

# COLIN MAYER

... on teaching business, and trying to influence  
the future of the corporation



Colin Mayer is Peter Moores Professor of Management Studies, Saïd Business School, University of Oxford. He was elected a Fellow of the British Academy in 2013.

**Tell me about your background. Did your home life as a child foster an early interest in business?**

My father was a businessman. He ran a company called Griffin & George, which was one of the largest suppliers of scientific instruments to schools across the country. So he generated an interest in my mind in business and the issues that it raised. I went to Oxford intending to read engineering; but people said 'You need to have business knowledge if you really want to succeed', so I went on to do the joint degree in engineering and economics.

After doing a postgraduate BPhil in economics (supervised by John Kay),<sup>1</sup> I became a professional economist. I got a job in the forecasting department of the Treasury. I spent two and a half years there, during the very interesting period

when the IMF came over to Britain to bail out what looked increasingly like a bankrupt country.

I then went to Harvard to study at both the business school and the economics department for

an Oxford doctorate. I learned about two subjects that were, at that stage, still little known in Britain: finance, and regulation.

I came back from Harvard in 1980 just before the period when Thatcher began to introduce notions of privatisation, and so regulation suddenly became a very hot topic. I was fortunate to be in a position where I could draw on some of the knowledge that I had learned in the US.

**You have spent quite an amount of time in positions abroad – Brussels, Columbia, MIT, Stanford. Was this because business studies was more developed as a discipline outside the UK?**

The origins of what we now term 'industrial economics' were British: during the 1930s and the 1940s, many of the most prominent ideas emanated from UK universities. What happened in the US was the development of business education and business schools. Subjects such as finance developed far more rapidly in the United States than in the UK. So travelling internationally was an important component in gaining an understanding and appreciation of the subject.

1. Professor John Kay was elected a Fellow of the British Academy in 1997.

**Your career seems to involve various firsts: the first holder of posts, including the first Professor at the Saïd Business School, and founding journals. Does this reflect the evolution of the discipline?**

It partly reflects an evolution of the discipline, in that there were a number of areas that I felt could usefully be developed, but it also reflects my particular interest in starting things. I very much like creating new activities, new ideas, new organisations and helping to get them off the ground. That is what I found particularly interesting about the idea of setting up a business school in Oxford. The actual process of running a large organisation is not something that I find quite as stimulating, and so the best contribution I can make is to pass on that function at the appropriate moment.

**How has business studies developed as a discipline over this period? Has it been through the evolution of thought within the academic context, or is it in response to real-world issues?**

It is a mixture of the two. There is little doubt that business studies has changed the nature of business and the way in which business operates. Just as John Maynard Keynes said that politicians are slaves of defunct economists, so business leaders are the product of yesterday's business theories. There is a strong element of business schools changing the way in which business operates. But at the same time, business schools have to be very engaged and cognisant of current thinking in companies. Otherwise, they can be overtaken by what happens in the business world, and businesses actually then become more innovative than business schools.

It is a very interesting interplay and that is what makes running business schools and business education so interesting and difficult. On the one hand, it is a seed of ideas, which is fairly familiar to universities; on the other hand, it is an activity that has to be very responsive to the outside world. Academics are very good at the former, but not terribly good at the latter, for the most part. Getting that balance right is key to building a successful business school.

**Have there been particular episodes in the business world that academics have had to react to in order to develop their discipline?**

The Thatcher era of privatisation was one where the private sector suddenly found itself with new opportunities in terms of contributing to the delivery of public services. But it was also faced with external government intervention, in the form of regulation. Businesses had to learn how to develop and flourish in an environment in which there were lots of opportunities, but there were increasingly intense restrictions imposed on the way in which they could operate. Quite reluctantly,

business leaders had to turn to economists to give them advice on how to think about the cost of capital, for example. That has actually made the influence of economics and business schools – in terms of business practice – far greater over the last 30 or 40 years than it ever was in the past.

**Your own career reveals a mix of academic and real-world consultancy work. How do you balance the two, and how do you judge the relative importance of the two?**

Both are valuable activities, and balancing them is exactly the right issue for academics to address. There is a great deal that academics can learn from doing consultancy, but there is also a great risk in terms of their independence and integrity. When economics, business or politics academics get involved in outside work, it is important that they understand the basis on which they should be doing it. When I helped set up the consultancy Oxera (Oxford Economic Research Associates), we established the principle that it was not there to tell businesses what they wanted to hear; it was there to tell people what we thought was the correct description of the situation. In many cases we would tell them things that they decidedly did not want to hear. But I felt that was an important principle, and it is an important element in terms of striking a balance.

