

cc Sir Adrian

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ANTHONY HABGOOD
CHIEF EXECUTIVE

10 July 1992

N Peace Esq
Secretary
Committee on the Financial
Aspects of Corporate Governance
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*Adm'd.
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Dear Mr Peace

As a Chief Executive with a non-Executive Chairman and also as a non-executive director in another company, I would like to express a view on your draft report from a perspective which does not appear well represented on your Committee. While there are many aspects of the report with which I agree, I feel that any discussions of "governance" in the UK should be attempting to address two additional issues which are quite different from each other and which between them have plagued British industry relative to other advanced countries (my own first-hand frame of reference for comparisons is primarily the US, Germany and Japan).

The first is "amateurism". We have not been good at professional management in this country though I believe major strides forward have been made in recent years. Lack of professionalism in management in all its dimensions has, I believe, been a major problem for us as an international manufacturing and trading country. We have had relatively badly-educated, badly-trained managers in a world that has become increasingly sophisticated and increasingly unforgiving of trial and error. Your report is concerned with Directors and it is, of course, at the top where examples are set. On the one hand you are absolutely right to stress the need for checks and balances at the Board level and you do stress the need for high calibre non-Executives. On the other hand implicit in your report is widening the pool for non-Executives while simultaneously requiring them to play a deeper role in the management of the Company. I believe this to be very dangerous and be likely to cause a reversion to the use of more "gifted amateurs" which could easily lead to rank amateurism in management rather than "good men and true". to act as a check on the executive.

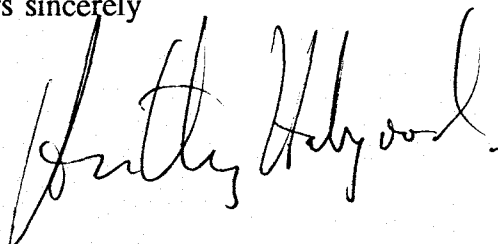
The second major issue that has plagued our industry is the elevation of gifted entrepreneurs to the head of major companies through a flurry of takeovers. There were many examples of this in the eighties. Individuals who were Chairman and CEO of a smallish company often with a substantial shareholding ended up as Chairman and CEO of a big public company. Many of the major scandals and crashes of the last few years were of this nature. This is partly a governance issue but mainly about our accounting standards and our transaction driven society. You refer to these issues in para 5.3 but shy away from them. I am entirely in favour of audit committees to act as a safety valve but to pretend that they can or should tackle these issues is in my view to expect the impossible even with the highest calibre non-executives. Of course we want a society in which gifted entrepreneurs can and do flourish but our takeover rules and accounting standards stand out in the world as being at best loose. Clearly it is not your committee's task to tackle accounting standards which are themselves currently under review but to ignore one of the root causes of problems of "governance" is not right either.

I believe that there is a danger that the recommendations of your committee tackle neither of the issues that I mention while possibly helping to curb excesses of executive pay and bringing those (relatively few?) large companies that don't have audit committees into line. Furthermore you do not address the desirability of different Board structures (for example, should we go for the German model? Or the US model? Should we have a UK model? Should the rules be different where the Chairman and Chief Executive role are split from when they are combined? Should there be a majority of executives or non-executives?) You appear to be advocating divided Boards which, if you are meaning to do so, is dangerous. A divided unitary Board is likely to be a source of constant friction. If this is the intent, wouldn't it perhaps be better to come out firmly on the side of two-tier Boards?

If we really want non-executive chairmen and directors essentially to set accounting standards for a company within very loose national standards and to take a major level of responsibility for such vital areas as the strategy of the company while also increasing the pool of non-executives then we must really address quality and qualifications. If we do not, then we are liable to take a major step backwards in corporate governance towards amateurism with all of its connotations of international uncompetitiveness. You allude to this in 4.7 but give it no teeth and your section 4.15 does not even scratch the surface of this problem. I wonder if the proposal is not fatally flawed.

If, on the other hand, your recommendations are really about having "good men and true" to act as a check on the executive that is both necessary and desirable but should be seen and understood for what it is. Most of all, in my roles both as Chief Executive and non-Executive Director, I feel the need for non-Executives to have feasible jobs given that they inevitably have limited knowledge of the industry. To enable this to happen the first requirement is for this country to develop world level accounting standards and the second is for there to be a clearly understood recognised and accepted Board structure within which they can operate. I do not believe these issues can be avoided and I hope that it is the Committee's intention to address them clearly.

Yours sincerely

A handwritten signature in black ink, appearing to read "Anthony Hayward". The signature is written in a cursive, flowing style with some loops and flourishes.