



dti

BUILDING BETTER BOARDS

December 2004





The DTI drives our ambition of 'prosperity for all' by working to create the best environment for business success in the UK. We help people and companies become more productive by promoting enterprise, innovation and creativity.

We champion UK business at home and abroad. We invest heavily in world-class science and technology. We protect the rights of working people and consumers. And we stand up for fair and open markets in the UK, Europe and the world.



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Foreword by Secretary of State



The Government intends to lead by example. We will set the standard for more effective and diverse boards through the public appointments system.

Major failures in corporate governance around the world in recent years have triggered high profile corporate collapses, badly shaking market confidence and trust and impacting adversely on jobs, personal investments and pensions.

Although fortunately there were no such failures in the UK, there is no room for complacency. We have developed a flexible, effective framework of corporate governance of which we are justifiably proud. But in the light of events elsewhere, the Government took decisive action to ensure that our corporate governance arrangements remain respected worldwide, and that people can have confidence in corporate Britain.

In particular, given the crucial role of company boards, we asked Sir Derek Higgs to look at the role, quality and effectiveness of non-executive directors. Laura Tyson then built on his report by focusing on how companies can better secure the diverse range of skills, knowledge and experience they need in order to safeguard corporate health and promote added value.

Much has happened over the last 18 months in the light of the Higgs and Tyson reports. The relevant provisions of the Combined Code have put a new emphasis on the professionalism and effectiveness of directors. And it is clear that our best companies are looking to recruit from more diverse sources and to improve working practices across the board.

The composition of boards is changing but women are still substantially under-represented and, as a nation, we are not making enough use either of talent from the voluntary, not for profit and wider public sectors or of executive managers in larger companies with the skills and experience smaller companies need at board level. We have to do better.

Many companies have still to get to grips with the challenges involved in thinking seriously about how their boards work, evaluating the performance of directors, individually and collectively, and using the results of that process to improve working practices and identify any additional skills they need to drive forward the business. I understand that these are testing challenges involving difficult decisions. But companies which do not face up to their responsibilities will not be in a position to grasp new opportunities – and reap the rewards. This means thinking more systematically – more dynamically – about the effectiveness of their boards, their recruitment processes, and the way in which they develop their own people.

The Government intends to lead by example. We will set the standard for more effective and diverse boards through the public appointments system. In particular, we are committed to ensuring that headhunting companies commissioned to act for government are focused on increasing the diversity of their candidate lists. Not only will the diversity of candidates put forward be measured but headhunters will be made aware that unless they are mindful of the Cabinet Office's standards on diversity, they will not remain on the list of preferred contractors.

This booklet draws together some best practice recommendations and tools to help companies build 'Better Boards'. It:

- sets out the business case for effective diversity in the boardroom;
- gives 'live' examples of the real benefits for companies;
- outlines a range of initiatives aimed at developing the talent pool and enabling people with the right skills to show that they have what it takes to make a positive contribution in the boardroom.

Government has a role to play here. But the main response has to come from companies: from directors themselves and from shareholders assessing the overall effectiveness of the board and holding it to account for performance.

Good governance is crucial to the future success of business and the creation of prosperity for all. Companies of all sizes need to invest in it and ensure that they have the right arrangements in place for their particular circumstances. That investment starts in the boardroom.

Rt. Hon. Patricia Hewitt, MP
Secretary of State for Trade and Industry
and Minister for Women and Equality

Good corporate governance is ultimately about people. The key to building better boards is a commitment from the top down to the dynamic development of the board in the best interests of the company.



1: The Institutional Framework



Company law and the corporate governance framework enable enterprise and promote trust in markets. Company law provides the essential legal underpinning. Corporate governance provides an 'architecture of accountability', the structures and processes to ensure that companies are managed in the interests of their owners. And that people can deal with, and invest in them, with confidence.

In recent years, governance shortcomings around the world have contributed to falling markets and high profile corporate collapse and put the spotlight firmly on governance

processes and the role and effectiveness of company boards.

In the UK, the Higgs Review in 2002 looked at the role and effectiveness of non-executive directors, focusing on their quality and the boardroom conditions and behaviours required in order for them to be fully effective. The Tyson report in 2003 concentrated on the need for companies to improve selection processes for board appointments and to embrace a greater diversity of skills, experience, background and gender.

HIGGS: RECOMMENDATIONS FOR CREATING MORE DIVERSE AND EFFECTIVE BOARDROOMS

- Chairmen of listed companies should encourage and facilitate their executive directors and suitable senior management just below board level to take one non-executive director position on a non-competitor board.
- The nomination committee should evaluate the balance of skills, knowledge and experience on the board and prepare a description of the role and capabilities required for a particular appointment.
- The nomination committee should provide support to the board on succession planning.
- All companies operating in international markets could benefit from having on their board at least one international non-executive director with relevant skills and experience.
- Lawyers, accountants and consultants are used to advising business and to analysing and learning about a business from the outside – they can bring useful skills as non-executive directors.

- Boards should look to private companies, some of which are of significant scale, as a source of non-executive directors.
- There are individuals in charitable or public sector bodies who have strong commercial and market understanding. Including them on a plc board can increase breadth and diversity, improving effectiveness.
- Boards should draw more actively from groups not traditionally represented on boards – such as Human Resources, Change Management and Customer Care executives – even if they are not yet at board level.

TYSON RECOMMENDATIONS:

- Selection processes for non-executive directors should be rigorous and transparent.
- Boards should have more and better evaluation and training.
- Research and measurement should be implemented to encourage greater board diversity.

COMBINED CODE: SECTION 1 - COMPANIES: MAIN PRINCIPLES

A.1: The Board: Every company should be headed by an effective board, which is collectively responsible for the success of the company.

A.2: Chairman and Chief Executive: There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.

A.3: Board Balance and Independence: The board should include a balance of executive and non-executive directors (and in particular independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking.

A.4: Appointments to the Board: There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.

A.5: Information and Professional Development: The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.

A.6: Performance Evaluation: The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

A.7: Re-election: All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance. The board should ensure planned and progressive refreshing of the board.

The Combined Code

Much has happened since Higgs and Tyson. In particular, the new Combined Code on Corporate Governance published by the Financial Reporting Council in July 2003 has put a new emphasis on:

- board composition and the way in which boards work;
- the need for board appointments to be made on merit and against objective criteria reflecting the specific requirements and circumstances of the company;
- the need for chairmen to ensure that directors receive accurate, timely and clear information and that directors continually update their skills and their knowledge of the company so as to be able effectively to discharge their responsibilities;
- the importance of objectively evaluating the performance of directors, both individually and collectively, and, where necessary, taking action to address weaknesses identified.

All this reflects the reality that good corporate governance is ultimately about people and something much more dynamic than a set of rules that have to be observed. And that the key to building better boards is a commitment from the top down to the dynamic development of the board in the best interests of the company and its shareholders. This commitment must extend beyond the selection and development of talent to the style of the board and the way in which it operates.

Companies will be required to report for the first time against the new Code in the 2005 reporting season but there are clear signs of progress in improving selection and working processes and enabling directors to operate more effectively. Some companies are also actively taking steps to develop the talent pool for future board appointments. However the evidence suggests that many companies have been slow to respond. And that systematic action is required at all levels to improve the supply chain and harness the talent that is available.

This booklet provides a snapshot of developing best practice and the wide range of initiatives aimed at increasing the pool of people with the skills and capabilities required to contribute effectively at board level. As Table 1 shows, the composition of Boards is changing. In particular, the number of women directors has increased significantly since 1998 and a recent survey for DTI showed that over 50% of

FTSE100 directors now have some relevant international experience*. Improving board effectiveness means looking critically at all aspects of board performance on a regular basis, tackling real and perceived barriers to change, and ensuring that the board is constituted and operates in a way which maximises its contribution to the business.

*The DTI commissioned research from the Cranfield School of Management to investigate the levels of ethnic minority directors in FTSE 100 companies. This research revealed that over 50% of directors stated that they had international experience in their biographies and 28% stated that they were not British by Nationality.

Composition of FTSE 350 Boards

	31 December 1998		November 2004	
	FTSE 100	FTSE 250	FTSE 100	FTSE 250
Total number of posts	874	1563	1134	2141
Total number of individuals involved	795	1449	983	1917
Total number of posts held by women	43	47	104	125
Average age	55.3	54.5	55.6	54.6
% of non-executive directors	51.8	54.7	62.5	60.5

Table 1

Source: Manifest

Note: Data based on FTSE100 and FTSE250 constituents as at 02-Nov-2004. Sample size for December 1998 = 77 for FTSE 100 and 185 for FTSE 250.

