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Good afternoon, ladies and gentlemen.

I don't know if you have noticed it, but I think there is a hidden question on my little agenda, and it is this:

Has the leopard changed his spots? After twenty years of stalking my prey in the British corporate jungle, vigorously promoting a view of institutional corporate governance, have I now changed into a stripey tiger of a chief executive resisting guidelines whenever it happens to suit me, just as so many company managements still do, often with the connivance of their advisors?

Well the short answer would be "no, I haven't". After all I worked in the Pru's investment operation for thirty-five years and ran it for the twelve years until 1990. Much of that time was spent trying very hard to move the corporate governance debate forward in the interests of shareholders. And I am too convinced of the need for sound corporate governance to throw away my convictions for the sake of executive expediency.

However, after two and a bit years as a chief executive I will admit that in one or two areas some shadowy tiger stripes are beginning to show behind the leopard spots.

Now that I am running a Corporation I do find myself much more aware of the scope for conflict between the more doctrinaire aspects of investors' objectives, which can appear to be at odds with the commercial realities of running a business. Successfully understanding and managing this interaction lies at the heart of effective corporate governance. I believe the Cadbury Committee's recent report should be viewed in this light.

Some of those views are theoretically and ideally impeccable, but can they be achieved as quickly as those people would like? I doubt it. And are they always absolutely necessary? I don't think so. However, there are some key areas in which my views have not changed and I will come to those in a few minutes.

The preoccupations of a Chief Executive are all to do with running the company as efficiently and profitably as possible, with questions of present and future strategy, with the operational systems and processes of the organisation, with the raising of capital.

I have long maintained that institutional investors should not intervene in the day to day running of the companies they partly own, but should confine themselves to protecting shareholders' interests. You will not be surprised to hear that this conviction has been strengthened by my brief experience as a chief executive.

I have also become more questioning in my attitude to some areas of best practice. However, my belief in the importance of good corporate governance has not wavered, and perhaps I should start by briefly stating the position evolved at, and held by, the Prudential itself.

At heart, the interests of any executive board and the interests of the company's shareholders are the same. Both groups want the company to succeed and flourish in the medium and long term, delivering good returns and good capital growth. Both want the company to be well-managed to a sound strategy. Both want - or should want - the company's executive directors to behave responsibly and ethically.

Differences mainly arise over how these objectives are to be achieved.

Tensions are also set up when the interests of shareholders are in conflict with what the management wants to do.

There have been many vigorous battles over pre-emptive rights, for example, and I suspect that we have not seen the last of those.

Shareholders also get extremely fidgety if they feel that a management is incompetent, or greedy, or lacking in a sound strategy for the future - simply because such shortcomings would compromise the funds they have invested; in the case of institutions on behalf of others.

Another key attitudinal factor is the way in which the executive directors see their essential role. In a public company, I believe they are there primarily for one purpose - to manage value for their shareholders. From my current position of CEO I am more convinced for the need and for that objective.

In a private company, when the owners are often the managers as well, they are responsible primarily to themselves. But once they go public, that situation changes completely.

And many problems of corporate governance arise when owners of successful private companies take those companies public, but bring their private company ownership attitudes with them. They then tend to behave in ways which are quite inappropriate for people who are now responsible to the shareholders who have become the actual owners of the company.

The essence of good governance, surely, is to achieve the right balance between shareholder and management interests, so that they march together in harmony. The aim must be to ensure that shareholder interests are protected, while leaving management free to run and develop the business, and to take the sensible, well-controlled risks which are essential to success.

In a perfect world, that is how it would work. But the world is not perfect and it does not always happen like that; hence all the debate; hence the apparently conflicting interests; hence this occasion and the fact that I am addressing you now.

The resurgent corporate governance debate of recent years has reinvigorated the proposition that shareholders - especially

institutional investors - should exercise more active control over the directors of businesses in which they invest.

However, I am sure we shall not overlook that there is actually nothing new about the issues surrounding corporate governance. Institutional investors have been taking action on behalf of shareholders for many years. As an article in the Economist put it in August 1956: 'Only crude prejudice can fail to see that the interests of the big institution are identical with those of the small shareholders'.

The Pru has been prepared to take up the cudgels since way back. Let me give you just three instances which are all historical - to make my point.

