

gc. A. Duguid
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Qa 05137

To: PRIME MINISTER

From: J R IBBS

BSC Board Responsibilities

1. Following the discussion in E Committee on 25 June about BSC's finances, you asked the CPRS to undertake a study of the duties and responsibilities of the BSC Board members. It was to be done quickly, without too much refinement, in anticipation of the restructuring of the Corporation Board.

2. The main questions that prompted the study were :

- (a) Are the duties of the members of the BSC Board less clear than those of their counterparts in private industry?
- (b) Does the fact that BSC cannot go into liquidation make it less likely that the non-executive directors will be effective in the execution of their duties?

3. The Secretary of State for Wales has since raised the question of regional representation on the BSC Board. This was stimulated by the replacement of Sir Melvyn Rosser, who had a responsibility to take a special interest in the Corporation's affairs relating to Wales, by Mr Frost who inherits no such responsibility. We put forward in paragraphs 25 and 26 of the attached report our view that special regional representation on the BSC board is not appropriate but have not made an exhaustive study of this aspect.

4. Our study has been largely desk based to avoid the possibility of creating additional difficulties for the new Chairman. With this proviso, our general conclusion is that the relationship between the Secretary of State

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and the BSC more closely resembles that between a main board and a wholly-owned subsidiary than the traditional analogy of shareholder and main board. We believe this constitutes a fundamental constraint. However tempting it may be to consider the BSC board as equivalent to a main board in the private sector, this is not an accurate analogue.

5. If this analogy with the wholly owned subsidiary in the private sector is accepted, then a number of other conclusions follow. In particular the position of a non-executive director is not as straightforward as it would be on an entirely independent main board. I believe that it could be helpful if the Secretary of State carried out a further study of the role he wants the non-executive directors to play. In particular the CPRS believes that it should be made clear to the non-executive director what his respective duties are to the Secretary of State and to the Chairman and how the non-executive director is expected to act when conflict of loyalties arise.

6. Irrespective of whether one regards the Board of BSC as main or subsidiary, I believe there is a strong case for a smaller BSC Board with a higher proportion of executive members. This should provide for better quality decision-making as well as allowing more opportunities for internal candidates to be considered for the chief executive or chairmanship. Notwithstanding the fact that the Secretary of State has given Mr MacGregor "as free a hand as possible", we feel that the Secretary of State should bear in mind the arguments for a smaller BSC board with a higher executive director content when he gives consideration to any restructuring of the board proposed by the new chairman. The long-term future of BSC depends in part on Mr MacGregor leaving behind an effective and efficient management structure when his term of office is completed.

7. Our study has highlighted some important differences between the Boards of major manufacturing businesses in the public and private sectors of the economy. The CPRS sees the key problem areas with respect to the publicly owned sector as being (i) how to ensure that the Boards feel fully accountable financially; (ii) how to improve business efficiency; (iii) how best to structure the political input; and (iv) how best to allocate priorities between the industries. It seems to the CPRS that similar

problems are faced by a Holding Company in regard to its subsidiaries in the private sector, and in the particular case of the relationship between a non-industrial holding company and its manufacturing subsidiaries these problems have to be solved without interference in the detailed business decision-making. Although I am aware that the Department of Industry is also addressing the problem of how to improve the performance of the nationalised industries, and of course we would expect to keep closely in touch, I believe there would be value in the CPRS carrying the study further by approaching a small but representative sample of successful UK groups who operate as holding companies with diversified interests. This would reveal in some detail the private sector's approach to the problem. I would also propose this aspect being complemented by a simultaneous desk study of how some of our European partners structure their relationships with their public sector companies. I would envisage that the study, which would be kept relatively modest in scope, would be completed before the Christmas Recess.

8. I am sending a copy of this covering minute and the report to the Secretary of State for Industry, the Chancellor of the Exchequer, the Secretaries of State for Wales and Scotland, and Sir Robert Armstrong.



26 September 1980

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