The Role of Government

The responsibility for action is primarily with companies and individuals. But Government has a role to play. It has been suggested that corporate governance requirements in themselves are a disincentive both to companies listing on public markets and people joining listed company boards. There is no real evidence that this is the case. However the Government is absolutely committed to ensuring that regulation is measured and proportionate and strikes the right balance between encouraging enterprise and promoting the interests of shareholders and investors. The recent announcement on the basis of the new **Operating and Financial Review** reflects the Government's

commitment to this approach and its willingness to listen and respond to the concerns of business.

More specifically, the Government has taken action to address concerns about the extent of directors' exposure in relation to legal actions brought by third parties and said that it will introduce legislation which will provide a statutory statement of directors' general duties.

DIRECTORS' LIABILITY:

The law relating to directors' liability has been changed by sections 19 and 20 of the Companies (Audit, Investigations and Community Enterprise) Act 2004

The new provisions are expected to come into effect in April 2005. Companies will still not be permitted to exempt directors from, or indemnify them against, liabilities to the company itself. The reforms do, however, introduce two important relaxations of the current prohibition:

- they permit, but do not require, companies to indemnify directors in respect of proceedings brought by third parties and applications for relief from liability (covering both legal costs and the financial costs of any adverse judgement except criminal penalties, penalties imposed by regulatory bodies such as the Financial Services Authority and the legal costs of unsuccessful criminal defences or applications for relief);
- they permit, but do not require, companies to pay directors' costs of defence proceedings as they are incurred, even if the action is brought by the company itself or is a derivative action. The director would still be liable to pay damages and to repay his defence costs to the company if his defence were unsuccessful.

Where a director is indemnified by the company or an associated company, an appropriate statement will have to be made in the Directors Report. Shareholders will also have a right to inspect any indemnification agreement entered into by the company or an associated company.

Further information is available from the DTI website: www.dti.gov.uk

Directors Duties

The basic duties which directors owe to their company currently stem from case law – ie decisions in individual court cases over the years – rather than the Companies Act. As a result they are inaccessible to the layman. There is also evidence that a large proportion of company directors do not know what the law requires of them.

The Government has said that it will introduce a statutory statement of directors' duties as part of a Companies Bill which implements the recommendations of the independent Company Law Review. This will provide greater clarity on what is expected of directors and make the law more accessible.

Directors' Liability

The courts expect high standards of care, skill and diligence from directors in discharging their legal duties. The Government welcomes this – it is absolutely right that directors should take their responsibilities seriously and that, where necessary, they should be held strictly to account. There is strong anecdotal evidence, however, that concerns about legal liability are affecting the behaviour of directors and discouraging people from seeking or accepting directorships.

In December 2003 the Government therefore invited views on possible changes to the law on directors' liability to address such concerns. The responses identified two particular concerns:

- the exposure to liabilities arising from legal action against directors by third parties, eg as a result of class actions by groups of shareholders in the US against the directors of British companies with a US listing;
- the cost of funding lengthy court proceedings in circumstances where, to date, it has only been possible for companies to meet costs once judgement has been given in a director's favour or on acquittal.

Changes to the law were made subsequently via the Companies (Audit, Investigations and Community Enterprise) Act 2004 and will come into effect shortly. These changes represent a balanced and carefully targeted response to the problems which have been identified and will help to ensure that people with relevant skills are not deterred from coming forward and carrying out their responsibilities as directors.

Public Sector Boards

The Government also intends to lead by example in relation to carrying out its own responsibilities for appointments to public sector boards. It will improve selection processes and become a more intelligent and demanding customer in relation to increasing the diversity of candidate lists and monitoring how headhunters are meeting diversity requirements. It will also explore the scope for setting up shadowing and mentoring schemes to allow people with the necessary skills and experience for public appointments to shadow people already in post and get a direct insight into what is involved. The Cabinet Office and the Open University are also working on a programme designed to promote the development of public sector managers with board potential. Any such programme could be open to private companies.

Conclusion

There is no one prescription for 'Best Boards' – each company is as different as the individuals it comprises. However, the effectiveness of every board depends crucially both on the quality of its members and the framework within which they work. By fostering a 'relentless meritocracy' in the appointment of non-executive directors, and ensuring that the board works effectively as a whole, companies can create the conditions that will maximise their sustained success. The next section looks at these issues in more detail.

Board structure... plays a key note in framing the balance of power between company managers and directors. But board effectiveness is more than a matter of structure or architecture. The 'tone at the top' is a reflection of the integrity, independence and teamwork of individual board members and ... executive management. For the board to be truly effective, not only must an appropriate structure be in place but individual board members should be engaged, well informed and represent diverse skill sets and perspectives.

Nick Bradley, Standard and Poor's

Conformance is necessary but not in itself sufficient. Good corporate governance provides the basis for sound commercial decision making which is integral to successful, sustained corporate performance.



2: Making Boards Better

The circumstances of every company are different. There is no 'one size fits all' or perfect solution when it comes to board composition and how boards work. Companies need different things from their boards as they develop and as their circumstances change, demanding continual re-assessment and adjustment in the board's make-up and ways of working.

Whatever the company's circumstances, however, all boards need a balance of skills, knowledge and wide-ranging experience which can help the management team to drive the business forward whilst keeping it under prudent control.

This section deals with the business case for board diversity; what better boards look like; and how they work in practice. The case studies show how companies have applied best practice to their particular circumstances and benefited as a result.

The Role of the Board

The fundamental role of the Board is to support the executive management team in generating long-term added value for shareholders and to account to shareholders for the company's long-term performance. Depending on the circumstances of the company, the focus at any one time may be on wealth creation or wealth protection. But, as Table 2 illustrates, the two are complementary and managed as part of one continuous cycle.

Effective boards are as much concerned with performance as with conformance in meeting the requirements of company law and applying the principles and provisions of the Combined Code. Conformance is necessary but not in itself sufficient. Good corporate governance provides the basis for sound commercial decision making which is integral to successful, sustained corporate performance. Excellence comes through the exercise of appropriate values, structures and processes in a board to generate added value for shareholders and for society at large.

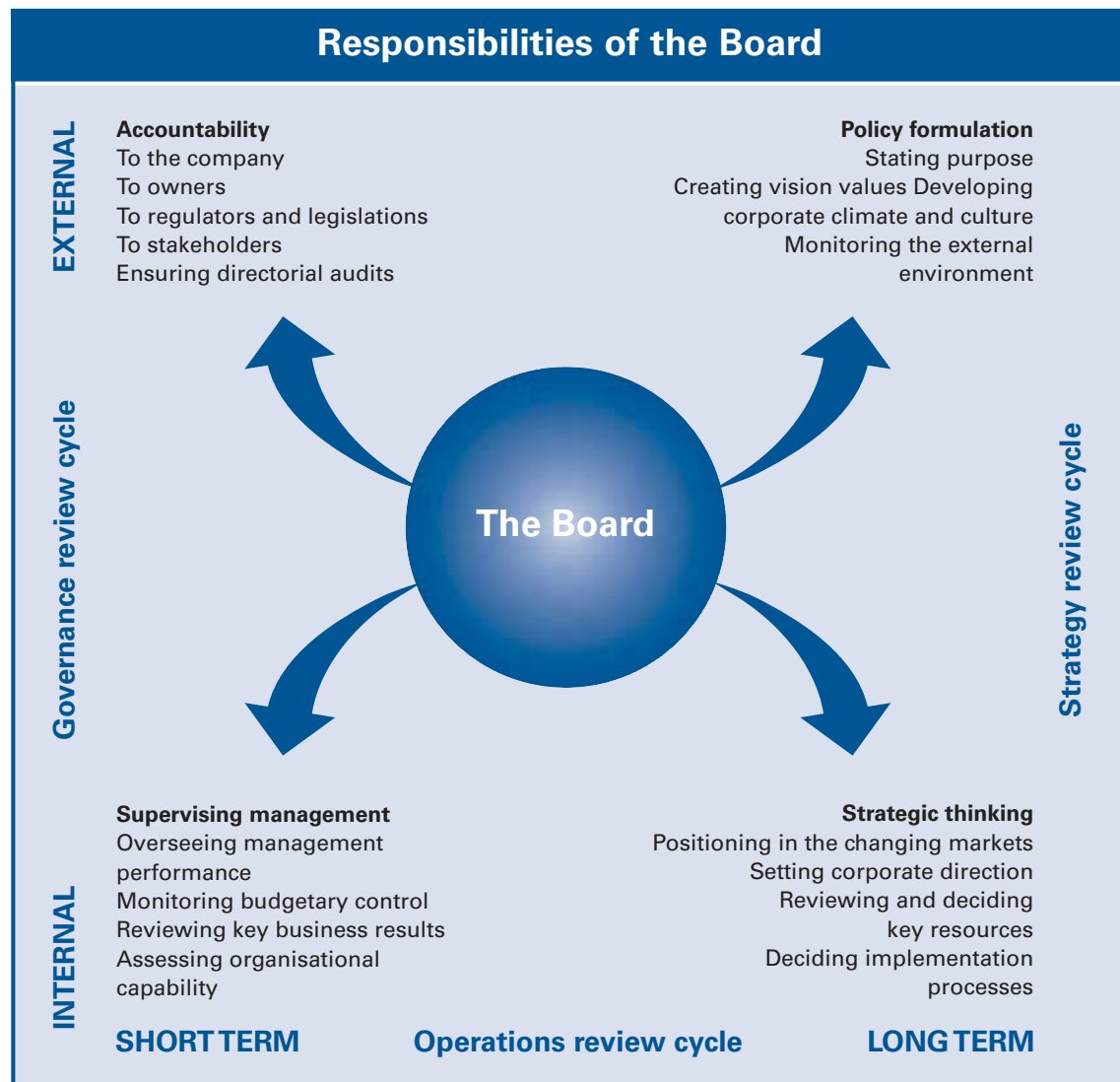
"If the board is not taking the company purposefully into the future, who is?"

