

1.4 states 'a programme of research will be undertaken to assist the future monitoring of the Code'. What does this mean?

The Committee will ensure that information is collected about the number of companies who comply with the proposals, so that there is an adequate data base for the Committee's successor body when it reviews progress in 1995. The Committee's continued existence, until the successor body takes over, will help to make sure that this happens.

In addition, the ICAEW Research Board intends to fund a programme of research into corporate governance matters, with emphasis on compliance with the Cadbury proposals. A steering committee including representatives of the Committee's sponsors will be set up shortly and will invite applications for projects to be completed by early 1995.

The Committee would welcome it if other bodies were similarly to make research funds available.

## CORPORATE GOVERNANCE/CADBURY COMMITTEE: RESEARCH

Note for meeting on 1 December 1992

### I BACKGROUND

In May 1992, Henry Gold, John Arnold and Anthony Carey met with Sir Ron Dearing to discuss ways in which the Research Board might help in the development of a research programme to follow up the work of the Cadbury Committee. It was agreed that a committee should be set up to oversee the research and that the committee would include representatives of the three sponsors to the Cadbury Committee. The purpose of this note is to clarify the role ("terms of reference") of the committee, to outline some broad areas in which it might seek research projects and to suggest possible members.

### II "TERMS OF REFERENCE"

The following are suggested terms of reference:

1. To identify areas in which research projects should be invited, the constituencies from which applications should be sought and when projects should be undertaken.
2. To select those projects which should be recommended to the Research Board for funding, taking advice from external referees where appropriate.
3. To determine the form in which the results of the research undertaken should be disseminated, again after advice from external referees where appropriate.

It is not envisaged that this committee should assume responsibility for the overall function of monitoring the implementation of the Cadbury Committee recommendation.

### III RESEARCH AREAS

There are two broad areas in which research might be invited, bearing in mind that, in Research Board terms, the aim of research should be to test existing theories or hypotheses or to develop new or modified ones:

1. Research into compliance with the Cadbury proposals. This would not include routine monitoring of the number of companies complying with the proposals or of the extent to which different proposals were adopted. It may include: studies of the characteristics of companies which might explain why some comply with some or all of the Cadbury proposals and others do not; studies to investigate the extent to which compliance is "real" as opposed to "cosmetic" - a version of the form vs substance dichotomy; studies of the economic consequences of compliance, ie does compliance have effects on management behaviour, share prices, etc?

2. Research concerned with other aspects of corporate governance, not addressed directly in the Cadbury Report. There is obviously a wide range of issues which might be addressed, for example, the effects of the Single Market on corporate governance and the constraints of corporate governance in a public company and why the managers of public companies might seek to re-privatise.

#### IV MEMBERSHIP

The membership should reflect the interests of the sponsors of the Cadbury Report and of the Research Board. A possible composition is:

A representative of the Stock Exchange (possibly David Porteous)

A representative of the FRC (possibly Professor Andrew Likierman - who would also make an excellent Chairman)

A representative of the Research Committee of the Institute of Chartered Accountants of Scotland

Professor John Arnold, Director of Research, ICAEW

Brian Worth, Chairman, Research Board

Jonathan Rashleigh, Legal and General and member, Research Board

Nigel Peace's successor (as an observer)

If Mr Rashleigh is unable to join the committee, an alternative Research Board member would be approached (possibly David Mallett, Standard Chartered Bank) in which case it might be appropriate to invite a representative of the Association of British Insurers to join to represent institutional investors.

#### V TIMETABLE

The Cadbury proposals are due to be reviewed by June 1995. The target date for completion of projects (in order to allow time for refereeing and dissemination) should be early in 1995. In order to meet this deadline, projects should commence between September 1993 and January 1994, suggesting a target for submission of applications of June 1993 at the latest.

If the committee is established by January 1993, it should be possible to issue the invitation for submissions by the end of March 1993, allowing researchers three months to prepare their applications.