



## A FISCAL WONGA

*In a light-to-no-touch corporate self-governance environment, few can fail to be appalled by the toxic statistic that FTSE CEOs earn 386 times the national wage. Drowned out by raucous and unabashed choruses of 'I'm alright Jack', these extortionate salaries are now public domain, without a hint of irony that 8.6 million people in the UK are just one pay cheque away from poverty\*.*

ARTICLE BY GERRY BROWN, CHAIRMAN - NOVAQUEST CAPITAL MANAGEMENT

Unlike almost any area of life, beyond the remote possibility and very high hurdle of the protracted process of (brief) disbarment from directorships, formal regulation or thoroughgoing supervision are notable by either their absence or ineffectiveness. Self-denial, shareholder motions or revolts, the court of public opinion, expected norms, Association guidelines, common decency and shame or the due diligence of RemComs have all at some point trumpeted their curative and policing powers but stir little or no actual impact. Arguably, they provide an appearance of regulation and virtue, signalling hand-wringing, but they are really just fine words - or mimes - that offer additional cover to the ongoing slew of egregious remuneration decisions and our burgeoning, various inequalities.

Though P&L accounts countrywide elegantly accommodate these excessive executive rewards, long term incentive plans, benefits in kind, pension contributions, share awards and bonuses, gaming these various systems or notional checks and balances are not victimless crimes. Whether you look at the impact by individual business, industry sector or our wider society fabric, the cumulative result is a breakdown in trust, growth, ambition and equality. Without melodrama, even a partially sighted executive on a galloping horse can't fail to realise things have become toxic when it comes to trust and corrosive of our basic institutions in terms of inequality and, in some instances, the rule of law. To continue to insist that corporate governance can be self-policing is slightly more foolhardy than waiting for the Government cavalry to arrive back from the consultation exercises and green papers with workable plans for regulation.

If, as the Chinese say, a fish rots from the head downwards, it's time executives spawned upstream, whilst showing leadership, integrity and self-denial. If cultures are to change for the better, they need to live the qualities they (notionally) get paid the big bucks to bring to bear on the



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business. But, with so much to be done and address, where to start? Obviously, if we wait for executives to voluntarily reform their corporate governance behaviours, we are going to grow old before this becomes a reality. Equally, looking to Government for legislation (please no more Green Papers proposing toothless solutions not then acted upon) or urgent reform is even more foolhardy. Clearly, there is an urgent need to plan for a proper mandatory place on all UK business courses and degrees (whether undergraduate, post-graduate, MBA, short course or elective). If what gets measures gets managed, then what gets taught gets acted upon (or, at least, better understood). Busy execs claim to be practical, results oriented people. If so, a first positive and practical step would be to close the gender pay gap for current existing employees while simultaneously actively pursuing better more robust diversity and inclusion employment strategies.

Though existing diversity policies in Britain tick the legislative boxes that is often all they do inevitably often falling short or lapsing into do-goodery, not least because many senior executives employ a form filling attitude that means they fail to realise the transformative business case of diversity and inclusion. Indeed so many organisations are ill equipped to deal with the exponential rate of change characteristic of the 21st century, they urgently need to better harness staff courage, creativity and talent through inclusion and diversity. Doing so can have transformational effects upon competitive advantage, employee engagement and retention, service delivery as well as controlling costs and boosting revenues. ●

Gerry Brown is the author of *The Independent Director: The Non-Executive Director's Guide to Effective Board Presence* published by Palgrave Macmillan.

\*Shelter - 2017

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