The other balancing element relates to time commitment. One of the risks of business schools is that they become shells – the academics are never there. Although there are benefits that academics derive from doing outside work, it is important that they appreciate that their primary responsibility is to research and teach. In Oxford, there is a limitation that academics should do no more than 30 days of consultancy a year.

**Your own studies have focused over many years on the corporation. What do we mean by 'corporation' in this sense?**

A corporation is an organisation that combines two functions, reflecting its origins. The first function is the promotion of enterprise and entrepreneurship, pursuing activities that have a commercial benefit associated with them. That is very much how business developed, particularly in the Middle East and later in many continental European countries, in terms of activities associated with trading.

The second element, which particularly emanated out of the guilds in Britain, is associated more with administration and how one can ensure high standards of conduct in organisations.

The remarkable feature of the corporation is the merging of those two functions. A corporation can muster large amounts of capital and use that for promoting successful commercial activities

for the benefit of those involved in funding the organisation. At the same time, it can bring together people with a variety of different roles and skills to provide a high level of administration and professional conduct. It is those two components that make it such a potentially powerful agent for promoting well-being. It is why it has a very long history, dating back to Roman times, but a relevance today in modern society that is probably greater than it has ever been in the past.

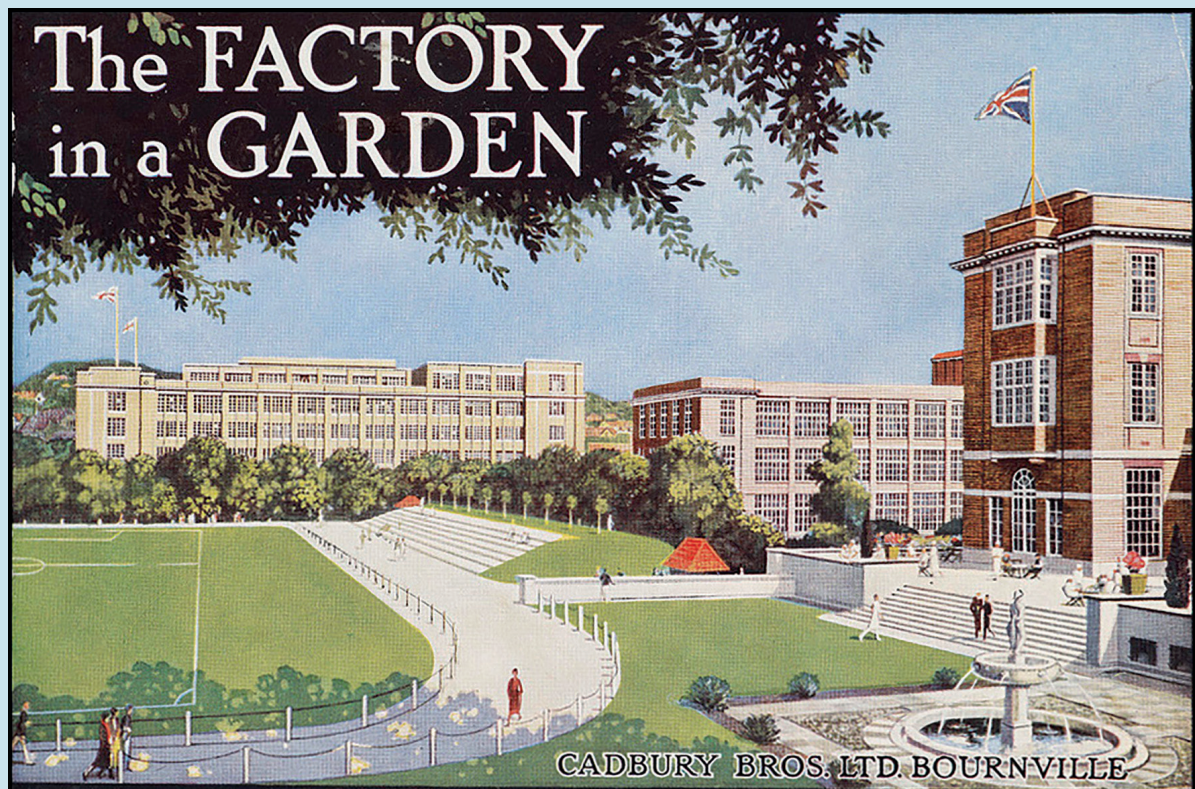
**But you don't think the corporation is actually working as well as it should?**