Sir John Harvey-Jones

"It is board leadership which generates the drive on which the growth of individual companies and of the economy as a whole depends."

Sir Adrian Cadbury





Source: Board Performance Ltd

Table 2

Better boards carry out their role by focusing on seven key issues:

- **the purpose of the organisation**
why it exists and what it wants to be
- **its strategy**
how it proposes to achieve success
- **performance measurement**
implementation and monitoring of the company's financial and non-financial indicators, and assessing the board's own performance and that of the executive team
- **accountability and communication**
the processes of dialogue and reporting by which it informs its shareholders, and wider stakeholders, and takes account of, and learns from, the feedback received
- **added value**
generated by constructively questioning and challenging the thinking of the executive management team and ensuring that appropriate controls are in place and operate effectively
- **the company's values**
what it stands for and will not stand for
- **its key relationships**
who and what it depends on for success, the delivery of its values and the development and/or protection of its corporate reputation

"The role of the Board is to govern the Company on behalf of the shareholders. The Board should focus on those tasks which are within its unique capability and ensure that management tasks are clearly delegated to the Executive. The goals of the Company should be properly articulated by the Board as should the strategy for achieving those goals. Both should be understood by both management and shareholders. The Board should ensure that the assets of the Company are only deployed for the purpose of achieving the goals. The Board must monitor the implementation of the strategy and the judgements the Executive management takes in that respect.

In all of this clarity is key: clarity in respect of the role of the Board and the nature of the delegation to the Executive; clarity in the monitoring role of the Committees; clarity above all in the purpose of the Company and its communication to shareholders."

David Jackson, Company Secretary BP

The value of diversity

The business case for diversity is about boards doing all of these things more effectively. Diversity in skills, knowledge, experience, age, gender and ethnic and personal background makes for greater capability and greater creativity. Boards which have the scope to consider a wider range of perspectives, and generate richer, more informed discussion of the issues facing the company, are more likely to anticipate problems and produce high quality solutions when they arise.

Diversity in these terms is about companies ensuring that they are better placed to:

- identify and exploit strategic opportunities – including those opportunities which involve diversification into new markets or new products and the application or development of new technology;
- reduce the cost of capital because shareholders and investors have greater confidence in the board and the quality of the company's internal controls; and
- manage relationships with shareholders, investors, regulators and other stakeholders, which are crucial to confidence in the company and its reputation.

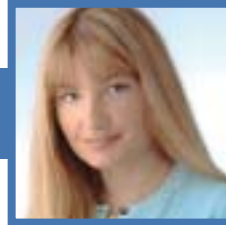
"Diversity in the backgrounds, skills and experiences of NEDs enhances board effectiveness by bringing a wider range of perspectives and knowledge to bear on issues of company performance, strategy and risk. Board diversity can also send a positive and motivating signal to customers, shareholders and employees, and can contribute to a better understanding by the company's leadership of the diverse constituencies that affect its success."

The Tyson Report on the Recruitment and Development of Non-Executive Directors, June 2003

The following case studies illustrate the real business benefits which companies can derive from broadening the base of their boards and bringing in fresh minds with different skills and new perspectives to contribute to the growth and development of the business. They also

underline the fundamental point that better boards need to change their composition and ways of working as companies evolve. Good governance and direction from the board is a positive asset which contributes to competitive advantage and increases market value.

MOTHERCARE



When Mothercare Chairman Ian Peacock was faced with building a new board after the company's difficult times two years ago, he set out to recruit a talented team of diverse individuals with different skills and backgrounds, who would work well as a professional group and create long term added value for shareholders.

By the middle of last year he had a new executive team and a new senior independent director in place and was ready to add another new ingredient to the mix.

That new ingredient arrived in the form of Karren Brady, Chief Executive of Birmingham City Football Club. Karren's background is in advertising but she also brings marketing PR, retail and leisure experience to the Board as well as practical experience as the mother of two small children.

Ian Peacock is upbeat about the mixture of skills, experience and personal attributes he now has on the board and Karren's contribution:

"Time will tell whether I've got the personality mix right – we're all very different people – but we are coming together well as a team. Karren has made a real difference. She is a very intelligent, focused business-woman with a strong commercial sense, and her angle is always relevant but slightly different."

"We particularly wanted a non-executive director who had recent direct experience of motherhood, coupled with a highly commercial marketing background. Karren had no experience on FTSE company boards but was otherwise ideal for the job. Importantly, she can bring to the table the perspective of a recent Mothercare customer and take a fresh look at the strategy from that viewpoint. And that's proving invaluable."

A recent academic study of corporate governance in the cotton textiles sector graphically illustrates the point. It shows how narrowly focused the boards of the cotton companies were relative to other UK companies and how interlocking directorships led to strategic tunnel vision and the industry's rapid demise. It also shows that the few cotton companies which survive, such as Smith and

Nephew, had markedly different and more diverse board structures and were consequently more open to diversification and better placed to carry it through. The lesson of the story is that peripheral vision and the capacity to think 'outside the box' are necessary ingredients in testing and delivering corporate strategy and that diverse boards are better equipped to do the job.

The Distribution of Directorships in British Enterprises, 1950

Number of directorships per person	Cotton Textiles, 1950 (1)	All British Enterprises (2)
1	19.2%	87.4%
2	13.2%	8.5%
3-5	43.7%	3.9%
6 or more	23.9%	0.2%

Toms S., Filatotchev I. (2004) "Corporate governance, business strategy and the dynamics of networks: A theoretical model and application to the British cotton industry, 1830 - 1980", *Organization Studies*, 25(4), pp. 449-472.

FORMSCAPE



FormScape is dedicated to helping companies eliminate operational inefficiencies and communication barriers through Document Process Automation. Companies of all sizes use FormScape solutions to cut costs, reduce working capital, improve profitability, enhance customer-supplier service, and ensure better corporate control. Customers include BP, CitiGroup, DaimlerChrysler, Johnson & Johnson, Deutsche Bank, Wal-Mart, Wells Fargo, Phillips, and Fujitsu.

After a buy out of the founder of the business in 2003, the company spent time considering the appointment of non-executive directors who would bring new skills and a fresh perspective to its Board. It was time for a shake-up, as CEO Malcolm Peden explains:

"As the company was starting to mature and develop we felt that it was appropriate to bring in an independent non-executive director to act as Chairman and help us go forward. We decided to appoint Don Cruickshank, the former CEO of the London Stock Exchange because of his broad experience in a number of industries; his public market knowledge – an IPO is part of the company's medium-term business development plan; the credibility he would bring to a relatively small UK company."

