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DRAFT

MG 30/4/91

THE PURPOSE OF THE COMPANY

- THE NEXT STEPS

The RSA's Manufactures and Commerce Committee is concerned to establish a clear view of the conditions for sustainable economic success which can command widespread support.

Along with issues such as education and training, the elimination of an anti-industrial culture, the encouragement of research and development and the importance of design, the Committee has singled out the company as a particular subject for its consideration.

The company is the organisation through which wealth is created and the rewards of wealth creation are distributed. It is the organisation which seeks the capital needed for its future development and which focusses the efforts of large numbers of individuals and groups.

But what is the company's purpose? In many discussions about "corporate governance" it is taken for granted that the purpose of the company is the enrichment of its shareholders - medium term earnings per share. To advocate this point of view, the aim is to do whatever is necessary to maximise the "dividend stream". The satisfaction of shareholders is the end, the provision of a good product or service the means.

Whilst this point of view is taken for granted in many parts of the City of London, it would be considered surprising and distorted to many UK entrepreneurs and managers, and to the Japanese or German financial community who would say that those who provide the capital are one, but not the only, stakeholders which the company must satisfy. "The trouble with you English is that you are too fond of money" as the President of a Japanese company put it to Professor Charles Handy.

Without prejudging the outcome of the debate, the RSA would like to prompt the key actors in the UK - the executives, the institutional leaders, the commentators - to stand outside the assumptions of the UK and consider dispassionately the relative advantages of other approaches. (In this approach the RSA can make use of its independence and its breadth, and so make a unique contribution in taking the discussion beyond its factual predictability).

This is a crucial difference between the RSA's contribution and that of, say, the Financial Times/DTI 1990 conference, or many other dicussions of the subject. That is why the RSA's interest is much better described as "the purpose of the company" and not as "corporate governance".

The RSA's intention is to promote a more detached and critical questioning of the philosophy, the design and the purpose of the company, and not to do as John Redwood did at our first seminar and take as fixed the existing structure of the company ,the existing legal framework and the existing way of looking at what a company is for.

The test for the RSA enquiry is the sustainability of economic success under our current arrangements as compared with the others that are available.

In particular, the RSA enquiry would concentrate upon the legal framework within which the limited liability company operates and examine whether there are particular obstacles in the UK which prevent companies from achieving sustainable success.

There is now a network of some 60 RSA Fellows and others keen to progress the issue. It is becoming impossible to maintain the interest which we have generated. If we wish to continue with an enquiry then it will be necessary to employ a consultant/project champion for, say, one day a week for the next twelve months.

PROPOSAL

To hold a seminar of 20 people, six chief executives or equivalent, six institutional investors and six RSA nominees (see Appendix I) to consider the following questions:

a) Do UK companies behave differently in their attitude to investment, research, and in general the timescale over which they are seeking returns?

b) If the answer to (a) is "yes", what are the reasons? Do they have anything to do with:

   i) the pressures applied by investment institutions and other shareholders ("punter capitalism", fear of takeover)?

   ii) the legal arrangements?

   iii) the motivation and reward structure of executives?

   iv) habit, and culture?

c) What needs to be done about (i), (ii), (iii) and (iv), and what might we learn from overseas?

d) If change is needed, will it be better achieved through:

i) changing the shareholding mix, eg: focussing a larger chunk of institutional shareholding in fewer companies, as proposed by Allen Sykes, or ESOPs to make employees bigger shareholders?

ii) changing the shareholder role, eg: by making the shareholder less or more dominant in determining what the company does?

iii) changing the shareholders' success criterion, eg: by looking for returns over a different time scale?

Mark Goyder
29 April 1991

APPENDIX I

SUGGESTED SEMINAR MEMBERS

Chief Executives

Sir Christopher Hogg, Courtaulds
Sir David Plastow, ex-Vickers
Sir Peter Walters
Bob Gavron, St Ives, FRSA*
Jeremy Long, Brightreasons, FRSA*
Tony Williams, Chairman, Williams Lea
Geoffrey Maddrell, ex-Tootal Chairman
Tony Gill, Lucas
Geoff Mulcahy, Kingfisher

Institutional Investors

NAPF Clive Gilchrist, Donald Boyden

* Already expressed an interest