It is something that I have been aware of for a long period of time, having looked at the very different philosophies underlying the notion of the corporation that exist across the world. The notions of companies in the Far East and in many parts of Europe are very different from those in the UK and the US. For a long time, I had been very troubled by the preoccupation in the UK and the US with the role of shareholders in the running of companies. In other parts of the world, longstanding influential families play a much more important role, and banks are more important for the financing of companies. I was particularly interested in the longevity of companies, and concerned about the short-termism that can result from the engagement of shareholders in companies.

When I visited Stanford at the end of the 1990s, nearly all the classes that I was teaching contained students who were starting up their own companies: if you did not have your own start-up company, there was something wrong with you. About two years after I left, the dotcom bubble burst and nearly all of those businesses went bankrupt. From that major crisis there was a re-evaluation of the governance of companies in the United States.

People thought this had been fixed through the 2002 Sarbanes-Oxley Act, which sort to reform corporate governance in the US, only to discover with the financial crisis that it had actually not been fixed at all. The prevailing view then became that we had learned the lessons of the 1930s about how to run monetary policy, and all we needed to do was to cut interest rates, stimulate monetary development and we would get out of the problem.

I think that policy reaction has failed. The fact that, 10 years later, we are still in a world that has to have zero interest rates is indicative of the fact that macro policy has not been able to solve the problem, and there is something more fundamentally wrong. The problem to my mind is much more significant: the rationale and motivation for the existence of business have gone awry. And this is creating immense problems globally – and in society in general.



Cadbury was a family run company with strong ethical principles.



**What about specific instances of corporate misbehaviour? We have had a little run of them recently.**

It is not as if the problem has not been present in the past. The problem is that we think that these are aberrations, scandals. The difficulty is not those cases that really come into the limelight – Sports Direct, BHS, or in the past Robert Maxwell. It is the presumption that, for the most part, businesses are okay, and we just have to deal with examples of bad behaviour when they arise. If people misbehave, we will punish them, and that will deal with the problem. But that is not the solution. The problem is that the corporation is not being run today in the way in which it should be.

**So how have we got to where we are now?**

I have worked on the history of corporations, including looking at how companies have evolved over a 100-year period. With the introduction of freedom of incorporation and limited companies in the 19th century, the corporation took off. For the most part, it took the form of being a family activity, passed on through generations – much as is still the case in many parts of the world. In many instances (not all, by any means), those families had clear principles and a notion of responsibility. This is best reflected in the Quaker companies such as Cadbury, Rowntree, Boots, Beecham, Colman, Reckitt, which had owners with very strong ethical principles by which they felt that companies should be run.

In the 20th century a lot of those companies began to sell their shares on the stock market to fund their growth, but for the most part control of the enterprise was still dominated by the families. As the century progressed, in Britain – and also in the United States, though not quite to the same extent – those families lost control, as they were forced to sell off a substantial proportion of their shares to be able to fund their businesses. So in the interwar period, in Britain in particular, a lot of capital was held by many individual shareholders, the so-called ‘widows and orphans’. But they didn’t do much more than just collect their dividends; they weren’t actively engaging with their companies very much.

Then there was a realisation that this was pretty inefficient: surely it would be better for specialists to look after people’s investments for them. And so we had the emergence of a substantial pension fund business – or mutual funds in the United States. That was the moment of substantial change. Instead of long-term inter-generational family control, we moved to a world of ownership by institutions that were merely intermediaries between the companies and the ultimate investors. And those intermediaries felt obligated to ensure that the companies were doing whatever they could to further the interests of their pensioners and other investors.

At this point, business schools and university economics departments began to take the lead in developing thinking about the role of the corporation – that it is not just to reflect the interest of shareholders, but to *maximise the value* of shareholder interest. All economics and business models became focused on this notion, which then fed into business education for managers and business leaders. And that is when the notion of the role of business loses its direction and is hijacked by this sole preoccupation.

