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Daniel's Perspectives – January 10th, 2018

How far should you push an executive directors liability?

The world's largest tyre manufacturer, Michelin of France, established in 1889 by the brothers Edouard and Andre Michelin, remains controlled and managed by their descendants to this day. It offers one particularly interesting yet not widely known fact about the company worthy of consideration for business founders and owners.

Michelin's founders incorporated a rule into the company's constitution that made all of the serving managing executives *personally* liable for the *debts* of the *company*. From their 2016 annual report: *"...they have joint and several personal liability for the Company's debt"*

There is a growing number of case studies of highly leveraged, aggressively acquisitive companies in the South African stock market that are rapidly coming unstuck. Could it perhaps have been avoided, or at least less severe, if those managing executives were held to account in a similarly impactful fashion?

I believe that almost all Boards are responsible and well intentioned. I hope that they will consider doing away with at least some of the reams of existing and newly imagined corporate governance rules and checklists and perhaps consider borrowing an accountability leaf from the Michelin family playbook that has stood the test of 129 years and counting.

A counter-point is whether a company that had such an accountability policy would still be able to attract a highly talented management executive. Michelin has remained a family-owned company, fine, but the evidence is that its realised long-term shareholder economics are underwhelming.

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