The first is from 1912. It concerns the infamous Horatio Bottomley. He has been described as a Robert Maxwell with charm, and was said to be always full of good humour and fun, totally irrepressible. He was also, however, a complete crook. He was declared bankrupt twice, thrown out of Parliament twice, and ended up in clink.

The Prudential helped to bring about his first downfall. Bottomley had set up a magazine called John Bull and he was seeking to expand its advertising revenue using a highly original technique.

He was saying to people 'If you don't buy advertising space in John Bull, I will blackguard and insult you in my paper; and I will go on blackguarding and insulting you until you do buy advertising space, and lots of it.'

Well, there's a word for that. It's called blackmail.

Bottomley also set up a whole series of mining and exploration companies, which kept folding. Every time one collapsed he would say to the investors: 'Never mind, I'll give you a whole series of marvellous opportunities in these other new companies I'm setting up'. And he was so plausible that people fell for it, and the money went straight into

his pocket. Well, the Pru took action on behalf of all the small investors he was defrauding, and we had him made bankrupt and disgraced.

Incidentally, there's a nice story told about Bottomley which may be new to you. As I mentioned, he ended up inside, and one day a prison visitor came across him stitching mailbags. 'Ah, Bottomley', he said 'sewing, I see'. 'No' said Bottomley, 'not sowing; reaping'.

My next example is from 1934. At our AGM that year, our then Chairman Sir William Edgar Horne reported on the Belgian Electric Gold case. A company called the Société Intercommunale Belge d'Electricité had issued a bond a few years previously.

This bond contained a provision stating that both principal and interest would be payable in sterling, in gold coin.

However, when Britain came off the gold standard in 1931, the company started making payments as if the security was a sterling bond only, and totally ignored the Gold clause. A committee of bondholders was formed, but failed to win redress in either of the Lower Courts.

At that point the Pru approached the Bondholders Committee with certain guarantees regarding costs and legal advice, and together we took the case to the House of Lords - and won.

As a final piece of history, let me just mention Sir Bernard Docker and BSA back in 1956.

In that year, and for some time before, we had been receiving reports and criticisms about what was going on in BSA and we decided to take action as it was fairly clear that all was not well.

The outward and visible sign of the malaise was perhaps Lady Docker's famous Rolls-Royce, studded with gold stars and sporting gold-plated bumpers, which was provided for her at shareholders' expense.

So Leslie Brown, then Chief Investment Manager of the Pru, approached Sir Bernard but got no satisfaction. Then he went to the other directors of BSA who in due course removed Sir Bernard from the board. In that instance we were the only large shareholder and we considered it was incumbent on us to act on behalf of all the others.

As one shareholder from Yorkshire put it at the meeting called to remove Sir Bernard - 'We're not interested in gold cars, but in brass!'

I could quote many other examples of action taken by the Pru to protect shareholders' interests, and many more recent, but I think those suffice to demonstrate the point.

I should point out that in my experience all our interventions or involvements have had one of two consistent themes. Firstly, they were protecting the rights of shareholders, not interfering in the commercial decision process. Secondly, they were actions taken as a last resort to counter flagrant breaches of duty by directors - not excluding incompetence.

We do not tell companies what their business strategy should be - although we are very interested to hear what it is. Even the Pru with its quality and quantity of resources could not maintain the level of detailed systematic monitoring which is looked for in ensuring "best practice corporate governance".

The first responsibility for running any business with integrity and standards lies with the chief executive and his executive team. It is they who set the tone. The Cadbury Committee report seems too ready to assume that chief executives and other executive directors are practically the natural enemies of good corporate governance. This is not my experience and I find it disturbing that a committee such as this should hold or promote such views - even inadvertently.

The additional checks and balances with which Cadbury is concerned are 'failsafe' long-stop protections and we must make sure they are

effective in this role. For practical purposes there are two agencies - the external auditors and the non-executive directors.

I shall deal with the role of external auditors later along with the question of financial reporting and disclosure of information to shareholders. First I want to deal with the role of the independent non-executive directors since it is to them we must look to provide the systematic monitoring and contribution I identified as necessary.

You can have boards and bodies and professional associations recommending this and that, and everyone may agree with them. But if it all stops short of legislation, who will enforce the new standards?

Who but the non-executives on the board.

