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28 March 1995

Sir Adrian Cadbury  
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Dear Adrian,

Thank you for your letter of 21 March in which you draw my attention to a misrepresentation of the Cadbury proposals on company strategy. Unfortunately, I neither heard, nor received transcript or tape of the Peter Day programme, but I accept without hesitation your 'quote'.

That specific reference to non-executive directors in the extract was a slip of the tongue made during a broad-ranging interview which, in the event, seemed to be more about excessive remuneration than about Cadbury. I apologise for that inaccuracy which I do not believe that I have previously made and which I will certainly avoid in future.

But I would wish to make the following further comments on this issue of strategy.

Your Draft Report of 27.5.92 made, I believe, a reference to non-executive directors bringing an independent judgement to bear on the issue of strategy.

Research conducted in July 1992 under the sponsorship of the LSE and PRONED, included a 'key finding' that there was a divergence of views across audiences as to what form non-executive input should take. Chairmen and non-executive directors perceived the role as to contribute to the development of strategy. Other board members and (notably) the institutional shareholders and audit partners, see the role to be to comment on strategy formulated by the executive members of the board.

Your Final Report of 1.12.92 stated, inter alia, (with my underlines):

The Code of Best Practice 1.3 ... "The Board should include non-executive directors of sufficient calibre and number to carry significant weight....."

The Report Introduction 2.5... "The responsibilities of the board include setting the Company's strategic aims, providing the leadership to put them into effect"-

Code Principles 3.5... "(The Code) will assist the board in framing and winning support for their strategies".

Taking all these references together, the role of independent judges to which you refer may well be regarded by non-executives as inconsistent with the more creatively structural requirement of 2.5 and 3.5 above.

My Pall Mall lecture (extract included) last year set out my view of the overstatement in the Cadbury wording of the Board's role in setting and framing the strategic aims, as distinct from review and ultimate endorsement of those aims.

If you are to preside over a Cadbury Mark II, there is another matter which merits consideration.

I was critical of your qualified recommendation as to the separation of the roles of Chairman and C.E.O. However your proposals do seem to have influenced companies to effect that vital distinction. More now needs to be considered about the Chairman's election.

With the decline in the role and status of the Secretary ( an awesome figure when I entered industry) to that of a mere technician, the requirement on the Chairman for establishing within and outside the corporation its reputation particularly for integrity, fair dealing and good 'citizenship', has become all-important.

In that regard the selection and continuation in office of the Chairman has become of prime consideration in the governance of the corporation. But that selection is usually a matter only for the members of the Board, an unfortunate parallel with the appointment of the Pope and effectively enjoying a similar infallibility.

As a director, the Chairman will usually retire as a director by rotation and if that is not so then it should become the minimum requirement. But, having regard for his singular influence, might there not be a case for the Chairman requiring annual confirmation at the AGM. Alternatively might he not be subject to confirmation at the first AGM after his election by his board.

You may gather from this that, after retirement and on reflection, I now believe the importance of the role of Chairman can hardly be over-emphasised in an age in which the concept of a free market has been so misunderstood and exploited and in which liberty has become licence at company board levels.

I appreciate the spirit and form of your letter.

Sincerely

A handwritten signature in cursive script, appearing to be 'D. Owen'.

Extract from Pall Mall Lecture  
"Corporate Governance - Great Expectations"

**Setting the Company's strategic aims**

I wonder how many senior executives of successful growth-achieving companies, even the largest, would honestly subscribe to that view. Who better to assess short, middle and long term market requirements and asset deployment of the business than those executives steeped in the knowledge of the products and their markets. Board review and endorsement of strategy - yes, but the idea of non-executives making significant contributions to strategy is not very realistic. As an analogy one recalls the eminent contributions to the strategies of war made by von Clausewitz, Liddle Hart, De Gaulle and Guderian, all men steeped in the technology of their subject. In contrast the contributions to strategy by Churchill and his cabinets and Hitler and his political posse have not been well-regarded by historians.