

FROM  
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31st May, 1995

Sir Adrian Cadbury,  
Rising Sun House,  
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West Midlands,  
B93 8PT.

Dear Adrian,

PIRC

I am writing to you not only because of your close involvement in Corporate Governance generally, but also because I am told that you support the efforts of PIRC.

In common with many other companies, we received a communication from PIRC before our AGM. One of their comments was that the re-election of one of our non-executive directors should not be supported on the grounds that he was no longer independent having already been a director for more than twelve years.

As a matter of principle, I am not prepared to engage in correspondence directly with PIRC themselves, simply because I do not recognise the role, standing, or status of a self-appointed body, who are trying to make a profit by their activities in a field like this. For that reason I decided to write to you.

I would simply make the following points :-

1. I would have thought that "independence" was as much, or more, a state of mind and outlook than anything else. I do not see what rational base this is for considering "independence" as a mechanistic function of the number of years of service. Certainly it must be an absurdity to adopt it as a general principle, as PIRC seem to do.
2. In our case, PIRC opposed the election of one director on the grounds of his loss of independence through length of service, and considered another director (who was not up for re-election as no longer being an independent member of our Audit Committee on the same grounds.

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One of these gentlemen is a solicitor (or more properly a Writer to the Signet), and the other is a Chartered Accountant (who was formerly the senior partner in Scotland for one of the big firms).

My company's practice, ever since it went public, has been to select outside directors on the basis of two distinct qualifications. First, our Board's view of the general contribution and objective view that we believe they will bring to our affairs. Second, for some particular expertise and experience. For the latter reason, we have therefore always had one director who is a highly regarded lawyer, and another with outside professional financial experience.

Clearly, when we choose someone who is a lawyer, although we are not directly employing him in his professional capacity as a lawyer, we certainly expect his advice and opinion on issues to have the independent and dispassionate character which accords with the established ethics of the legal profession. I believe that just the same considerations apply in the case of a Chartered Accountant.

The implication of PIRC's judgement, that the independence of a person, whose professional credibility depends on the independence of his judgement, should be undermined by the number of his years of service, strikes me as being simply insulting.

3. PIRC's basic argument also obviously heavily discounts the value of long term experience. Indeed, it could not unfairly be said that it actually attributes a negative value to it.

Of course, there is the "geriatric" argument, but the two individuals to whom I am referring are aged 60 and 53, which is hardly Methuselah stuff!

My own experience (and I would value your view as to whether it might just be longer, wider, and better than the people at PIRC) is that continuity of service by non-executives produces at least two important benefits. The first is familiarity with the business and thus a better understanding of important issues affecting the business. It can indeed easily be argued that the value of their experience is also greater if they have been with a cyclical business through good times and bad alike.

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The second benefit of longer service is that it gives the non-executive director proper familiarity with the senior executives of the company. By seeing the performance of individuals over the years in different roles, this gives the non-executive director some concrete knowledge of executives' abilities and this seems to me very important when it comes to vital company matters like promotion at senior levels.

4. Finally, as a company Chairman, I do not want to have a continuous rotation of outside directors, and to be stuck, at moments when serious decisions have to be taken, with the advice of people who simply are not familiar enough with our business itself or the issues which face us.

I am afraid I have gone on far too long. I have always supported the principle which your Committee advocated, and I do know that you have strong views on the length of outside directors' service. I cannot think, however, that much is achieved by the simplistic application of a "numbers game" to the problem.

I would therefore ask for your support and I look forward to your comments to which, of course, I will give full respect in a way I cannot give to unqualified organisations like PIRC.

With kindest regards,

Yours ever,  
*William*

William Weir.

P.S. I hope you do not think me irreligious to suggest that PIRC's activities are rather like privatising the re-writing of the Prayer Book.