To my mind, the role of independent non-executive directors is absolutely fundamental to good corporate governance. The Pru has been promoting the idea of non-executives for years, and cajoling companies to improve the quality of their non-executive boards.

And now we have the Cadbury Committee recommending that remuneration and audit committees should consist entirely of non-executive directors - a practice which some companies are already following. So let me say a little about this now.

There can be little doubt that, in theory, a strong team of independent non-executive directors is in the best possible position to look after shareholders' interests, and to ensure good corporate governance.

But they must be *independent*, they must be *non-executive* and they must be genuine *directors*.

By *independent* I mean that they should not rely on the company for too much of their income, for too much of their interest or for too much of their social or working life. People who retire as executives should be very sparingly invited to take up non-executive positions - too often

they are unable to shed antiquated experience and conviction - or should it be prejudice? People who are chums of the chairman; people who simply want a few good lunches plus a nice fee, people who prefer the cachet are clearly likely to be useless.

By *non-executive* I mean that is no part of their job to interfere in the day-to-day running of the company.

But it is very much their job to spend time to understand the company's operations and finances, to approve its medium and long-term strategies, and to judge the performance of the executive team.

And by genuine *director* I mean that they must be strong, experienced people who are not under the thumb of the Chairman or Chief Executive and are willing and able to take tough action if necessary when things are going wrong.

We are at last seeing signs that non-executive teams are prepared to flex their muscles and take action. We may have seen it recently at Barclays and at NatWest. We saw it several times in 1990 and 1991. We saw it, famously, at Guinness in the late eighties. But in my view, it still does not happen often enough or quickly enough.

Why is this? I think one very large problem is simply a lack of good candidates. Perhaps the most attractive and effective independent non-executive director is likely to be an executive director elsewhere. Alternatively he will have had recent executive experience in another corporation. On either basis he or she will be successful, vigorous and be able and prepared to measure up fully to the responsibilities of the role. And that responsibility essentially is to monitor performance systematically making sure that the management of the company is up to scratch and taking action if it is not.

Now there are not enough people of this calibre currently serving on non-executive boards. This is partly because most of such people are already quite busy enough. But is is also because not enough companies

are willing to let their executive directors serve as non-executives elsewhere.

This is in fact a short-sighted view. Because the host company will benefit from the experience and stimulus gained elsewhere by its own executive directors. It is good for the company, good for the director concerned, and good for the company where the director serves as a non-executive.

If the Cadbury Committee's recommendations are adopted, this should lead to the appointment of non-executives in many more companies.

Incidentally, I quite agree that the audit and remuneration committees should consist of non-executives, with the single proviso that chief executives should also sit on the remuneration committee. I believe that the remuneration of senior colleagues is very much within the proper remit of chief executives - and when their own remuneration is being considered they should simply withdraw.

However, the Cadbury Committee's recommendations will not get us very far without a greatly increased supply of first-class candidates. The Pru supports the work of Pro-Ned, and as shareholders in a company we are happy if possible to effect introductions.

We keep our eyes open and when we see really good executive directors who seem to have some spare capacity, we ask them if they would be interested in a non-executive role. We have placed quite a few in this way.

However, I think the key thing is for many more companies to actively encourage their directors to be non-executives elsewhere and until this happens I do not see the supply of best material meeting up to the demand.

As an aside we must also work to ensure that intermediaries between companies and shareholders - they call themselves advisors - give their

clients good advice. I noticed last week that Marshalls, the Halifax-based building materials firm, raised £20 million through a rights issue. The Pru declined to underwrite the issue because the company refused to contemplate the appointment of non-executive directors. Their adviser Samuel Montague said their clients saw no need to bow to the latest fashion and presumably saw no reason to press the point. Or perhaps I shouldn't believe all I read in the papers.

Now let me turn to the question of the separation of the roles of Chairman and Chief Executive. This topic has been worked over so often that the ground has been reduced to a fine tilth. I would just like to summarise the Prudential view, which will probably coincide with that of many others here.

As an institution, we have promoted the separation of Chairman and Chief Executive long and hard. We see it as a matter of fundamental good sense and we think it is an entirely desirable thing for virtually all companies.

At the same time, we must acknowledge that in many companies the two roles are combined very successfully, especially where there is a good strong team of non-executives to balance the situation.

