Time to go back to the 'Stakeholder Concept'

by Malcolm Howard

In the days before corporate greed took over, the 'stakeholder concept' prevailed. This concept suggested that company directors were responsible for all those associated with their company. These stakeholders were;

Shareholders;
Employees;
Customers;
Suppliers;
The general public; and
Government

So directors had a tough job. They had to ensure that they improved shareholders' wealth, treated employees fairly, provided a good level of service to their customers, paid their suppliers on time, looked after the environment and paid their fair share of taxes. To achieve all this they deserved a high salary.

Now, of course, the government can look after themselves, so if they cannot legislate properly then they cannot complain if companies legally minimise their tax liabilities. If companies don't look after their customers and suppliers then the company will fail, so we are left with three key issues, shareholders, employees and the environment. Success in these three areas should lead the directors keeping their highly paid job and exceptional performance should lead to good bonuses.

Directors put their bonus plans to shareholders once in every three years and, of course, the institutional shareholders with the most votes wave them through without given the proposed scheme much thought. This is clearly what happened at BP; in 2014 96% of shareholders accepted the CEO's (Bob Dudley) bonus scheme, which led to a 2015 pay package close to $20 million. It seemed that the only thing Bob Dudley had to do was to look after the issues the company defined, as follows: "despite the very challenging environment, BP's safety and operating performance was excellent throughout 2015." Clearly the CEO failed on the other two areas directors should be responsible for, shareholder wealth and employees. In the year to 31 December 2015 BP made a loss of $6.482 billion, equal to 35.4 cents per share. At that date net debt stood at $26.779 billion and the cash flow statement showed a net cash outflow of $3.374 billion. The company maintained its dividend costing a total of $7.3 billion and given its cash position it must borrow more money to pay out. This means, effectively, that shareholders are paying themselves a dividend out of their own money. In 2015 staff numbers were reduced by several thousand, so the CEO failed on the criteria of looking after staff. Despite these failings the CEO qualified for a 100% bonus, whereas his previous maximum had been 88% and, excluding 2015 the average had been 73%. In 2011, the CEO's total remuneration package was $8,439k and since then he has received a compound increase of 23.4% to arrive at his current (2015) package of $19,602k. Over the same period the rest of us have seen our pay hardly increase.

Of course, directors who achieve exceptional results deserve high bonuses. What defines greed is receiving huge bonuses for underwhelming performances; a spectacular performance deserves a high bonus. For example, Sir Martin Sorrell of WPP, has a pay package close to £70 million, of which £62.8 million related to a long term bonus. In other words Sir Martin said he was going to adopt policies that would achieve long term growth, rejecting the concept of only thinking short term. WPP had thrived under his leadership having improved the value of the company in five years from £8.5 billion to £20 billion, looking after employees in the process. So Sir Martin deserves every penny he gets.

All directors' bonus schemes should include the three key objectives of looking after shareholders, employees and the environment. No bonuses should be paid until the shareholders have received a dividend (if the company normally pays a dividend) and it should be illegal to pay a dividend unless the company makes a profit or has the cash to pay out of reserves.

Finally, the law needs to be changed so that shareholders have to approve directors' bonuses at each AGM before they can be paid.

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