

SYMPTOMS OF COMPANY CANCER

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Of the many diseases from which a company may suffer, the most insidious is the enervating and possibly terminal cancer that may develop out of the cupidity of its paid servants. This parasite growth from within is difficult to detect in its early stages, not only by the shareholders at arms' length from management but sometimes even by external directors.

There are many symptoms indicating that such a malignancy may be taking hold. Individually these are an inadequate base for definite diagnosis and even a small number of them may be relatively benign. Enough of these symptoms taken together, however, may be significant, and knowledge of an increase in their number must always be the subject of serious shareholder concern.

Without at least a majority of external directors on a Board, there may in any case be little chance of detection of some relevant symptoms. They may be well covered up by management and, if the external directors should comprise a minority, the latter may even be inhibited by secrecy provisions of company law from making them known to shareholders.

Even if discovered and made known it must be appreciated that symptoms vary in importance and it is difficult to lay down rules as to their interpretation. A constant awareness of their possible import and regular formal check-ups by external directors are essential if sloughing away of the profits (and even the substance) of the company is to be avoided.

In the following list of what may be symptoms of company cancer, the term "employee" has been used as noun or adjective instead of the pejorative "servant" on the one hand or "executive" on the other. Some of the symptoms may involve members of management who are not directors, even of subsidiaries, yet with much the same ultimate diagnosis. The symptoms, however, are usually more clearly significant in those cases where one or more directors are in fact employees (whether they are called executive chairmen, managing directors or executive directors) and particularly where an employee is chairman and/or employees comprise a majority of directors.

- (1) Holding of shares in the company by a superannuation fund, profit-sharing scheme or the like, with voting rights capable of being exercised or influenced by employees or indeed by any directors.
- (2) Allotments of shares to such funds or schemes at less than full market value, especially where claimed to be for the benefit of the "staff" generally but in fact the distribution of benefits is biased in favour of senior employees.
- (3) Inflated superannuation benefits for senior employees arising out of differential rates of benefit or the use of benefit formulas that favor employees on high or rapidly increasing salaries.
- (4) Stock option schemes or, more benignly, employee share purchase schemes diluting the shareholders' equity and giving employees a personal interest to be served in an area where they should be serving the interests of shareholders generally.
- (5) Participation by employees in distribution of directors' fees, whether from parent or subsidiary companies, as an addition to their proper remuneration as full-time employees.

- (6) Employees having outside directorships without the specific consent of the shareholders of the company employing them, especially where the fees received as outside directors of other companies are not accounted for to the employing company.
- (7) Employees' time consuming outside interests, sometimes carried to such excess as to involve use of the company's staff, telephone, postage and other facilities with personal benefit to the employee in private influence or even public honours.
- (8) Subscriptions to and services rendered by employees for bodies that are not necessarily in the interests of shareholders, i.e. political, employer, employee, director, religious, etc. organisations not specifically related to the business of the company.
- (9) Use of company assets for the personal enjoyment of a limited number of employees, not only cars but fixed assets such as boats, holiday homes and the like that are speciously claimed to be for the benefit of employees generally - and sometimes even involving the provision of personal services of crew, housekeepers, etc. employed by the company.
- (10) Diversion of company stock-in-trade, without payment, for the personal use of senior employees in circumstances where a junior employee would probably be charged with theft.
- (11) Travel expenses not strictly justified for business reasons and which have not been specifically approved as being for that purpose by a higher authority - the Board in the case of employee directors and the more senior non-director employees. The worst situation is that of employees having holiday trips accompanied by wives, covered up by some appearance of business, sometimes not even ranking against generous holiday "entitlements".
- (12) Personal transactions between employees and company such as selling assets (these days often real estate or mineral exploration leases) on terms based on specious arguments or euphoria as to value.
- (13) Company constitutions that allow employee directors, subject only to a choice of words such as "managing director", to avoid regular retirement by rotation and so avoid fronting up to shareholders for re-election as directors.
- (14) Interest of employees in growth for growth's sake (increased personal status, direct or indirect benefits arising out of retention rather than distribution of profits or out of increased turnover, etc.) rather than profitability of the enterprise for the benefit of shareholders generally.
- (15) Non-accountable expense allowances as personal income tax subterfuges, particularly where varied from month to month to cover up their true nature; also real disbursements inflated with connivance to similarly provide a degree of tax-free remuneration.
- (16) Heavy entertainment expenses wasting time as well as money, geared to the personal pleasure, status and influence of the employee director or senior employee rather than to the real business of the company and the duties and obligations of its employees.
- (17) Service contracts which, despite the specious arguments customarily put forward, are invariably against the interests of the employer company and to the benefit or contingent benefit of the employees concerned.

- (18) Free insurance covers of personal nature and "luxury" medical examinations (including comprehensive pathological and other tests) whose detailed results are not always submitted to Boards for their appraisal of the continued ability of the employees concerned to meet the physical and mental circumstances of their employment - the ostensible reason for companies meeting such costs.
- (19) Provision of housing on favourable terms not necessitated by remoteness, statutory provisions or conditions of work, including housing loans at nominal rates of interest or at rates below those payable by the company on its own borrowings.
- (20) Cars for personal use and pleasure beyond the strict requirements of company business, the use of company employees as drivers for private purposes, payment of telephone costs beyond a fair apportionment between private and company business and, worst of all, provision of cars and/or drivers to other members of an employee's family.
- (21) Use of company time in pursuing private activities, from a production director using or countenancing the use of factory facilities for home repairs to a finance director taking advantage of the associations between the super-annuation fund under his administration and various firms of sharebrokers and merchant banks.
- (22) Interest by employees in family companies created by them (especially where holdings are held in the employing company), pre-occupation with personal investments during company time, income-splitting and other tax subterfuges with or without the connivance of the employing company, wasting of time on amateurish investment of company super-annuation assets, etc.

The list of possible symptoms is almost endless and there is the danger that faces anyone reading a medical dictionary - it is easy to believe that one is suffering from so many diseases that death must be imminent. However, most company structures, like most individuals of working age, have a considerable degree of resilience and can take some defects or imperfections in their stride.

Some senior employees are excessively concerned with maximising their own take, as much as possible tax-free, and every benefit given to its executives by another company is produced as argument for more for themselves. Cancer is not only insidious, it is also capable of developing very quickly and this is the great danger. A careful watch must always be kept for the symptoms of malignant cancer; if discovered they may or may not be significant, and mere number of symptoms does not necessarily indicate the degree of severity of the disease. The symptoms may, however, serve as a warning that leads to early diagnosis, remedial measures and continued good health.