The companies where it has obviously been a bad idea are those where the single Chairman and Chief Executive is also the original entrepreneur, the one who has driven the company single-handed for a very long time.

In that situation, there is always going to be a harsh relationship with shareholders, who see things being done sometimes in ways which appear quite whimsical - although the entrepreneur will say that he is simply exercising the same skills that built the company in the first place.

And his only judges are the non-executives, whom he has very often appointed himself and may tend to dominate.

So there's little wonder if shareholders get nervous in such cases.

However, separating the roles brings its own problems. If you have a separate Chairman and Chief Executive, very often the outside world cannot work out who does what. Sometimes people have not even sorted this out internally. It's all very well to lay down theoretical definitions and responsibilities, but people vary, and companies vary, and everyone has to find their own ways to work together effectively.

It is actually not at all easy, and when I was appointed Chief Executive I spent a great deal of time on the question with my own Chairman before we were completely clear about our respective roles. I like to think that we are both reasonably intelligent and constructive people, and we certainly get on very well, but we have to work at it.

But what happens when the two do not get on, or feel negative about the whole idea?

I'm afraid I could quote you many cases where a chief executive and chairman are virtually at loggerheads, or hold each other in very low regard indeed. Some of them hardly even speak to each other. This obviously cannot be good either for the company or the shareholders.

So it is no magic answer just to split the roles. You have to define their respective responsibilities very clearly indeed, and you have to make sure the two people can work together harmoniously and effectively. And here again, it is up to the non-executive to see that that happens.

Having said that, I would still promote separation in principle, though I have come to appreciate the counter-arguments more since I became a chief executive myself.

If things are working well, if there is a strong team of non-executives, if the entrepreneurial flair of the Chairman/Chief Executive is leading the company with a good and well-communicated strategy, then I would see little point in forcing the appointment of a separate Chairman. However, I would in the same breath have to admit that such instances are few and far between.

Now I must move swiftly to my second and third topics - the value of accounts and auditors, pre-emptive rights, and the question of insider information. I want to take these together, because they are closely interlinked and all three, in essence, deal with the question of information.

The accounts are the responsibility of the Board. The auditors are appointed by the shareholders to provide reassurance that the information contained in the accounts represents a true and fair view of what is going on in the company.

Now the questions shareholders repeatedly ask themselves are -

First, do the accounts contain enough information? Second, are the auditors truly independent of the management of the company they are auditing? And third, should the responsibilities of the auditors be extended.

One of the most important duties of any Board is to maintain the integrity and place the right emphasis on published financial information. Unfortunately, as we all know too well, many companies during the takeover boom of the eighties gave the impression of sustained growth in earnings rather than reflecting economic reality.

As a result, confidence in published accounts was diminished when major reorganisations followed takeover bids. New financial instruments used in capital raising proved popular with some companies because the real and potential cost to shareholders was not adequately recognised by prevailing accounting policies at the time. Dilution in investor's holdings also took place.

Perhaps I could digress for a moment at this point and say a word about pre-emptive rights.

Now the institutional guidelines on such matters as pre-emptive rights and vendor placings are well known.

In principle, we are against any capital raising technique which dilutes the proportion of shares held by existing investors, and we believe very firmly that new issues for cash of over 5% of the existing equity should always be offered to existing shareholders first, and even issues of less than that amount should only be made with shareholder approval. Issuing new shares to new shareholders invariably involves a transfer of value away from the existing shareholders and it is that transfer of value that lubricates the share placing wheels.

We also find that the pricing of new equity on international markets is often obscured by the technicalities of bond conversion rights and warrants, together with pre-issue market adjustment when an issue is placed some time after general details have been published.

Evaluation of the various instruments used usually reveals a discount to the prevailing ordinary share price, and the new shareholders are therefore being subsidised by the old.

As an investor, naturally we do not like this.

However, it is obviously important that the international capital raising system is as flexible and competitive as necessary. And I might ask, as a chief executive of an international business, well, why should my hands be tied?

Might I not agree with the many people in industry who resist the concept of pre-emptive rights and try to wriggle round it? After all, our European and US competitors don't have to worry about pre-emptive rights, and that surely puts me at a disadvantage.

So do I still feel that the protection of shareholders against dilution is important enough to over-ride the value of a level playing field across capital markets? Well, the short answer to that is - Yes I do. My views on pre-emptive rights have not changed at all. Shareholders may be given options to consider, and that is fair enough. Investors

may be asked to accept dilution and they may sometimes do so if it is in their best interests, and we have sometimes done that at the Pru.