Malcolm adds: *"To enable us to grow we felt that we needed a fresh perspective, with new ideas and experience on the Board. The norm for a software company would probably have been to go out and hire some former high-level executive from a US software company who has 'been there, done that'. We took the view that this would not help us move forward because sometimes those individuals find it difficult to look at a new technology or solution with fresh eyes. Selecting Don, who had little experience of our market, allowed us to bring in someone who would challenge our market positioning as well as our execution strategies with fresh eyes. We felt that if we could make Don understand our value proposition and if our marketing messages were clear to him, then our target audience would be able to 'get it'."*

"It is part of our future plans to appoint a US non-executive director in the next 6-9 months so as to bring a US flavour to the Board – 50% of the company's sales are generated in the US."

Harnessing the benefits of diversity

Building a more diverse and effective board starts with identifying the skill sets and capabilities required for each new appointment. That in turn requires systematic consideration of the skills and capabilities of the rest of the board relevant to the company's current and

future needs. Introducing diversity isn't about tokenism. It's about analysing where the company is and where it wants to be; identifying gaps in the skills mix on the board; and then thinking creatively about how to achieve the result that's needed.

A high level of informality surrounds the process of appointing non-executive directors. Almost half of the NEDs surveyed for the Review were recruited through personal contacts or friendships. Only four per cent had had a formal interview... I accept that [this] can lead to an overly familiar atmosphere in the boardroom ... I believe that a rigorous, fair and open appointments process is essential to promote meritocracy in the boardroom and that existing best practice for nominating and appointing directors should be universally adopted.

Higgs Report pps 39-40

Practice varies from company to company but best practice involves most or all of the following steps:

- defining the major issues and challenges facing the company and the extent to which the current board has relevant skills, knowledge and experience;
- looking at the make up of the board and the extent to which a new appointment provides the opportunity to change its age or gender profile;

- sounding out the views of shareholders and key institutional investors;
- on this basis drawing up a person specification and identifying the widest possible range of suitable candidates;
- appointing the person who best meets the person spec and represents the best fit in terms of the way in which the board works.

VODAFONE'S CHECKLIST FOR NEW BOARD APPOINTMENTS



1. What's the business requirement going forward?
2. What skills, knowledge, experience are we looking for or feel we are missing?
3. What's the overall balance of the board in terms of age, profile, gender, and geographical spread?
4. How does any new appointment relate to longer term succession planning?
5. What's the availability of people with the skill-sets, experience and market credibility we need?
6. Select the best available candidate.

Fit is important. Identifying and recruiting a group of individuals with the right skills, knowledge and experience is not enough. Diversity of views and opinions and the willingness and opportunity to express them, is an essential part of the recipe. Effectiveness depends not just on the composition of the board but on how it functions as a unit. Directors have to be able to work together for the benefit of the board and the company as a whole; be ready to speak their mind and

challenge others in an atmosphere of mutual respect; have the occasional confrontation but take collective responsibility for decisions. A quiescent board is unlikely to be a good board.

The role of the chairman is crucial as is clear demarcation between the board's responsibility for corporate governance and the executive management team's responsibility for running the business.

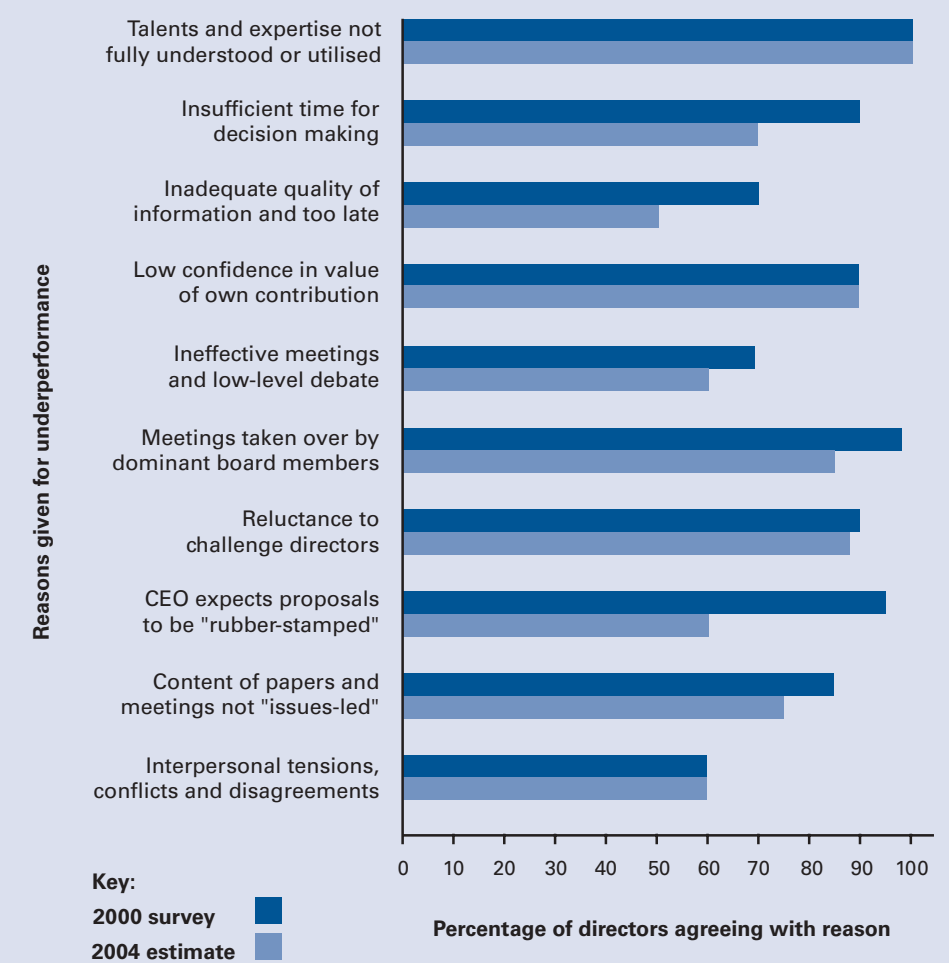
"The cultural tone of the board is set by the chairman's own behaviour. If the chairman is dominant, it is harder for directors to contribute. On the other hand, a good chairman provides a cultural environment in which high-level, open, and honest debate can take place and where each director feels free to add value. A constructive and effective culture is a corporate asset – the opposite, as in the case of Enron, can bring a company to its knees."

Lynn McGregor, 'The Human Side of Corporate Governance' published in Governance and Risk: An analytical Handbook for Investors, Managers, Directors and Stakeholders. McGraw Hill

The chairman's core role is to give coherent leadership to the company by effectively integrating the skills of the board and the management team. This involves not only ensuring that skills are complementary but that board structures and working processes encourage open and constructive debate and make best use of the individuals involved. It also means that non-executives must understand what drives the business and where and how they can potentially add value.

In the best companies, the lead comes from the Chairman and the board enables the Chief Executive to get on with running the business. The division of responsibilities is clear cut and relationships are open but challenging and based on integrity and trust. A recent survey of 100 independent non-executives suggests, however, that many companies are a long way from getting this right. As the table shows, 70 per cent believe they are under-performing and that whilst things have improved in the last four years there's still a long way to go.

Under Performing Boards



Source: Convivium

Induction

Doing something about this requires action to enable non-executive directors to contribute more effectively.

For new arrivals, the quality of the induction process is crucial. It needs to give people an early feel for the business and an understanding of the issues they are likely to

be dealing with whilst, at the same time, giving them an early opportunity to make a positive contribution and add value to the board.

ICI's approach exemplifies this. A high quality executive team will not tolerate passengers for very long so in terms of board dynamics it is important that new non-executives get up to speed as quickly as possible.

INDUCTION



Peter Ellwood, Chairman of ICI, believes that a proper induction process for new directors makes sound commercial sense:

"The Board is collectively responsible for the success of the Company. The relentless search for world class performance must start within the Boardroom. To work optimally, non-executive directors need to really understand not only the business but also their personal and corporate responsibilities. They have to have a feel for the company, not just turn up to meetings. We're looking for them to have an understanding of what drives the business and how they personally can make an effective contribution."

The induction process

At ICI, induction is tailor made to fit the individual and the specific gaps in their knowledge or experience:

"We arrange for all new directors to meet as many people in the company as they can, across HR, Finance, Strategic Planning, for example, as well as out in the field. They are advised at the outset that they are going to have to travel to get to know the business and that they will continue to do that throughout their time on the board. That's very important if they're to keep up to speed."

"Each new director has a formal induction session led by the Company Secretary, augmented by the Assistant Secretary and someone at a senior level with a good deal of company experience, explaining the issues for ICI. They cover aspects such as Risk, Regulation and Practice, including fiduciary duties, duties of care and diligence, how the board is managed, what makes an effective board, the Combined Code and regulations. This way, new directors become more effective contributors more quickly."

