a Sir Adrian.

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Ack'd

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

20 July 1992

Dear Mr. Peace,

I am an Executive Director of Pilkington plc. I am writing to comment on the draft report of the Committee on the Financial Aspects of Corporate Governance.

I recommend the article by Owen Green, in the Financial Times, to you. I thought this was extremely pertinent. The Cadbury proposals, as drawn, are designed to set up a difference of interest between the non-executive directors and the executive directors in what is supposed to be a unitary board situation. Non-executive directors cannot have the same degree of knowledge of the company as their executive colleagues and to have committees composed solely of non-executives, passing judgement on the executives, cannot work effectively and can only lead to mistrust.

The role of the Audit Committee, as summarised in paragraph 4.29, is actually the responsibility of the entire Board. The Audit Committee is a useful forum to brief the non-executive directors on the accounts, on financial control matters and on matters arising from audits. However, I do not believe it should meet without executive directors being present, except in the most exceptional circumstances where the auditors are insisting on such a meeting. Also, the Committee should contain at least the Group Chief Executive as a member and preferably the Finance Director as well. Generally there should be no subject which the non-executives wish to discuss with the auditors which cannot be discussed in the presence of their executive colleagues.

To The Committee on the Financial Aspects of Corporate Governance.

From David Fifield.

Subject :- Comments on the draft report.

I would like to make the following points.

1) It is my belief the various interests that benefit from corporate activity are less well represented in the British model compared with the German model. In the British model ownership that is corporate governance takes a dominant role. While in the stakeholder theory ownership might dominate its influence is never the less much reduced.

2) The recommendations of the draft report fit well with the terms of reference. My criticism is the terms are set by bodies with narrowly defined interests. The fact the report finds in favour of codes of practice,audit committees,interim reporting and non executive directors is not surprising.

3) I consider the acceptance of the recommendations will not slow or stop Britain's relative economic decline. They will certainly provide work for the accounting profession(FT letter 17/3/92)and for the time being allow shareholders to sleep more peacefully at night. Short termism will remain unchecked.

4) Greater benefits would have been forthcoming had the terms of reference been comprehensive. What are the contributions employees and customers make to ownership wealth? To me it is unquestionable that a well educated and motivated workforce supplying products based on evolutionary design will be the most successful(Business Graduate July 1986). This formula without question requires longterm ownership commitment.

5) Business is a culture based activity. If this point is accepted the stakeholder theory makes very good sense. When the object of an activity is understood and the benefits recognized harmony and the appropriate culture develops(Structuring Business Organizations-according to expectations. Policy Scan Ltd. 1990).

6) Britain has a long economic history tied to the activities of the Stock Exchange and the wide use of the professions. More successful economies appear to rely on technically trained business understanding managers with funding provided through more private ownership and higher gearing. Britain was more closely tied to these arrangements at the turn of the century than now.

7) Are there any simple steps that might be taken to assist Britain's position? The obvious one is to reduce the power of ownership by making investment commit itself to the longterm. Such a step would reduce the profits to be made by buying and selling businesses and asset stripping where no wealth is created. Under the longterm employee contributions could be increased while evolutionary product design would lead to greater market share.