**So we now have insurgent investors; senior staff are remunerated through shares rather than pay, in a way that aligns their interests with the shareholders rather than the basic purposes of the company; we have shares traded in milliseconds. How do you make the short-term needs of the stock market serve the long-term aspirations of the corporation?**

That is the fundamental trick of running a successful organisation. How do you balance those interests? How do you convert the short-term interests of investors and savers, in terms of having liquid, relatively safe short-term investments, into what companies do, which is to invest in high-risk, illiquid, long-term assets? That is what the modern financial system and institutional investment are not very good at doing, particularly in the UK.

Some of the most successful companies in the world like being listed on the stock market, in order to be able to tap into the capital that stock markets can provide; but they do not like the idea of that same stock market controlling what they are doing. If you look at most companies elsewhere around the world, family members continue to hold the majority or a large proportion of the shares, so they retain control even though the companies are listed on the stock market.

**Why is it different in the UK?**

In many other countries around the world, families have made use of ‘control devices’. Just as in the UK, families have had to sell shares to raise capital. But, although they may sell off a lot of the shares, they keep control by retaining voting rights. They use ‘dual-class shares’, retaining voting control, and selling off shares that have low voting rights associated with them.

In many countries they create ‘pyramids’. One company owns the majority of shares in another company that owns the majority of shares in another company, etc. You go through a whole series of layers of ownership, where you have control at every level, so that you are controlling the companies at the bottom of the pyramid. The Agnelli family in Italy has used this as a way of controlling many of the companies that they own around the world.



Investor behaviour should not just be the unrelenting seeking of financial gains above anything else.

Why has this not happened in the UK? As I described earlier, in the period after the Second World War, pension funds and life insurance companies became holders of very substantial amounts of capital in the UK. As a consequence, they began to exert a considerable amount of political influence. In the 1950s, a series of hostile takeovers caused business to regard the external influence of financial markets as really damaging, and it tried to respond by issuing dual-class shares to avoid this external control.

The pension funds and life insurance companies objected vehemently to this, because the takeovers were ways of creating huge amounts of value for shareholders. They lobbied the British government over this, and eventually the Stock Exchange passed various rules that said that, if you were a listed company, you could not have this type of share structure. So British companies are prevented by regulation from protecting themselves.

In the US it is very different because companies are not prevented from protecting themselves in this way. Google, Facebook and LinkedIn make use of dual-class shares. The most recent example was when the company Snap came to the US stock market. Snap actually gave the outside shareholders *zero* votes. That caused a furore. But everyone still bought up its shares, and they started trading at a huge premium.

**Without that sort of protection, we have a system that encourages unhelpful investor – and indeed ‘rent-seeking’ – behaviour.**

Yes. Professor Rosemary Batt put it very well in the Sir John Cass’s Foundation Lecture which she gave at the British Academy in March 2017.<sup>2</sup> It is a financialisation problem. It is the unrelenting

seeking of financial gains above anything else that causes the most serious disruption.

**In your 2015 Sir John Cass’s Foundation Lecture, you said, ‘We need to ... put humanity ... back into business. There is ... no institution in the world better placed to do that than the British Academy ... and I would urge it adopt this as a programme of debate and research.’<sup>3</sup> It now has. What is all that about?**

I am very grateful that the British Academy has picked this up in such an enthusiastic way. The ‘Future of the Corporation’ is a programme of academic research<sup>4</sup> looking at what the corporation will look like in 20 or 30 years – and what it *should* look like. That is the right way of posing the issue: it is about how the corporation meets the needs of society.

There are other elements too. Virtually every element of business, from energy to transport, is being affected by technological change, so the type of corporation that we are going to need in 20 years is going to be very different from what it is today. For example, in the ‘sharing economy’ – with companies like Uber and Airbnb – the idea is that it is more effective for people to share in the ownership of the business assets, and information technology can help to do that. The frontier between what is *in* a taxi company and what is *outside* of it is shifting and becoming much more blurred. So the whole notion of what is a corporation is dramatically changing.

Other aspects of technology are having a profound influence on the way in which corporations can conduct their activity. The impact of technology in terms of destroying jobs is a very important issue for the future of work, in particular for future generations. For instance, there is a huge proportion of the population employed in driving vehicles of some form or another, which may become entirely redundant. This is an incredibly interesting and important area which we will be looking at as part of the Future of the Corporation programme.