The response from new directors is valuable. Peter Ellwood mentions a recently appointed female non-executive director:

"She began by meeting a large number of people in Head Office, followed by several days at production sites and research laboratories to see what the business is really about. I then had a dinner meeting with her so that we could capture and subsequently use the feedback she gave – I'll discuss that information with the CEO. It's not just a one-way flow - her fresh pair of eyes is invaluable to us."

The business benefits

Peter Ellwood is in no doubt of the benefits to the business:

"It's bottom line common sense to give new directors a thorough induction. It's not rocket science, it's good practice, because it means that the people joining the board will be more effective. It's adding value and enabling these people to contribute much more quickly, making the most of their talent for the benefit of the business and its shareholders right from the start."

IMPROVING THE EFFECTIVENESS OF DIRECTORS: A SHAREHOLDER PERSPECTIVE

The Boardroom recently carried out a survey of leading institutional shareholders in order to inform the development of its personalised development programmes for directors and senior executives.

The responses highlight the importance of

- an effective induction process – with strong support for making induction training compulsory for new directors
- a visible commitment to continuing professional development of board members – seen as very important in particular in relation to business strategy and planning and risk management
- an effective and credible annual board assessment process with strong commitment from the chairman and potential use of external parties

Source: The Boardroom

It is equally important that the board as a whole, and non-executive directors in particular, have access to good quality information, at the right time and with the right level of detail. This should include access to independent professional advice at the company's expense where they judge it necessary to discharge their responsibilities as directors.

Getting the right balance can be difficult. Non-executives need to keep in touch with the reality of what's happening in the company but at the same time not put themselves in a position where they are regarded as interfering with the day to day management of the business. Effective solutions may lie in pairing or partnering non-executives with executive directors or senior managers in areas of mutual interest or expertise or building informal relationships between individual directors and middle managers, eg by arranging for directors to 'adopt' a group company, plant or store. This has the additional benefit of giving managers below board level direct access and exposure to non-executive directors and adding to their experience for the future.

There is also an onus on directors themselves to develop their knowledge and capabilities. The best directors never stop learning – about the company and themselves. Learning may be company specific; relate to understanding changes in the legal and regulatory

environment; or focus on improving ways of working. The Institute of Directors runs a range of courses tailored to the specific requirements of practising directors as do some of the major business schools. For example, to date over 300 directors have attended Cranfield's regular series of seminars for non-executives and the seminar has been adapted to run in-house for a number of companies.

Evaluation

Regular evaluation of board performance provides the means to inform personal development and improve board structures and working processes. It represents a tool which used positively will not only produce a better board but improvements in company performance.

In order to be effective, the evaluation process must reflect the needs and circumstances of the board and the company. Every situation is different but in every case there is a basic set of questions which need to be addressed.

- What to focus on?
- How to get "buy in" to the process
- How should the process be carried out?
- How should information be collected?
- How to handle feedback and follow-up?

The process will vary from company to company but any evaluation will normally involve 6 key stages.

- i. Collecting the views of individual directors on the basis of an agreed questionnaire addressing specific topics but also giving them the opportunity to raise points of their own;
- ii. one to one interviews with the chairman to discuss individual performance, including the performance of colleagues;
- iii. the preparation of a report to the board based on responses to the questionnaire identifying strengths and weaknesses and making recommendations for action;

- iv. discussion of the report by the nominations committee or non-executives collectively as well as by the board as a whole;
- v. production of an action plan recording areas for improvement for consideration and approval by the full board;
- vi. regular monitoring by the Board of progress against plan.

The case studies opposite show how Transco and BAT have applied these processes to their particular circumstances. The approaches are different but both focus not just on the mechanics of how the board works but on the dynamics of the relationships between the Chairman, executive management and individual non-executives. And both, crucially, are actively driven from the top of the organisation.

BAT



British American Tobacco prides itself on its corporate governance and has recently won two PricewaterhouseCoopers Building Public Trust Awards for greater transparency in its reporting.

The British American Tobacco board conducts a critical evaluation of its activities on an annual basis. The Company Secretary has private interviews with all directors individually to gather views on the board's performance, and then presents a report first to the non-executive directors and then to the entire board. In addition, the views of each director on the individual performance of other directors are collated and used by the Chairman as the basis for a discussion with each director about their own effectiveness.

Company Secretary Alan Porter explains:

"In the last two years we have made changes to the way we appraise the board. Previously we had a more informal approach, with a general discussion around the board table. But in advance of the new Combined Code, we agreed to adopt a more formalised process based on responses to a questionnaire and one to one discussions with individual directors.

"The entire process worked very well, and is now part of our normal way of working, though this year, instead of doing a general review, we are focusing on what people expect from the Chairman and our new Chief Executive."

Alan emphasises that the process has produced real business benefits:

"The Chairman and the members of the board feel that the process is really useful. It's provided them with a means of questioning given information and checking that they work effectively as a board. It's also enabled us to refocus some of the material which we give them, making it more informative and easier to use, and to get the best out of everybody involved."

NATIONAL GRID TRANSCO

National Grid Transco

National Grid Transco is a relatively young company, formed on the merger of National Grid Group plc and Lattice Group plc just two years ago (in October 2002). A key objective was to embed leading governance practices from day one. A formal Board and Committee evaluation process was introduced from the outset as part of this.

A questionnaire is used to assess the effectiveness of the board, the chairman and each of the committees. It is designed and issued to each director by the Company Secretary and General Counsel and responses are treated as confidential. Questions encompass the performance of the chairman, the role of the board and all aspects of how it operates, including each committee and access to information. Every question gives the option of responding at different levels from 'strongly agree' to 'strongly disagree'. Respondents are also invited to add their comments on each question. The results, and a summary of comments, are then presented to the Nominations Committee and subsequently discussed by the Board as a whole.

Feedback from the questionnaires the first time round wasn't always predictable, as Group Company Secretary and General Counsel, Helen Mahy, says: *"Without exception, all the directors took the process extremely seriously and all took time to comment fully. They didn't necessarily agree with each other, and in fact some of the things that came out of the exercise about how they felt the Board and Committees were operating surprised even the directors themselves. But even those who initially were somewhat sceptical now say that the process is really valuable and has helped to improve the operation of the board and the management of the business."*

The questionnaire is supplemented by one-to-one meetings between the chairman and each of the directors, where individual performance is openly discussed, as Chairman Sir John Parker explains: *"The one-to-one sessions are extremely important, as is the fact that no notes are taken; I simply record the themes which come through afterwards – such as whether directors feel able to contribute, whether they feel their skills are being tapped, whether they feel they have free access to management and information, etc. It's about them being able to perform as individual directors. With a process like this, if there are blockages, you soon find them out."* The non-executive directors also meet separately to discuss the performance of the chairman.

Sir John Parker points out that evaluation is pointless unless you act on the results. Accordingly, based on the outcome of the questionnaire and the one-to-one meetings, an action plan is drawn up by the Nominations Committee, and agreed by the Board as a whole. The Nominations Committee reviews this to ensure continuous improvement in board processes and procedures and that, in Sir John's words, *"nothing falls through the floorboards."*

One year on, the Board will now review progress against the previous recommendations for change coming out of the Board evaluation and if there are outstanding issues these will be added to the action plan that will be developed following this year's Board review. Following the third evaluation post merger next year, they will then consider inviting an external organisation to audit and review the adequacy and effectiveness of the process.

