

Sir Adrian.
CAD-01209

RECORD OF MEETING WITH MR DENNIS STEVENSON, CHAIRMAN OF SRU GROUP AND NON-EXECUTIVE DIRECTOR OF MANPOWER PLC (FORMERLY BLUE ARROW), ON 9 SEPTEMBER 1991.

Present:

Dennis Stevenson
Sir Adrian Cadbury
Nigel Peace

Mr Stevenson said that although he held 3 non-executive directorships (Manpower, Pearsons, and Thames Television), it was quite irrational of him to do so given that the recompense (£10 - £20,000) bore no relation to the onerous duties involved.

2 He explained that he had become a Non-Executive Director of Blue Arrow because he had for a long time known the American businessman Mitchell Fromstein. Fromstein had retained the right to nominate one director to the Board when his company (Manpower) had been taken over by Blue Arrow, and although the appointment resulted from this he (Stevenson) had only accepted it on the basis that he was welcomed by the Board in his own right. This as it turned out was a valuable precaution as it had protected him from the charge that he was simply Fromstein's agent.

3 His relationship with Pearsons was very different. He did it almost as a hobby and he had total confidence in Pearson's corporate governance. Even here however difficult situations had arisen, in connection with the investment in BSB and subsequent takeover by Sky, and he had been very concerned about the directors' personal liability. He had judged it his responsibility to understand the detail of the takeover discussions, and calculated, by reference to the time he put in, that his worth to Pearsons was some £200,000 pa.

4 In the case of his Thames directorship, Mr Stevenson said that he could see himself holding the ring in the boardroom if the franchise was lost and hard decisions had to be taken.

5 Mr Stevenson reiterated that Non-Executive Directors if they did their job properly had to invest time and concentration in their companies before

problems arose. They needed to know the key managers and to understand the methods of financial reporting. He had been well served in the case of Blue Arrow by the time he had spent in meeting the heads of the subsidiaries. But in general it was ludicrous to expect high calibre Non-Executives to give this degree of attention to companies for £10 - £20,000 pa. The result was that very bad habits had developed: Non-Executives were paid for the jobs they did, but these bore no relationship to their proper responsibilities.

6 Mr Stevenson said the fundamental point was that the law of the land (rightly) made all directors responsible. He would be very surprised if the next decade did not see some major shareholder suits. He thought the argument that Non-Executives owed a lesser duty of care was more likely to be relevant in the case of DTI disqualifications. Everyone had to try harder to get the system right. Institutions should be demanding a far higher calibre of Non-Executive and insisting that they were properly remunerated. Companies in turn should try much harder to recruit good people and to make their jobs interesting. They should also institute proper annual evaluation procedures for their remuneration.

7 Mr Stevenson did not accept Sir Adrian's argument that higher remuneration would make Non-Executives more reliant on the income and would blunt their independence. The alternative was a worse evil - Non-Executives who were of low calibre or who did not contribute. However he shared Sir Adrian's view that stock options were not appropriate for Non-Executives: Non-Executives should be well paid for doing a good job but they should also be free to walk away, subject to a period of notice. (He agreed with Sir Adrian that contracts were more professional.)

8 Sir Adrian commented that market pressures had not forced up salaries for Non-Executives because most appointments were made on the basis of patronage and word of mouth. A market would develop if the institutions insisted on a proper search for the best candidate.

9 Mr Stevenson did not think that a recommendation that Non-Executives should have access to independent legal advice at the company's expense would have any practical effect, as in the sort of situations where independent legal advice was likely to be sought a tough company management would simply refuse to pay.

10 Mr Stevenson commented that the Advisory Board at Unilever seemed an

excellent arrangement - members carried great prestige but no legal responsibility.

NDP

10.9.91

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From: DENNIS STEVENSON, C.B.E.


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2 May 1991

Mr M Epstein
Secretary General
Institutional Shareholders' Committee
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I said I would write to you following our conversation the other day. In view of your imminent departure I am copying this letter to your Chairman whose name I note is a Mr Sandland.

