Editorial

Corporate Governance – The Execution Gap

There is an enormous increase in the rhetoric on corporate governance. Mr Higgs has fuelled a lively debate. Almost everyone has a piece of advice. The latest is the revolt of FTSE 100 chiefs. The value of the report stems from the very reasons, which have made FTSE 100 chiefs oppose it. The competitive advantage comes today not from consensus but dissent, not from unity but diversity. Mr Higgs' is a very well researched and reasoned document. We now know why the top 10 countries with the least disparity between men and women do not include Britain. Less than 1% of chairmen of UK listed companies are female. Only 4% of the executive director and 6% of non-executive director posts are held by women. We also know why there is a lethargy of innovation in British industry and why there is a mismatch between company expectations and customer aspirations. There is no clash of cultures that would sprout new ideas. Only 1% of non-executive directors are from black and ethnic minorities and company boards are tired. Average age of FTSE 100 non executive directors is 59 with over 75% of them 55 or above while today's markets are being driven by customers in their teens and twenties. The good thing about the recommendations is that there is less of box ticking and more of uncommon practical sense. It adopts the principle of "comply or explain".

It is now widely recognised that we do not need new legislation to improve governance. Existing laws are enough even for enforcement action as has been demonstrated in the US. Eliot Spitzer, the New York State Attorney General, who is feared by corporate America more than even Bin Laden or Saddam Hussain, was able to nail down America's iconic financial giants like Citibank, Merryll Lynch and Credit Suisse First Boston in a far more effective manner without the help of draconian Sarbanes Oxley laws passed in July 2002. These investment firms were made to pay $1.4 billion in three tranches in a historic settlement - $900m in penalties, $450m to buy independent research and $85 million for investor education. All we need is will and determination in execution of what we preach.

To think that Enron, Worldcom, Vivendi or Merryll Lynch are simply isolated cases where corporations have cheated the innocent public is to show evidence of extreme naiveté. In a TV interview given by Lynn Turner, Chief Accountant of the SEC from 1998-2001 who was earlier a partner of Coopers & Lybrand she admitted, that all the Big Five accounting firms helped Wall Street investment banking firms to engineer hypothetical transactions to make companies look better than they actually were. So, instead of bashing Enron we should be grateful to it for throwing open the murky world of corporate and public misgovernance. The nexus between the two is what breeds corruption. Today, it is the economic agenda that drives politics. Extensive growth in the power of various lobbies has made governance failures the norm rather than an exception. Deceit, translucence and greed have become the hallmark of those controlling resources. Even Columbia's loss was a governance problem. Lessons of Challenger's crash 17 years ago were ignored due to powerful contractors' lobby.

As we dig deeper, it comes home to us, loud and clear, that the significant problems that we face today of poverty, inequality, deprivation, environmental degradation, the economy of bust and boom and even terrorism stem from the governance failures. The US and the UK governments are heading towards a catastrophic war against Iraq regardless of UN sanctions despite visceral opposition from those who elected them. Evidence can be planted to suit designs. Mohammed al-Baradei, the head of the International Atomic Energy Agency (IAEA) told the Security Council on 7 March 2003 that British and US documents showing Iraq's attempts to smuggle uranium out of Niger were fake.

For corporate governance to succeed we have to go through a profound metamorphosis from inside out. We have to change our metaphors of success from "winner takes all" and "success at all costs" to develop an inner value system which prides on ethics, morality, equity, legitimacy, transparency, diversity and most of all courage to own genuine failures. As Archbishop of Canterbury, Dr Rowan Williams, said in the context of Iraq debate: "The key question is whether all parties to the debate are being honest." Good corporate governance will be achieved not by rhetoric or legislation but honest execution of what is just and fair.

.

Madhav Mehra