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8 July 1992

Mr. Nigel Peace
Secretary
Committee on the Financial Aspects of
Corporate Governance
P.O. Box 433
Moorgate Place
LONDON EC2P 2BJ

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N/h

Dear Mr. Peace,

I read with interest the Draft Report issued by the Committee on The Financial Aspects of Corporate Governance. I note that the Committee membership and the contributors to the Committee came from the financial area with only a limited management input. I assume that the reason for excluding management to be the terms of reference which limit the Committee to considering 'The Financial Aspects'. I realise that achieving a consensus in the financial area will be a step forward. I suggest the Committee needs to emphasise more than it has done [perhaps using capital letters] that it has only addressed the financial aspects and not the more basic need on how to improve strategic performance.

Where the Committee does venture into the area of improving the strategic capabilities and performance of British boards it shows its financial bias and makes some proposals that may even damage Britain's competitive position. For instance, paragraph 4.8 states "Non-executive directors should bring an independent judgment to bear on issues of strategy ..." with a following recommendation that their views should carry significant weight in the board's decision. I have just witnessed that proposal being put into practice in a major UK engineering company and it has brought disaster. Analysing the reasons for that result I concluded that firstly most non-executive directors tend to think in financial rather than strategic terms and secondly that non-executive directors can never by definition be in a position to obtain the right inputs to make independent strategic judgments. Non-executive directors do not work within the company and are therefore not directly engaged in the battle with competition which provides those who are so engaged with the understanding in depth of where a company's expertise lies and what that company is capable of doing or being made to do by taking the right strategic decisions. It should be appreciated that even the executive directors of the boards of large UK companies are also not directly engaged with competition and to direct their deliberations on strategy away from management and towards the non-executive directors has an element of the partially blind being lead by the blind. Our US and European competitors would find such a suggestion strange to say the least.

It would be sad if the Cadbury Committee having shown such care in dealing with the financial aspects were in so doing to prejudice the debate on how to improve the strategic capabilities and performance of British boards.

Yours sincerely,

A.G. Biggart