I should perhaps begin by introducing myself. For ease of communication I enclose my most recent entry in 'Who's Who'. Such title to any authority I have is based on the fact that I was the Non-Executive Director who after five months on the Board of the then Blue Arrow plc took on the rest of the Board including the other Non-Executive Directors - a process which led to the departure of the senior management team and replacement with a new one.

The personal consequences of my acting in the interest of the shareholders as an independent Non-Executive Director are as follows:

- (a) I incurred liabilities for outside advice with no certainty of being able to recover from the company without investing in a considerable law suit to do so.

To be specific, I retained the services of a leading law firm and a leading Merchant Bank. This, it seemed to me, I had to do if I was to have any chance on a part-time basis of taking on the entire senior management, the non-executives and all the advisors of a large company.

- (b) So far the cost of my involvement looks to be a six figure sum. When I incurred it I had no certainty that the company would repay it. Now that I have as it were "won", I could present an invoice to the company and have it paid. However, I have made the judgement not to do that since I have believed - and continue to believe - that if I was seen to be paid a large sum of money by the company in a battle which has become extremely public, with some major difficult characters involved (such as Messrs Berry, de Savary, Ashcroft, Levitt etc.) it could damage my independence in an affair which is far from over.
- (c) For substantial periods of time I was working full-time for the company on behalf of the shareholders (this despite being Chairman of my own group of companies, Chairman of the Trustees of the Tate and having other activities such as being a Non-Executive Director of Pearson etc.) The management of the company have offered to remunerate me for this time; and at some point in the future I will accept their offer although it is difficult to imagine it will cover the true cost of my involvement. However, while there is an unpublished Inspectors' report on the affairs of the company I have judged it wrong to accept any money (although I should explain that I have permission of the Blue Arrow Inspectors to tell anyone I want that I am not the subject of criticism in their provisional report).

I have set out the facts of my experience at Blue Arrow not so as to arouse sympathy but as necessary background to some of the comments I would like to make on your document. You might observe that Blue Arrow is a special case but then of course it is precisely to protect shareholders against the exception rather than the rule that independent Non-Executive Directors are appointed.

I found the document you produced very far removed from the real world in its treatment of Non-Executives and therefore rather disappointing in the following ways:

1. It does not comment sufficiently on the issue of the remuneration of Non-Executive Directors.

I agree that giving Non-Executive Directors incentive-based reward creates a conflict of interest. However the typical level of reward for Non-Executive Directors (say between £5,000 and £20,000) is manifestly inadequate if you are to incentivise people of great ability to fulfil their statutory responsibilities properly.

Of course there are those who are prepared to serve as a Non-Executive Director on a non-economic basis because of the sheer interest of it or for reasons of personal friendship (I have myself had this motivation for putting in a great deal of time in to Pearson plc where I have a long-standing connection with the company). However I suggest shareholders cannot and should not count on that. At the moment companies are seen to be unwilling to pay the proper rates for the job. The real reason, I suspect, is worry that they might be seen to be criticised. I well remember the nervousness with which Blue Arrow put forward a resolution to increase the amount of money that can be paid to Non-Executive Directors. When there were critical questions from the floor not a single institutional investor stood up to support it. Having spent most of the previous six months working way beyond the call of duty I felt very let down.

I suggest that:

- (a) Institutional investors should make a concerted effort in their own enlightened interest to raise the rates of pay for the right quality of Non-Executive Directors on the basis that they are holding the Non-Executive Directors accountable on the one hand and on the other hand ensuring that they are properly paid.

To get this across ...

- (b) There should be clear public statements and guidelines to the effect that the institutions wish Non-Executives to be properly rewarded. I suggest that one or two of the major figures (e.g. Hugh Jenkins, David Prosser etc.) should publicly say this.

I suggest furthermore that ...

- (c) Just as institutional investors are increasingly recommending professionalism in dealing with the annual pay reviews for executives so professionalism should be applied to the annual reviews for the Non-Executives.

