative initiatives with other investors
 - Reconsider the design and implementation of quarterly review and annual bonus cycle

II. Key quotes

- Long-term responsible investment (LTRI) is defined “as the situation whereby investors integrate financial, corporate governance, social and environmental criteria into the investment process in the pursuit of long-term portfolio returns”. (Guyatt 2005, p. 139)
- “The convention of active management may therefore keep the focus of investors on short-term goals...” (Guyatt 2005, 142)
- “...a quarterly relative performance monitoring process encourages short-termism.” (Baker 1998 in Guyatt 2005, p. 142)

- “Noteworthy is the observation that short-termism was not something that dominated the discourse of fund managers within institutions that operate a passive approach to fund management with the emphasis on active engagement, as these investors are not incentivized to beat the market as such but to own it and to improve its performance through engagement activities.” (Guyatt 2005, p. 142)
- “Tried and tested conventions that are accepted in the market reportedly make it easier for investors to justify their decisions to others...” (Guyatt 2005, p. 143).
- “Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally” (Keynes 1936, p. 158 in Guyatt 2005, p. 143).
- “This paper presented evidence to suggest that even in those instances where an institution has a LTRI policy, the influence of dominant conventions on investor behaviour makes it difficult to achieve this in practice” (Guyatt 2005, p. 147).
- “Active managers are typically paid an annual bonus that is linked to their ability to outperform a specified benchmark”. (Sharpe et 1999, p. 799 in Guyatt 2005, p. 148)