But in my view it remains improper for the corporate management of a public company gratuitously to dilute shareholders interests because they construe some advantage for themselves. I believe that the proponents of the 'level playing field' pay insufficient regard to the protection of shareholders' interests. Such protection plays a vital role in the establishing of the quality of markets - and the quality of equity. Surely it must be right to aim for the highest possible standards rather than what might be called the 'lowest common denominator approach', often pursued for reasons of expediency and fee income.

I think they should always go to the shareholders and make their case. And in vendor placings, I think existing shareholders should always be given claw-back opportunities.

As for the level playing-field across capital markets, my view is quite simple. I think the other markets should behave as we do rather than us copying them. This is beginning to happen. In America, for example, the institutional shareholders are beginning to adopt some of our positions in relation to pre-emptive rights, and I hope that process will continue.

As a further aside I find myself amused by the opinions of some in the press, the city, even the government who mutter about depriving shareholders of the protection of pre-emption rights because of the obstructionist and reactionary views of institutional shareholders. Which institutions they then encourage to act responsibly with their voting power to secure Cadbury-style corporate governance.

Returning now to the question of the integrity of published accounts, the Pru supports the current work of The Accounting Standards Board. We think it will lead to a better quality of information in due course.

However, the debate is by no means over and perhaps I could comment on one or two of the ideas that are being discussed.

One current proposal is that revenue investment should be disclosed - that is, investment in such areas as R&D, advertising and marketing and so on - expenses and costs that may or may not be creating value for the future.

Now as a fund manager I would support that proposal because I like to get my hands on as much information as I can. As a chief executive, however, I might side with the many people in industry who oppose it.

I might agree with them that it makes little sense to reveal such figures, without at the same time publishing some measures or management comment to enable shareholders to assess the value of the expenditure.

In this context, therefore, I would tend to favour the proposal for a more structured operating and financial review to expand on the crude figures and to explain them to shareholders in a more strategic and qualitative way.

The review should also be required to say that you have enough operating capital to carry out your strategy, to spell out why and how you have raised new capital.

It is not at all easy to determine how much information the accounts should contain. Professional fund managers and shareholders will always say that they want as much as possible. That was always my view as an institutional investor. But considering the question from the executive standpoint brings other factors to mind.

First, you don't want to disclose so much that you put your company at a competitive disadvantage. Second, greater or more frequent disclosure also implies greater cost. Third, many people often have difficulty in understanding reports and accounts, and the more information you give them the less they can see the wood for the trees. And therefore you

should not make reports and accounts such technical documents that only a narrow group of experts an understand them.

My view, bluntly, is that accounts are for shareholders. If the shareholders cannot understand them, then they are out of their depth and may be behaving unwisely.

One can say that reports and accounts should give their messages clearly and unambiguously - not only to shareholders, but to all the other audiences with legitimate requirements for information - employee shareholders, suppliers, banks, other creditors, government and regulatory authorities.

How do you reconcile the need of those groups for clear, unambiguous information with the much more sophisticated requirements of professional investors?

Employees are much better informed through a report produced especially for them which addressed their particular areas of interest.

As pressure mounts to produce fuller and bulkier accounts, the cost threatens to rise to truly enormous levels, especially for the privatised companies, and that is naturally of concern to the executive directors. And although we all have the option of producing short-form documents, we cannot at present send these out in the first instance - and in practice they are practically never applied for.

Speaking for the Pru, I think summary accounts would reduce the presentation of our affairs to a level of superficiality which would be quite inappropriate.

And Heaven forbid that we should ever adopt the American system of 10K filing.

Having said all that, I do think that the operational and financial review will help to close the gap between the information that goes to the city and the information that goes to individual shareholders.

This brings us into the area of insider information. And the view of the Prudential is quite clear about this. We think it is important that large shareholders should maintain contact with company managements. Our investment managers spend a great deal of time of the phone, and in meetings, talking to company managements about what is going on in their companies.

And that means, inevitably, that we come into possession of information that is not available to individual shareholders.

Very often, of course, managements will want to come to us ahead of a coming announcement, or when they want to raise new capital, or when they are planning a takeover. In such instances we always ask ahead of the meeting whether price sensitive information will be disclosed.