It is all too common for the Non-Executives salaries to be reviewed once every two or three years - the Non-Executives being too embarrassed to raise it otherwise - and for the salaries not to keep up with inflation or going rates.

2. Even more important than the issue of Non-Executive remuneration, so it seems to me, is the need for Non-Executive Directors to have some comfort that fees incurred in taking professional advice in the discharge of their duties will be honoured by the company.

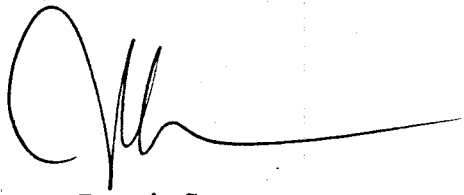
Of course the legal position is that the company has to honour them. In practice when a Non-Executive is making moves to get rid of the senior management, senior management will not willingly pay the fees. The Non-Executives will be reduced to legal remedies to extract the fees. And that is just not practical.

Some of the more progressive quoted companies have taken steps to ensure that Non-Executive Directors can have such expenses paid (Vickers, I happen to know, is one). Surely this is an chance for the institutions to trumpet as an example of good practice. And if I can make a very personal point, I am probably the example of an independent Non-Executive Director who, by taking an independent stand has protected institutional shareholders; the process of doing so has cost me, directly and indirectly a very great deal of money as well as giving me a great deal of experience. I find it remarkable that your colleagues did not seek to talk to me about it since my role is well-known; it may be of interest that no single institutional shareholder in Blue Arrow has sought me out to thank me or for that matter to learn from that experience.

You will gather that I have become something of an evangelical as a result of my Blue Arrow experience. You would already have read these views were it not that I decided to keep quiet them until the Blue Arrow Inspectors finished their job. It is fully my intention at some point - and if they do not publish their report soon perhaps even before they do - to give public voice to them.

I will end by repeating that as someone who feels passionately that there is a real need both to raise the standard and standards of Non-Executive Directors and to ensure that they can do their job properly I do feel rather disappointed in your report.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Dennis Stevenson', with a long horizontal flourish extending to the right.

Dennis Stevenson

CC: Mr E N Sandland

msnelisame1.1

Resps of dis so great, irrational take them on for the money.
— Interest, self interest.

— Time/attention.

— Appointment - Training.

— Incentives, shld? cws. — try harder
— proper remuneration.

More professional reward system.

Question Calibre non-exec.

Independce org. — don't pick people whose judgement
wld. be clouded.

Stock options. Contract.

Non-exec. right to legal advice.

STEVENSON, Henry Dennistoun, (Dennis Stevenson), CBE 1981; Chairman: SRU Group of companies, since 1972; Intermediate Technology Development Group, since 1983; Chairman, Board of Trustees, Tate Gallery, since 1988; *b* 19 July 1945; *s* of Alexander James Stevenson and Sylvia Florence Stevenson (*née* Ingleby); *m* 1972, Charlotte Susan, *d* of Hon. Sir Peter Vanneck, *qv*; four *s*. *Educ:* Glenalmond; King's Coll., Cambridge (MA). *Chm.,* Newton Aycliffe and Peterlee New Town Develp Corp., 1971-80; *Dir,* LDDC, 1981-88. *Chairman:* govt working party on role of voluntary movements and youth in the environment, 1971, '50 Million Volunteers' (HMSO); *Indep. Advisory Cttee on Pop Festivals, 1972-76, 'Pop Festivals, Report and Code of Practice' (HMSO); Adviser on Agricultural Marketing to Minister of Agriculture, 1979-83. Chm., Nat. Assoc. of Youth Clubs, 1973-81. Mem. Admin. Council, Royal Jubilee Trusts, 1978-80. Director: Nat. Building Agency, 1977-81; British Technology Gp, 1979-89; Tyne Tees Television, 1982-87; Pearson plc, 1986-; Manpower plc (formerly Blue Arrow), 1988-; Chm., Docklands Sinfonietta. Recreation: home. Clubs: Brooks's, MCC.*

AGE 46