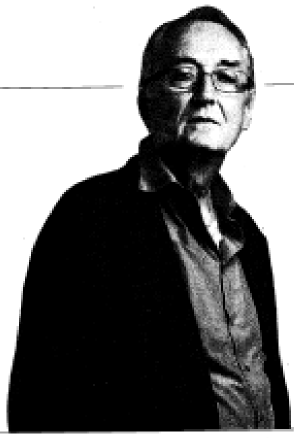
on management
SIMON CAULKIN



How we created a monster

→ The former dean of Oxford Saïd says the corporation is out of control. Does he have a point?

Since publication of the Cadbury report on corporate governance in 1992, the UK has basked in its role as the undisputed leader in the field. Celebrating 20 years of the codes (now much modified and expanded) last year, the City of London triumphantly pointed to more than 70 countries that have followed its lead and drawn up similar guidelines.

But here is the problem: the best guidelines in the world were unable to head off the financial crisis of 2008, the meltdown of RBS and Northern Rock, the UK banks, and the Libor inter-bank lending scandal. They failed to slow soaraway executive pay. Nor have they fostered sustainable long-term management. Having given up on careers and then pensions, UK companies now seem unable to secure good full-time jobs for the majority or rising living standards, which some estimate may be no higher in 2020 than in 2000. Suppose then, that instead of being the solution to the UK economy's ills, today's governance has actually caused them.

This is the provocative contention of Colin Mayer in *Firm Commitment: Why the Corporation is Failing Us and How to Restore Trust in it*. Part celebrant, part critic, Prof Mayer – a former dean of Oxford's Saïd Business School and a pillar of the academic establishment that helped codify the governance rules – argues the central institution of capitalism has been taken over by its dark side and threatens to swallow its creator. Worse, the very remedies adopted to tame the beast are turning it into Frankenstein's monster. The issues are arguably starkest in the country regarded as the model of governance good practice: the UK.

Central to the codes is the idea that there is an "agency problem" caused by the rise of the professional manager and the separation of ownership from control. Without oversight, the argument goes, self-interested managers will run the company for their benefit, not that of shareholders. Hence the need for independent directors and increased shareholder influence – voting on executive pay, for example.

Prof Mayer takes a different line. For him, separation of ownership and control, far from being a problem is actually the beauty of the corporation, the source of its ability to engage stakeholders (employees, creditors and society as a whole) and balance commitment and control in common cause. Current governance jeopardises this. In managing one perceived problem – the relationship between shareholders and managers – it has created a bigger one in its relations with everyone else. In an economy in which shares are widely held and there is an active takeover market, such as the UK, shareholder-based governance effectively hands control to those with the strongest incentive to exert it: hedge funds and short-term traders who have no interest in the company except as a vehicle to make a quick killing.

> **The issues are starkest in that model of good governance: the UK**

A mighty fall

'There are fewer than half as many public corporations today [as 15 years ago]. Corporations are in retreat, and there is reason to expect that their significance will continue to dwindle over the next generation' – Gerald Davis, "After the Corporation", Politics & Society, 2013

Mayer is apocalyptic about the consequences. As the banks have demonstrated, putting shareholders (including shareholder-managers) in a position to extract rents at the expense of everyone else, and incentivising them to do so, has unsurprisingly ensured that they have gone at it with relish. This time the headline victims have been creditors; next in line are employee careers, pensions and, increasingly, living wages. On present form, future generations, other species and eventually the whole planet will go the same way. In short, the company has become a danger to the health and wealth of the planet.

Over the top? Well, consider that the theme of last month's annual conference of the august US Academy of Management was "capitalism in crisis", and it echoed Mayer's concerns. "The public corporation in the US is now unnecessary for production, unsuited for stable employment and the provision of social welfare services, and incapable of securing reliable long-term return on investment," said one professor. One conference session asked whether so-called "benefit corporations", a new corporate form with social as well as shareholder goals, could mark a move towards a more inclusive capitalism.

For his part, Mayer wants to see much greater diversity of corporate forms, coupled with more creative use of voting rights and the tax system to reward long-termist behaviour. So academia is on the move. Historically, of course, it is the City that has played a formative role in the evolution of the corporation. It is time now to draw on that strain of tradition – starting, perhaps, with a thorough reappraisal of those corporate codes.

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