

The Unintended Consequences of a Good Idea

By Charles Handy

I once lived and worked inside Windsor Castle. Our home was originally part of the palace of King John. It was from our courtyard that he rode out in 1215 to put his seal on the Magna Carta – an early version, perhaps, of a sort of stakeholder contract, one that, we should note, he agreed to only under extreme pressure.

I ran conferences there on societal ethics. I used to ask the participants to look around. There had been a castle and a monarch there for nearly a thousand years. The castle was still there and a monarch still resided in it; the sovereign's flag still flew above it. But while things still looked the same on the outside, what went on in the inside was very different. Change, I suggested, was often easier if you kept the form but changed the substance when the world around you changed. I would then take them into the great and wonderful chapel of St. George across the courtyard, where the kings of England are buried. I would stand them beside the tomb of King Charles 1, the one whom we beheaded because he refused to change the substance of his role to meet the needs of a changing society.

Could the same fate befall the corporations that have served us so well in the past, I wonder, if they do not change their ways. They were wonderful social inventions back in 1550, when the twin ideas of the joint stock company and limited liability were first conceived and applied in Britain. But down the centuries those good ideas have had some very unintended consequences. To drive through the old communist countries of Eastern Europe, as I did this summer, is to see history recorded in the city skylines, a very visible example of the transfers of power in those countries. There are the old castles of the kings and barons, all museums now, or grand hotels. Then came the huge concrete edifices of the communist regimes, parliaments of the people today, but even these are hidden behind the glossy new glass towers of the corporate businesses. To the average passer-by it seems clear where the real power now lies.

They are full of paradoxes, those towers. Clothed in glass you can't see into them. Proud symbols of the new democracies, they are as centrally controlled as the communist regimes they displaced. The names on their doors, often paraded on their rooftops, are, as often as not, a set of meaningless initials. To the layman, these are anonymous organizations, run by anonymous people, themselves the appointed agents of anonymous investors, represented, as often as not, by anonymous institutions in similar towers. You cannot blame that passer-by for thinking that power and wealth had somehow got out of his or her control, that somehow their concerns and those of the wider society were in danger of being ignored. That is, if they thought about it at all. Perhaps the real problem is that too many people don't think that much about it, that they just assume it is the way it was ordained to be – just like slavery of old. That is not going to be the best starting point for a cultural change.

They may not last, of course, those towers. The office in one of them where I once sat is now the living room of a smart apartment block. It is fashionable for some of them to prefer a campus to a tower, looking more like a university and structured, often, like one as well. But even these campuses will be surrounded by high fences, with guards on the gates, still off-limits to the ordinary citizen, still mysterious, still answerable to no-one save themselves and their investors. The 'cui bono?' question – for whose benefit – is still begging. Of course, that is not the way all those mostly well-meaning people on the inside see it. They are just doing their best in a difficult world. That's what King Charles 1 thought too.

Francis Fukuyama and others have argued, and many statesmen have assumed, that a combination of liberal democracy and open market capitalism would be the ultimate answer for a successful society. But democracy and capitalism can be uneasy bedfellows. If capitalism is not seen to be working for the demos the demos could destroy it. Not by revolution, but by entangling it in so many restrictions and requirements that its vigour would be irreparably damaged. In recent times, to the passers-by, those towers or barricaded campuses do not seem to be working for anyone's good but their own. Ironically, that feeling is strongest in the developing world where the beneficial effects of capitalism are most needed.

We do urgently need a cultural shift in the way corporations behave and the way they are perceived in the wider society. Sadly, governments, in my experience, do not move until they believe that their moves will be welcomed by a substantial section of the voting public. Change, therefore, has to come from the outside, from the key participants, from opinion formers and activists, from people like us, people who can see the shape of the wood even when in the midst of the trees. Peter Drucker was one of those people. His perspectives are needed now more than ever.

How did it get this way? How did such historically good ideas get corrupted? How can we rescue the good and eliminate the bad? There is a pile of good ideas already on the table. Transparency, Accountability and Governance Structures are probably top of the list but I worry more about the big question which sits underneath these more technical issues. What is a business for, or even, perhaps, who is it for? More concretely, how should a business define success, and how measure it?

If one takes the trouble to look deep into Company Law it is clear that the corporation has much more freedom than some would previously have granted it to define its own destiny, and that there is a plethora of different models to choose from. They are not, as some assume, the vassals of their shareholders, whose legal rights only extend to the appointment of a Board, and to the remaining assets of the business on its break-up after all other claimants have been paid. I am secretly pleased that the spate of scandals in recent years, the pain caused to ordinary people by the sub-prime mortgage debacle and the looming problems of climate change have begun to arouse the interest of the previously unconcerned. Cultural change needs triggers to get it started, then it needs its advocates and its pioneers to get it moving until, finally, governments put their seal upon the new arrangements.

Let me end with two reminders from history, from Adam Smith the Scottish moral philosopher turned economist. Most business people will know of his theory of the invisible hand which legitimizes self-interest. They do not realise that Adam Smith assumed that his readers would also know about his earlier book, the Theory of Moral Sentiments, in which he argued that what he called 'sympathy' was essential to bond a society together. We need both – self-interest and sympathy, in business and society.. Bill Gates has recently echoed Adam Smith, saying that the two drivers of human action were self-interest and a care for others. Corporations should take note.

Adam Smith also said this 'A profitable speculation is presented as a public good because growth will stimulate demand, and everywhere diffuse comfort and improvement. No patriot or man of feeling could therefore oppose it. But the nature of this growth, in opposition, for example, to older ideas such as cultivation, is that it is at once undirected and infinitely self-generating in the endless demand for all the useless things in the world.'

Adam Smith, would, I think, despair of the way in which the creativity and energies of our businesses today are so often directed to such trivial ends. Can we insert a touch more cultivation into our corporate charters along with more sympathy? It is, in the end, up to us.

*Charles Handy's books on the changing shape of work, life and organizations have sold millions around the world. He has been an oil executive, an economist, a professor at the London Business School, the Warden of St. George's House, and the Chairman of the Royal Society of Arts. His latest book, *Myself and Other More Important Matters*, is a reflection on what he has learnt from life.*