Further, artificial intelligence is now replacing not just men with machines, but minds with mechanisms for outperforming what human minds can do. That shifts the order of significance to a much higher level, raising fundamental questions. If forms of medicine are essentially developed through mechanisms not controlled by men, how are we to determine what is acceptable, or who should be determining what is acceptable? That whole set of issues about who or what is in control is going to pervade everything, not least the way

2. Rosemary Batt, ‘Wall Street and Main Street: Dilemmas for management strategy’, Sir John Cass’s Foundation Lecture, 2 March 2017.

3. Colin Mayer, ‘Reinventing the corporation’, *Journal of the British Academy*, 4 (2016), 53–72, at 70.

4. [www.britishacademy.ac.uk/future-corporation](http://www.britishacademy.ac.uk/future-corporation)

in which the corporation is going to have to be managed and controlled in future.

**So we don't want to end up with inanimate corporations trading with each other, with people being entirely surplus either as workforce or customers?**

Absolutely. You mentioned high-frequency trading earlier. Algorithms are doing all of the trading that people had previously been doing. That is fine insofar as all that they are doing is trading bits of paper or setting prices in markets. If it comes to the point that they are running companies, it raises interesting issues.

**You have just given a very long-term vision of the project's ambitions. But it also has more immediate considerations. You have written about the importance of identifying and foregrounding the *purpose* of the corporation. Can you explain that some more?**

There is a highly influential movement that talks about the importance of developing the notion of purpose in companies. This can simply mean the purpose of a business in terms of, for example, making reliable cars or cheap washing machines. But it can also have a more normative notion to it, in terms of the role of business in society and the obligations of business to future generations as well. Purpose has really become the flavour of the month; companies need to get a purpose.

The purpose movement is in reaction to the Friedman doctrine (named after Milton Friedman) which said that the sole purpose of business was to maximise profits for its shareholders. The idea that companies need to define and act on their purpose, in relation to what they are doing and their role in society, is something that is getting the attention of a lot of business leaders, and quite rightly so. It is slowly becoming embedded in business thinking and education.

But, however well-intentioned a company, there are factors that may ultimately make it difficult for it to be able to pursue that broader agenda and a more responsible purpose. You only have to think about a case like Antony Jenkins at Barclays Bank, who took over the reins with a very clear notion as to the type of purpose that he wanted to embed in the business, only to find himself essentially stalled by the way in which the investment community responded to him. More recently, we have seen what has happened to one example of a really purposeful company, Unilever, and its very purposeful leader, Paul Polman, after the company was subject to what turned out to be an unsuccessful bid from Kraft. Even though the bid only lasted for about a day in the public domain, it appears nevertheless to be having quite a significant impact on the policy of the company, which is being pressed in the direction of putting greater emphasis

on shareholder interest. So the determination and implementation of a company's purpose cannot be separated from the issues we have been discussing about the ownership and the control of companies.

In the Future of the Corporation project we are interested in engaging not just with business, but also with policy-makers. In relation to the corporate governance Green Paper we organised a business breakfast meeting, at which some very interesting ideas emerged, not least of which was the notion that, as a basic starting point, one should ensure that companies uphold the existing company law. Section 172 of the Companies Act of 2006 sets out that directors owe a duty to their 'members' (i.e. shareholders), but must 'have regard to' the interests of other stakeholders, such as employees, suppliers and customers, for the long-term benefit of the company. So, at the very least, we should be ensuring that directors recognise their responsibility in relation to this 'have regard' element, and expecting them to report on how they are taking due account of those other parties as well.

This illustrates that the Future of the Corporation programme is relevant to immediate, as well as long-term, policy formulation.

**Will institutional investors, with their clever lawyers and with their political influence, ultimately always manage to thwart reform which, however necessary or however obvious, they regard as being against their immediate interests?**

In the debates about reform that are going on at present – for example, the whole issue about dual-class shares is the source of a lot of discussion in this country – one can still see the institutional lobby being very influential in terms of the way in which policy is thought about. And you can see why: if trillions of dollars or pounds of investment hinge on the behaviour of the institutions, they exert a lot of power.

On the one hand, we just have to stand up to this. We have to recognise that this has been damaging to the performance of the British corporate sector, and damaging to the rest of society.

On the other hand, institutions are beginning to understand the way in which they have been failing. There is a whole movement around promoting more long-term thinking by institutional investors, which is gaining a lot of traction and support in a number of institutions – particularly the sovereign wealth funds, which is where a great deal of capital is now going. The British Academy's Future of the Corporation programme can play a very important role in providing a framework in which policy formulation should take place over the longer term. ■

Colin Mayer was interviewed by James Rivington.