

Banning City bonuses: The entrepreneurs' reaction

by Kate Pritchard - Monday, 17th August 2009



Bank bonuses are expected to reach £4bn this year. Chancellor Alistair Darling is ready to use new legislation to control the banks: "If we need to change the law and toughen things up, we can do that," he says. Is he right to intervene or will this only drive the banks offshore? We asked entrepreneurs for their views.

"It's none of the government's business what private companies pay their staff. This is the thick edge of a very dangerous wedge," comments **Dougal Paver**, MD of PR agency Paver Smith & Co. "If Darling wants to kill the golden goose this is a good first step. Would the last global business leaving the country please turn out the lights?"

"Honestly, I despair. These guys couldn't run a bath."

Ed Reeves, co-founder of outsourced reception specialists Money Penny, also reckons the government should butt out. "My first reaction to this news is that if someone is getting a £5m bonus, it's probably because he has added £50m to the value of the company. Bonuses, used wisely, are a great way of incentivising staff and keeping hold of your best talent. If UK banks can't offer competitive rewards, the best people will move to countries where they can – and that has to damage the industry. The banks are becoming the pantomime villains of the recession and, although it might be popular with some, restricting them in this way is likely to do more harm than good for the UK economy."

While **Dai Powell**, chief executive of social enterprise HCT Group, thinks it's high time bonuses were banned because they "recognise individuals for the short-term value they can create – and short-term value is frequently an illusion", **Bill Schuh** of Callidus Software reckons it's the poor execution of incentive systems that are bad for business, rather than bonuses per se.

Gary White, corporate finance manager at CBHC Chartered Accountants says that although bankers risk very little to achieve substantial rewards and arguably don't deserve them, bonuses drive wealth and spending. "I myself built and sold a property to someone who paid outright with his bonus cheque," he says. "The bonus culture is necessary but must be controlled to avoid a repeat of the fat cat culture. This is not down to government or the FSA, it is the auditors who carry responsibility for protecting shareholders and who are in a position to stop this happening again."

Neville Upton, CEO of £70m-turnover The Listening Company reckons Alistair Darling's proposed ban on bonuses would be impossible to legislate. "Talent and businesses can easily move from the UK if they find the restrictions untenable," he says. "Legally and morally, it is a minefield and the real winners are likely to be the lawyers rather than the British citizen."

So we asked **Ronnie Fox** of Fox Solicitors for his views. "It is unlikely that Darling's measures will be effective if they are simply implemented on a domestic basis," he comments. "Controlling bonuses is something which will have to be done on an international scale to have any impact."

Barry Houlihan, CEO of Mobile Interactive Group (MIG), agrees: "The UK is torn between trying to regulate against the excesses of the credit banking boom, which was actually a bonus-fuelled bubble, and the needs of London remaining competitive as a global financial centre," says Houlihan, who set up his business in 2005 and now pulls in revenues of £100m and employs 120 people. "Neither party seems to have the answers. What is needed is much stronger global regulation of the financial sector, not a UK-only, knee-jerk reaction."

It's a tricky dilemma. Hit the banks too hard and the country suffers; be lenient and voters will get angry and banks will restart the bonus scramble. Join the debate by clicking on the "Add a Comment" button below.