Business benefits: The benefits for the business are considerable, as Sir John concludes: *"Capturing the internal dynamics and effectiveness throughout the year of a board is difficult but tremendously important – not just for the sake of satisfying corporate governance and the Combined Code but also to the success of the organisation as a whole. You end up with a better oiled machine and people know where they stand. The longer I'm at this game, the more I'm convinced of the influence good governance has on the whole tone of an organisation. You set the drumbeat for the organisation at the top. Then when the Board meet the next layer of management around the company, they will have brushed with non-executives that share and express the same values. The larger the organisation, the more important it is that the discipline that good governance brings is cascaded down from the top. This assists in creating the efficient company as well as the effective Board."*

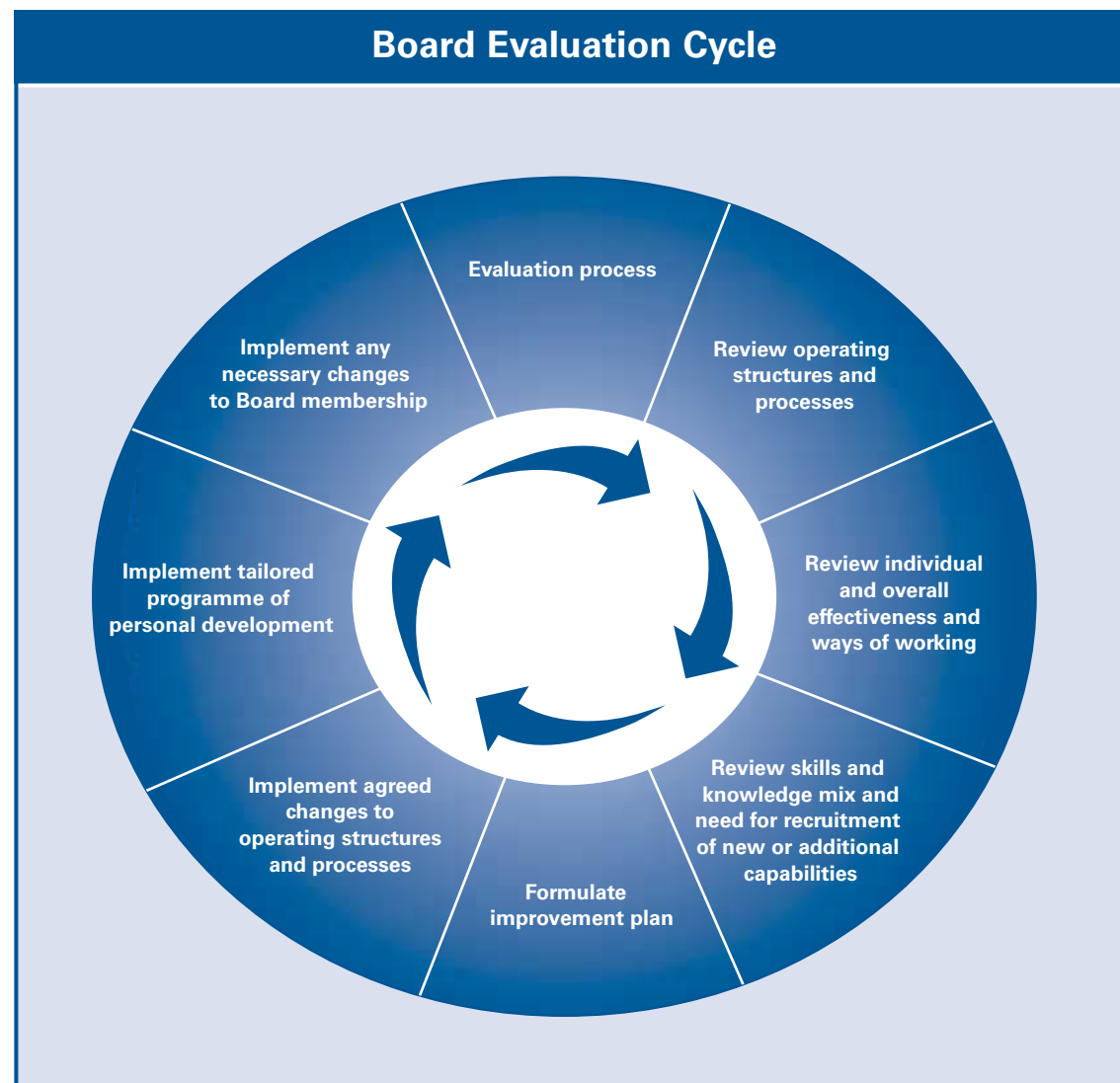
Conclusion

All this underlines the importance of the Combined Code provisions on appointments, board composition, professional development and evaluation. As noted above, the evaluation process is particularly important. It provides the opportunity for companies to create a virtuous circle of sustained improvement in board effectiveness based on regular objective assessment of past performance and the company's changing needs and circumstances. It introduces a new dynamic which companies can use to improve the quality of their corporate governance and secure competitive advantage.

The best companies are already operating on this basis. They recognise that this is a performance, not a compliance issue. Those companies that do not take these issues seriously are not only missing out on real

business opportunities but potentially putting the credibility of their corporate governance at risk. In considering 2005 annual reports, shareholders should look closely at the application of the relevant principles and Code provisions and the quality of the explanations offered for non-compliance, and ask whether their company is aiming to match best practice elsewhere. The FRC places great importance on these elements of the Combined Code and will be keeping the overall position under close review.

The next section looks at how prospective non-executive directors can develop the skills, knowledge and experience that they will need in order to improve their chances of appointment – and to help ensure diverse and better boards.



BETTER BOARDS ARE LIKELY TO SCORE HIGHLY ON THE FOLLOWING CHARACTERISTICS:

- **A culture of integrity and respect** – to build on each other's strengths, recognising and dealing with intrinsic weaknesses, conflicts of interest, or personality problems
- **A collegiate atmosphere with high-level debate**, freedom to ask the right questions and warn of potential risks – plus a waiting list of good directors to join the board
- **The right composition**, reflecting a balance between decision-making skills, expertise and experience; supported by a sound succession strategy, induction and integration of non-executive directors, plus continuous training and development for all directors, including the chairman
- **Constructive and effective relationships** between the chairman, CEO, key fund managers, and other stakeholders
- **A highly competent chairman** who understands both the business issues and the directors' needs; who is able to support or challenge the CEO as appropriate, or to make unpopular strategic decisions when necessary; who understands and fully utilises director's particular talents, expertise and experience, facilitating optimal participation
- **A highly professional company secretary's office**, with good quality information delivered on time and in the right amount
- **Regular internal and external board reviews**
- **Balance between conformance and wealth creation**, ensured by the chairman
- **External observers** invited to give feedback on blind spots and weaknesses
- **A board development programme** is designed and implemented.

Source: The Human Side of Corporate Governance, Lynn McGregor, Convivium

"Evaluation is essential to improving a company's performance - you cannot begin to address your weaknesses unless you know what they are. This is as true of the board as it is of every other part of the business. The Higgs report rightly highlighted the enormous difference an effective board can make to the company's ability to create wealth. Any company that wants to improve its performance should take board evaluation very seriously."

Sir Bryan Nicholson, Chairman FRC

"It is important that boards, beside having the right skills, reflect their organisations, their customers and the communities they serve as well as possible. That means achieving active, non-tokenist and competent diversity. "

Digby Jones, Director General, CBI

The composition of boards is changing but as a nation, we are not making enough use of our talent. We have to do better.



3: Developing the Talent Pool

Building better boards means companies spreading their nets and trawling for new recruits wherever people with the skills, knowledge, experience or background they need might be available. More diverse boards require more diverse sources of supply.

Higgs and Tyson both underlined the risks involved in relying on personal contacts and local business networks as prime sources of candidates for non-executive posts. They also called for broader and more rigorous search processes reflecting the reality that age and

cultural background, international experience and skills and knowledge acquired and developed in the professional services, voluntary and not for profit sectors, may all be relevant factors in finding the best person for a particular job.

Feedback from companies and headhunters in the course of producing this booklet suggests that there is no shortage of people with the talents required to make a positive contribution to company boards but that there are barriers, real and perceived, to more diverse recruitment.

Breaking Down Barriers to Diversity in the Boardroom

50 Chairmen Survey	Survey of 1000 high-flying women aged 35-45
96% were very interested in having women on their boards.	92% would be interested in and see themselves as adding value in an NED capacity.
only 5% said they would do something proactively about this.	Only 2% have an NED role already.
76% thought there was a paucity of female talent available.	However, over 50% act in an advisory capacity to another company or small business or not for profit organisation.
82% said they could not imagine having a female NED under 40.	Only 4% have been approached by a head-hunting company about NED roles.
66% said they could not imagine hiring a female NED under 45.	Identified as main barriers to entry:
74% felt that head-hunters didn't have access to a diverse enough pool of NED candidates.	<ul style="list-style-type: none"> • Not on anyone's radar screen 52% • No NED experience 52% • Not senior enough 14% • Not broad enough experience 9% • Too young 8%. • Being female 2%
64% said that they would still expect to fill an NED position from their personal network.	

Source: Diverse Board Appointments



SKILLS TEMPLATE

Anybody wishing to serve on a company board must have a combination of personal qualities and basic technical and inter-personal skills. One without the other is not enough.

