Directors deserve all they get

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'In Britain business is not sufficiently well understood, nor held in sufficiently high regard for it to support the wealth creation process and the prosperity that underpins everything we expect from a civilised society', Tim Melville-Ross, Director-General of the IoD commented at the 1999 Annual Convention.

This low opinion of business was confirmed by a recent British poll.   People were asked if the profits of large companies help make things better: just 25% said 'yes', down from over 50% thirty years ago. Another study by the Adam Smith Institute and MORI, published last year, asked young people which professions they most respected.   Doctors, teachers and policemen came top, by a large margin. The least respected were journalists, MPs and (yes, you've guessed) company directors. These views had not changed significantly since the question was first asked over ten years ago, except that the standing of directors had worsened.

Why should this be? Three reasons spring readily to mind: ignorance, prejudice and envy.   Most people have little appreciation of what directors do; their knowledge limited to alleged excesses based on investigative journalism. Then the British do seem suspicious of success, although popular entrepreneurial figures, such as Richard Branson are well enough respected. Lurid reports of directors' ever increasing perks, whilst the prices of their products rise and their employees lose their jobs, must also raise doubts about the wealth creation process.

But is it really that simple? Could there be more to it?

There is a long-standing and deep-seated cultural issue here. The English developed a robust individualism long before other nations.   As Trevelyan wrote in his *English Social History*:

> "the sprit that had prompted a rising of labourers (in 1381) was one of the chief reasons serfdom died out in England, as it did not die out on the continent of Europe.   Personal freedom became universal at an early date in our country…self-help and self-government were for long centuries taught to the English in the school of town life...there were no rights without duties."

Individualism breeds a healthy scepticism of central authority, particularly if power is seen to be exercised without accountability. In the past that scepticism was reserved for aristocrats, kings and governments. But today directors can wield more power than monarchs.   Directors' decisions affect more people's lives. Directors also enjoy the benefits of wealth and privilege previously reserved to emperors, kings and potentates.   And people are not convinced that this power is always well used.

What can be done about it? Can attitudes be changed?

Information and education would be a start, demonstrating what directors do, the experience and training that is vital, the personal risks that are run.   But it has to be real information - not spin. Two IoD initiatives - the HUB project, which aims to promote the importance of business in society, and the Chartered Director programme, which will provide benchmarks for director competence, are steps in the right direction. More visibility for directors and greater openness in board deliberations would also help. Board room secrecy and tightly knit networks of directors encourage suspicion.

Another approach would focus on director performance. Professionalism in management today calls for assessment exercises prior to appointment, rigorous performance reviews and regular training and development: the time is ripe to apply the same disciplines to directors. Tough-minded, independent review of the performance of the board might also influence those who feel that board comfort levels are too high.

Then the concept of the corporation is due for a fundamental rethink. Company law is rooted in the business world of Victorian England. The concept of the joint stock company, with the shareholders' exposure limited, yet with ownership as the basis of power, was brilliantly simple and has been superbly successful. Britain exported the notion throughout its empire and it became the basis of company law in countries around the world. But it is now out-dated. Companies are no longer simple entities incorporated to raise funds from local shareholders. Shareholder democracy does not work. Corporations now trade in global groups, in leveraged chains of public companies, in complex networks and dynamic strategic alliances. They wield enormous power.

How can power over such entities be legitimised in the modern world? The study *Tomorrow's Company* sought to explore this issue, studiously avoiding the phrase 'stakeholder' but arguing for a stakeholder perspective. Whose company is it anyway? The classic answer, that directors are responsible to the shareholders, misses the reality of modern ownership. Institutional investors, individual shareholders, even people day-trading on the internet, have different goals and cannot be expected to make a realistic contribution to corporate governance.

But before we try to explain why the British people hold business in poor regard and try to change their attitudes, we need to question whether the criticism is really justified. Rugged individualism has stood English society in good stead for hundreds of years: its contemporary expression may be worth listening to again.