



IMI plc CAD-02123
 PO Box 216 Birmingham B6 7BA
 Telephone 021-356 4848
 Directorate Telefax 021-356 7916
 Registered in England No. 714275

From Gary J. Allen, CBE

Chief Executive

Sir Adrian

1992

Sir A
 Chair
 Commi

P.O.
 Moorg
 LONDC

The structure of these letters is very similar. I wonder if they are based on a CBI blueprint.

zhid

N20/7

Nigd

20/7

Dea

When I last spoke to you about your report on Corporate Governance I had had the opportunity of seeing only the Code of Best Practice and I commented that it was an excellent summary of what companies should be doing and that there were few areas that would cause IMI any difficulty.

I have now had the opportunity to read the full report and this has caused me to have second thoughts in some areas which I have highlighted in this letter. My comments should be read against the background that I am generally supportive of the Code, regarding it as certainly desirable and probably a necessity.

My comments fall into three categories:

1. A Matter of Clarification

Is the Code to which we will be asked to comply, that contained on Pages 42 and 43 of the Report or is it by implication the full body of the Report. The first is acceptable; the second causes a significant number of problems of concept, definition and cost.

2. Problems of Concept

- (1) Although paragraph 4.3 states that "All Directors are equally responsible for the Board's actions and decisions" the general thrust of the Report is to divide the Board and its members into two classes. Furthermore I believe the Report to have a fundamental weakness in not bringing out the "prime" responsibility of Executive Directors in running the company and carrying out best practice on a day to day basis.
- (2) Paragraph 4.3 continues ".... the non-executive directors are in the best position to monitor the performance of the Chief Executive" - this is not a view to which I can subscribe. Non-Executive Directors see the Chief Executive infrequently and usually on "set piece" occasions; executive directors see the Chief Executive at work on a daily basis, surely a sounder base for judgement.



IMI plc CAD-02123
PO Box 216 Birmingham B6 7BA
Telephone 021-356 4848
Directorate Telefax 021-356 7916
Registered in England No. 714275

From Gary J. Allen, CBE
Managing Director and Chief Executive

16 July 1992

Sir Adrian Cadbury
Chairman
Committee on the Financial Aspects of
Corporate Governance
P.O. Box 433
Moorgate Place
LONDON EC2P 2BJ

Adrian

N2017

Dear Adrian,

When I last spoke to you about your report on Corporate Governance I had had the opportunity of seeing only the Code of Best Practice and I commented that it was an excellent summary of what companies should be doing and that there were few areas that would cause IMI any difficulty.

I have now had the opportunity to read the full report and this has caused me to have second thoughts in some areas which I have highlighted in this letter. My comments should be read against the background that I am generally supportive of the Code, regarding it as certainly desirable and probably a necessity.

My comments fall into three categories:

1. A Matter of Clarification

Is the Code to which we will be asked to comply, that contained on Pages 42 and 43 of the Report or is it by implication the full body of the Report. The first is acceptable; the second causes a significant number of problems of concept, definition and cost.

2. Problems of Concept

- (1) Although paragraph 4.3 states that "All Directors are equally responsible for the Board's actions and decisions" the general thrust of the Report is to divide the Board and its members into two classes. Furthermore I believe the Report to have a fundamental weakness in not bringing out the "prime" responsibility of Executive Directors in running the company and carrying out best practice on a day to day basis.
- (2) Paragraph 4.3 continues "... the non-executive directors are in the best position to monitor the performance of the Chief Executive" - this is not a view to which I can subscribe. Non-Executive Directors see the Chief Executive infrequently and usually on "set piece" occasions; executive directors see the Chief Executive at work on a daily basis, surely a sounder base for judgement.

- (3) The concept that only non-executive directors should have the right to have independent professional advice at the Company's expense is flawed - all directors should have this facility; it would certainly increase the independence of the Executive Directors.
- (4) The role of the auditors in the Code increases significantly from the present position but I do not see that they are in any real position to make the qualitative judgements required by an audit of compliance. They are not trained, nor qualified, to assess "the calibre of non-executive directors"; nor indeed to assess the "judgement of non-executive directors on issues of strategy, performance, etc.". In any event these are matters for the Board as a whole and the assessment of the Board's "judgement" is, and should remain, the prerogative of the shareholders.

Indeed I would be happier if the Auditors themselves would subscribe to the Code for their own organisations.

3. Matters of Practicality and Detail

- (1) The Report implies on several occasions that companies should have "internal audit" departments. This is very much related to company structure and philosophy and the objectives of "effective systems of internal control" can be achieved in a variety of ways often more effectively than through an internal audit department; it should not be for the Code to prescribe the means of compliance.
- (2) This "prescriptive" aspect of the Code has significant cost impact, e.g.
 - (a) the interim audit "review"
 - (b) the detailed and structured remit of the Audit Committee
 - (c) the Compliance audit
 - (d) the need to state a company's "total expenditure on consultancy"

can only be achieved with significantly higher costs.

Conclusion

The objectives of the Code can be achieved by placing the emphasis and responsibility for compliance on the Boards themselves and by allowing flexibility in the means of achievement.

I repeat that I am very supportive of open and responsible reporting and the need to achieve higher standards of Corporate Governance, and I hope you take my comments in that light.

Yours ever
Earl