The technical requirements relate to

- **corporate strategy and development** – understanding of what drives a commercial business, and the principles of risk management and strategic change.
- **legal, regulatory and corporate governance requirements** and the personal and collective responsibilities of directors to the company and to shareholders.
- **the principles of financial management** and corporate accounting and the drivers of shareholder value.

This knowledge can only be utilised effectively, however, if people have

- **integrity** – honesty, credibility and the capacity for independent thought.
- **leadership qualities** – the ability to command respect of others, provide feedback and intervene at appropriate times, displaying judgement and courage.
- **strategic perception** – the capacity to put a company's strengths and weaknesses and the potential impact of particular proposals into broad context, offer different perspectives and identify potential opportunities and threats.
- **analytical skills** – and the capacity to use them under pressure.
- **commitment** – to the business and to acting in the best interests of shareholders.
- **the ability and flexibility** to work with others as a team – requiring both listening and influencing skills and personal awareness of own strengths and weaknesses.

This section looks at some of the issues involved and at current initiatives to remove barriers to the further development of the supply chain. It deals in turn with

- the acquisition of basic skills;
- the development of the 'marzipan layer' in corporate management;
- mentoring and networking schemes;
- initiatives aimed at improving the business credibility of people from non-business sectors.

and rounds off with some practical tips and guidance for aspiring non executive directors.

Acquiring basic skills

The table above sets out the core skills and attributes required to serve on any company board. It provides a tool which people can use to measure their suitability for board roles and to identify areas where they need further personal development.

Help is available from a variety of sources. Many business schools offer relevant courses (Appendix 1 provides contact details) and the Company Direction programme run by the Institute of Directors is open to both aspiring non-executives and existing company directors looking to raise their skill levels. The Company Direction programme deals comprehensively with all areas considered crucial for directors to be able to make an effective contribution on a board. It consists of 8 separate modules as follows:

- Directors duties, liabilities and legal responsibilities
- Finance
- Setting strategic direction
- Human resource strategy
- Marketing strategy
- Leading and directing change
- Decision making
- Performance management

Over 2800 people are currently involved in this programme.

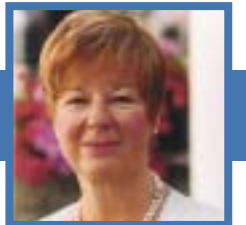
Successful completion of the Chartered Director programme represents the first step towards qualifying as a Chartered Director under the IoD's Chartered Director Scheme, the benchmark for established directors looking to raise their professional standards. In order to achieve qualification, candidates are required to have a minimum of three years' experience as a

director and go through a professional review to show that they can use their skills and knowledge effectively.

As at November 2004, there were 280 Chartered Directors but interest in the programme and the number of people involved is growing rapidly. In 2004 over 600 directors sat the IoD's examination in company direction. This compares with 215 in 2002 and 333 in 2003.

Directors can do a lot of damage to shareholders' interests and yet don't have to demonstrate any ability to do the job. I owed it to myself, and I owed it to the shareholders of my company, to be able to raise my game by being more proficient across all of the areas rather than just specialist in a few.

Mike Hall Cdir



DEVELOPING EFFECTIVE NED SKILLS

Carol Goodwin C Dir chose the IoD's Chartered Director programme to pull together her impressive track record in international finance and improve her ability to apply her knowledge and skills more fully at director level.

Carol had extensive experience in senior executive positions with major European and US banks but saw the C Dir qualification as essential preparation for taking on non-executive appointments.

"I feel strongly that today's directors need to take their fiduciary responsibilities even more seriously in this ever-changing and complex environment. In my opinion that can't be done by osmosis – it takes training and development to stay current.

"I really feel that the Chartered Director programme was a practical and time-efficient way to improve my skills as a director. It was a great opportunity to stand back from the day-to-day running of a business and deal with the more macro issues of strategy and risk – a chance to 'see the wood from the trees'. I'm now much more focused on the key roles and responsibilities of directors and on how I and my fellow board members should be spending our time in order to ensure the company's prosperity and to represent the interests of relevant shareholders.

"In the two years since I qualified I've been appointed as non-executive director to other boards and I'm sure that the C Dir qualification has been instrumental in that. Certainly I've called more and more on the knowledge I learned through the programme. It's consolidated the experience I had and made me feel more competent and confident to consider myself as a professional non-executive director. It's an effective way for both existing and aspiring non-executive directors to enhance their knowledge and skills, adding weight and credibility to their CV and ensuring that their future contribution to a board will be invaluable."

Some companies are developing their own programmes to equip potential non-executive directors with the skills and knowledge they need. 3i, for example, has been a keen promoter and supporter of good governance for many years and a pioneer of best practice in this area. They stress the importance of induction, training and performance review, and have developed an **Independent Directors Programme**, a pool of pre-qualified candidates who have been through a recruitment and referencing process and have a track record on the boards of unquoted companies. Members now serve on the boards of around 1200 3i-backed businesses. 3i also runs events for members, to enable them to develop their knowledge, skills and approaches to the role.

Developing the Marzipan Layer

Higgs and Tyson both highlighted the 'marzipan layer' of high performing managers just below board level as an important but largely

untapped source of board material. Higgs suggested that Chairmen and Chief Executives should implement executive development programmes specifically to train and develop marzipan managers for future director roles. He and Tyson both recommended that they should be encouraged to accept non-executive positions on the boards of other (non-competitor) companies.

Vodafone and Asda are two of the companies who are blazing the trail in this area and who see it as very much in their own best interests to promote the development of their senior managers through non-executive appointments to outside boards. Their experience, however, and that of other companies, shows that there are real problems involved in making the right matches and that there is a general lack of interest from potential recipient companies.

DEVELOPING BOARD POTENTIAL – A WAY FORWARD?



Tony DeNunzio, President of Asda Wal-Mart, is keen to develop the company's executive directors by finding them non-executive directorships on the boards of other companies. But Philip Horn, Head of Resourcing, who is charged with identifying suitable NED roles, thinks finding those roles is currently nigh on impossible: *"We've really struggled to find NED opportunities for some of our executive directors over the past year. One of the main reasons is that companies tend to be looking for people with finance experience who understand the City. It's more about managing the City than adding value to the company, which is very short-sighted. Even though an HR person, for example, is likely to be able to add more value to another company, it's still the Finance person they go for."*

Part of the reason for the lack of access to NED opportunities is the absence of a network to share information on potential NED recruits: *"There needs to be a forum where a couple of times a year, senior HR Directors from a range of companies could get together and talk about talented individuals in their organisation, sharing information and opening up the recruitment process. The forum would enable people to talk to an audience of like-minded people about their company and the challenges it faces, giving others there an opportunity to offer appropriate candidates as non-executive directors."*

Philip Horn is adamant about the value of external non-executive directorships to the company: *"Since we became part of Walmart, we have no non-executive directors ourselves, so there's a danger of our becoming insular. If our executive directors had NED positions on other boards, they could not only add value to the other company, but would also have the chance to learn and bring back that new knowledge and experience to benefit Asda. If you have your ears and eyes open, it's a great opportunity for personal growth and a chance to share best practice from elsewhere."*

DEVELOPING BOARD POTENTIAL – THE BUSINESS CASE



Vodafone has an established policy of developing senior leadership. When appropriate, this includes allowing senior managers to sit on the boards of other companies as non-executive directors. The company believes that first hand experience of working as part of a board and exposure to the different problems and different challenges involved can be an important part of their personal development which benefits the individuals and Vodafone.

Anthony Gilbert, Vodafone's Global Leadership Development Director says:

"When opportunities come up, we need to think hard about whether they are right for the individual, whether they will help develop the individual so that they are more effective for us, and we must remember that even though Vodafone is not directly involved, our corporate reputation is still at risk if things go wrong. But where the match is right, we see positives all round, not just for us but also for the other company involved. The numbers involved will always be small but if we could do more, we would."

As the case studies on this page show, the Government sees the marzipan layer as a rich seam of talent which ought to be, and needs to be, utilised more effectively in the best interests of UK plc. It represents a means not only of improving board effectiveness but of achieving greater diversity in the boardroom – there are many more women and people from ethnic minorities in the marzipan layer than in the top ranks of corporate management.

The Government is therefore keen to work with business in developing initiatives to address

this issue. What seems to be required is a means of facilitating contacts between employers and potential recipient companies and generally ensuring that companies looking to make new board appointments are aware of people who might be available. The benefits could be substantial. As the case studies illustrate, every board appointment made on this basis potentially offers a win: win: win for the two companies concerned and the individual involved.