If the answer is yes, we are faced with a decision.

Do we refuse to hear the information, or do we agree to receive it and go off market as a result? We are always willing to go off-market, unlike some institutional investors, because we think there are times when it is more important to be in conversation with a company than it is to retain the freedom to deal in its shares.

And when we find ourselves in possession of price-sensitive information, whether consciously informed or inadvertently, as can happen, then that security goes on our restricted dealing list and we do not deal in it until the information is either publicly available or no longer applicable.

We think this policy is essential in order to maintain our continuing long-term dialogue with the companies in which we invest.

Well, that is all pretty straightforward, and the policy has served us well for a long time. However, there are other areas which are less clear-cut.

It is well known that share price movements sometimes occur following private lunches in the city, or company presentations to analysts. Is this the result of people acting on insider information?

And if it is, where are the regulatory authorities? If people were meticulous over not acting on price-sensitive information, it would not happen.

At the same time, the stock exchange is a highly sensitive instrument, responding minute by minute to every shift in the breeze, and the merest hint or whisper is often enough to affect prices.

This is one of the reasons why some people think that companies should only communicate with shareholders through published information. I believe that would be overdoing things, and would only create heaven on earth for the accountancy profession.

Along with that idea, goes the proposition that we should introduce quarterly reporting, as practised in America.

As a fund manager, I might quite like that proposal, because fund managers always want all the published information they can get, as long as it does not usurp face-to-face contact. But as a chief executive I would probably resist it as too costly and too time consuming when set against any benefits it might confer.

Published information, however frequent, is a very blunt instrument indeed compared with regular face-to-face contact. If only published information were allowed, I think it would create very violent surges in some share values every quarter and that could easily work to the great disadvantage of shareholders.

Last, and by no means least, what of the value of auditors?

Let us now turn to the question of the independence of auditors. Audit firms are, after all, commercial operators themselves, who work in an intensively competitive market so there can at times be legitimate concerns relating to their genuine independence from management.

As you are well aware, companies will now need to disclose the additional non-audit fees that are paid to their auditors. I welcome this move. Shareholders appoint auditors at each AGM and we are historically obliged to disclose audit fees. On many occasions, it is in a company's interest to involve their auditors in other aspects of their affairs such as tax or systems development, and I do not believe that the mere existence of additional fees should be seen as undesirable. Further disclosure of the full economic interest of the audit firm in their client must put shareholders in a better position to judge the balance of interest - won't it.

A proposal that is raised from time to time relates to the compulsory rotation of audit firms. I think such a proposal is too rigid and will inhibit the generally valuable development of continuous observation.

If an audit firm is doing its job well, if it has maintained a genuine independence of view, then there is no good reason to go through the time and expense involved in rowing in a new firm.

Nor would I be in favour of the audit fee being set independently. I think this is strictly a matter for management, acting on behalf of shareholders, and to hand it over to outside people would simply create a license for the audit firms to print money.

Finally, on the question of whether interim results should be audited as your professional body has proposed, let me just say this: the Cadbury Committee's recommendations only enshrine current best practice.

The better firms, including the Pru, already invite their auditors to review the interim and preliminary figures, and I cannot see that anything would be gained by a formal audit. It would just incur further fees without delivering much value to shareholders.

At the same time, I have no objection in principle to including some balance sheet information in the interim results, as long as we can avoid the need for extensive notes.

But both these areas need much greater clarification. What is the specification for the auditors' review of the interim figures? Exactly what balance sheet information should be included and excluded? Until those questions are answered, I do not think much is going to change.

Well, I have used up my time. Let me just finish by saying this:

The debate on corporate governance has been going on for many years, and I must confess to a slight sense of *déja vue* about it all.

So many people have been saying such similar things for such a long time! There is not even anything startingly new in the Cadbury report, although it provides a useful fresh impetus.

I think virtually everyone is agreed on the value of non-executive directors, on the splitting of the Chairman and Chief Executive roles in many cases, on remuneration and audit committees.

Many individuals and organisations, including the Pru, have been pushing these ideas for decades, and I personally think we have been talking and writing about it all for quite long enough.

What we now need is *action* to put good corporate governance in place at a much faster rate than has been happening so far.

Thank you.