Sir Adrian
CAD-0053

RECORD OF MEETING WITH PROFESSOR ANDREW LIKIERMAN, 3 DECEMBER 1991

Present:

Professor Andrew Likierman, London Business School
Sir Adrian Cadbury
Nigel Peace

Sir Adrian said that he was concerned that the Committee should agree on what it was addressing, and why. He was convinced that there was a problem, but defining it was not easy.

2 Professor Likierman said that there did not have to be a problem: if enough people perceived that there was one, it still had to be addressed. However enough influential people were saying that something was wrong for there to be fire behind the smoke. Real evidence came from the Phillips and Drew report, and press cuttings which he had accumulated over several years. The Lex column in the FT had accused many major companies of creative accounting including names such as Pilkington and Grand Metropolitan as well as Lonrho, Hanson and Polly Peck.

3 However there was still a huge difference of opinion about whether the problem actually mattered. One school (represented by Paul Marsh and Julian Franks at the LBS) would argue that it did not, and that the market was far more sophisticated than the accounting profession. He himself felt that they must be wrong in some respect or he would not be on the Committee. The Committee could not take head-on the huge issue of market imperfections versus accounting. It did however need to make some reference to the debate, and state that the financial aspects of corporate governance were important and could not simply be dismissed as irrelevant. His own view was that it did matter if large numbers of companies were doing things that were not regarded as good practice, and he had thought of putting pen to paper on the subject.

4 Sir Adrian commented that he was not a supporter of the Paul Marsh school. There was no way that a market could tell whether a particular piece of accounting was the right or wrong side of the borderline between sensible practice and creative accounting. If people saw through accounting ruses, why did Polly Peck have such a high share price when it collapsed? In any case he could see no objection to his contention that there should be more disclosure: the better the information, the better the market would work. Professor

Likierman said that this was indisputable, but the Committee had to be aware that there was a group of people that would examine its assumptions, and it had to acknowledge their views. This was not to say that its report should be addressed to an academic audience but it did need to be aware of the risks and counter-arguments.

5 Professor Likierman said that he was convinced that there were more complaints about the standard of accounts than at the equivalent stage of the last economic cycle (1981). However it was very hard to produce substantial evidence that standards were lower than in 1981, because many things had changed since then, including expectations. He would suspect that the expectations gap had widened because of higher expectations rather than lower standards (cf the NHS), but he would find this hard to substantiate.

6 Professor Likierman did not agree that the problem was simply a reflection of the recession. Even in 1988 commentators had been expressing concern - for example, about accounting for brands, a feature of boom-time takeovers.

7 Professor Likierman said that it was noteworthy that the APB that morning had been unanimous that there was a problem, and that the APB had to do a lot better than the APe. He continued that there was a symbiotic relationship between Cadbury and the other Committees (the ASB and the APB). All were heading in the same direction but the question of which came first, and who said what to whom, was very important. It would be well worth liaising closely with Bill Morrison (who would shortly be publishing a work programme for the APB) as well as Sir Ron Dearing and David Tweedie.

8 Sir Adrian commented that one possible role for the Committee was to put together a wider package from the various initiatives taken by individual bodies, and to say that whilst no one thing was badly wrong there were a range of improvements that would help. He would be writing to those who had been involved in establishing the Committee (Sir Ron Dearing, Mike Likiss, and Andrew Hugh Smith) to ask what issues they had expected the Committee to address.

9 Professor Likierman said that he remained concerned about chapter 3 of the framework, dealing with the form and content of financial reporting. The issues were in fact big ones and were the province of the FRC and ASB. He was worried about the Committee ambling into them unless it was sure it could provide genuine added value. It would be hard to say something worthwhile

that did not sound trite. The area potentially offered the most contention for the least return. Sir Adrian questioned whether there were some general principles on disclosure which could usefully be stated.

10 On the question of the Committee's report as a whole, Professor Likierman said that he would not aim to produce an omnibus set of recommendations for the right-minded to follow, but would go for more focussed recommendations in particular areas.

N D P

9 December 1991