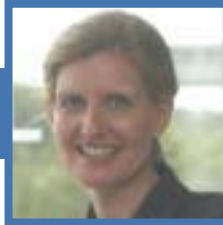
DEVELOPING BOARD POTENTIAL – THE BUSINESS BENEFIT

National Grid Transco

Helen Mahy, Group Company Secretary and General Counsel at National Grid Transco, has for nearly two years been a non-executive director on the board of the Aga Foodservice Group plc, which is listed in the FTSE 350:

"It's amazing how many issues in smaller companies come up in larger companies too. I've learned a lot from sitting on the Aga board and I've been able to transfer it to my work here. I've also been able to take some of our governance practices there as well as share relevant experiences from National Grid Transco, so both parties have benefited."

DEVELOPING BOARD POTENTIAL – A PERSONAL PERSPECTIVE



Debbie Hewitt, Managing Director, RAC Roadside Services has matched her personal development to her career ambitions, with the full support of the RAC plc board.

When she was in a more junior role in the company, the organisation placed her as a non-executive director on an internal company board specifically so that she could gain valuable 'non-executive' experience:

"I had an aspiration in my personal development plan to get on a board and I'd studied for an MBA with the express intention of developing business skills which would allow me to take that next step. The non-executive role on the subsidiary's board gave me the experience of another part of the business and developed my skills in contributing to a business that I knew little about, from a different perspective."

"A non-executive's role is quite different from an executive one; you're more distanced in the decisions you make, you're responsible for direction and shape, not execution. The advantage for the company was that they benefited from the sharing of best practice: I took what I knew to the subsidiary and brought back ideas which could be transferred to my part of the company. They also got the opportunity to see whether I had potential as board material in the future."

Debbie subsequently became RAC's HR Director with a seat on the board and today combines her position as MD of the Roadside business with a non-executive directorship on the board of leisure group De Vere. She says: *"The most effective boards are those where the company is clear about its sense of direction and the environment it's in at the time; about the balance of skills and experience that sit around the table; and about the chemistry that is created among the board members. By considering diversity, you're more likely to get that balance. It's quite unusual to have experience of both HR and line jobs, with operational responsibility. In terms of my effectiveness on the board, I can bring a whole set of different skills, knowledge and experience, including the ability to be able to stand back and really understand the big levers of the business, as well as an interest in the operational detail of how strategy translates into performance."*

Most of all though, you will only be a good non-exec if you enjoy the business and spending time with the other board members. My personal motivation is feeling that I have the ability to make a positive difference, both as an executive and a non-executive. That's very rewarding."

Mentoring and Networking Schemes

There is a growing number of mentoring and networking initiatives designed to help potential non-executives develop their skills and enhance their credibility as candidates for board appointments.

Access to a business mentor with first hand experience of boards and how they work can help people to build self confidence, develop particular skills, learn about an industry and increase assertiveness and personal impact. Networks provide a means of increasing personal visibility and acquiring new contacts.

Women Directors on Boards is a consortium which has established a unique cross-company mentoring scheme aimed at developing women in the 'marzipan' layer in preparation for board-level appointments. More than 20 FTSE 100 Chairmen or CEOs have committed to act as

mentors to women who have been identified by their peers in other companies as having the potential to get to main board level. The scheme is being sponsored by The Change Partnership (one of the members of Women Directors on Boards). The Chairmen involved acknowledge that one of the biggest contributions they can make towards 'changing the face of UK business' – in addition to providing encouragement and guidance to these women – will be to support their mentees in working towards their first non-executive appointment in the FTSE 250.

A further spin-off from this scheme is the bringing together of the marzipan level mentees into an informal networking group, with the intention of them learning from and supporting each other. PricewaterhouseCoopers have agreed to sponsor this networking group.

THE FTSE-100 CROSS-COMPANY MENTORING PROGRAMME – WHAT AND WHY



In 2003 a number of Chairmen and Chief Executives from FTSE-100 companies asked Women Directors on Boards to devise a Programme that would enable them to contribute to the fast-track development of senior women with the potential to take up executive and non-executive board positions. As Sir John Parker, Chairman of National Grid Transco, said: *"We have to put some effort into accelerating the opportunity for some women executives who may be currently below Board level, who have the experience and skill mix to make a top executive. We may have to treat one or two people on our Boards as "investments for the future." I am cautious about tokenism – the Board has a huge responsibility to shareholders – but we can make sure that we make space for one or two people who are still in the "development" phase."*

How does the Programme work?

The FTSE-100 Cross-Company Mentoring Programme, sponsored by The Change Partnership, is the result. The Programme is business-to-business and currently limited to the FTSE-100 but with the potential to expand. Each FTSE-100 Chairman or Chief Executive nominates a senior executive woman from the "marzipan layer" of their own company to be mentored by another FTSE-100 Chairman or CE, and agrees to mentor a woman from another, non-competing FTSE-100 company.

The Programme not only provides the mentees with the benefit of access to top-level insights and experience; it is a way of introducing "new" women candidates to Chairmen, who are in a position to nominate candidates for their own and others' boards and creating new female role models for other women in the talent pipeline. At the corporate level its all about increasing Board effectiveness and the range of talent capable of adding value to the problem-solving and decision-making that shape the strategy of Britain's top companies. There are currently 21 FTSE-100 companies committed to the Programme with more in the process of joining.

Why have FTSE100 Chairmen agreed to participate?

The Chairmen and Chief Executives participating in the Programme told *Women Directors on Boards* that they are impatient with the current pace of change and concerned that they don't see the talent in their companies being represented round the Boardroom table. Lord Dennis Stevenson, Chairman of HBOS and Pearson, observed that "while I hope that we ensure equality of opportunity for women for all the "right"; if you like, social and moral reasons, there is an over-riding reason why it is in our interest to do so – namely that we make fuller use of the talents available to us and have a better company as a result".

As well as making optimum use of the talent available in their own companies, the Chairmen and Chief Executives want to find talent from outside their organisation, and expressed frustration with the perceived difficulty of having access to "new" women candidates. Sir John Parker commented: *"we want to look at talent which comes through sources that we wouldn't necessarily have tapped ourselves, or which headhunters wouldn't have had on their radar screens."*

Improving the credibility of people from non-business sectors

The non-commercial sector is another promising source of non-executive director material and one which both Higgs and Tyson identified as currently under-exploited.

The attributes and expertise of leaders in this 'third sector' can be highly relevant to company boards.

THE SKILL SETS OF THIRD SECTOR CEO

Managing a double bottom line – third sector CEOs must demonstrate strategic, operational and financial management skills and the ability to make the best use of limited resources whilst managing the competing and conflicting expectations of stakeholders.

Corporate governance – third sector CEOs have significant governance experience, managing relationships with a non-executive board of trustees, patrons and other stakeholders. As third sector board members, they must show competences that apply equally to private sector non-executive directors, including strategic direction, monitoring of the executive, and accountability to stakeholders.

Leadership – setting out the organisation's vision and strategic direction, and achieving buy-in from others in order to realise it are essential elements of the job.

Media relations – as the public faces of their organisations, third sector CEOs have to be adept at media relations and communications strategy, skilled at building the public and media profile of their organisations and at managing adverse media comment.

Networks and partnership working – third sector CEOs have relationships across sectors at all levels, through fundraising connections, partnerships with other organisations, and their key role in the development of public policy. They know where power lies and how to influence it for the benefit of their organisation.

Organisational change and development – third sector organisations' operating environments are subject to frequent change. Social markets can expand, contract and change focus rapidly, and organisations must adapt and respond to change to remain viable. Third sector CEOs must lead organisations through periods of growth, downsizing, realignment and mergers, whilst maintaining a clear focus on the organisation's core values, mission and sustainability.

Resource mobilisation and creativity – third sector CEOs juggle limited resources (both financial and human) against sometimes infinite demand, and manage the competing demands of disparate stakeholder groups, using innovation and lateral thinking to tackle complex problems. Bringing this creative approach to the boards of companies could be of significant value.

Commitment to service quality – third sector CEOs have a genuine empathy with service users and considerable experience in providing quality service delivery often in competition with the private sector.

Corporate social responsibility – third sector CEOs have substantial experience and knowledge of the wider social context in which business must operate. They are used to handling the ethical, social and political implications of decisions. Many also have specialist knowledge of 'social markets', such as care of the elderly, and the environment. This is an extra dimension they can bring to a board as businesses take seriously the reputational risk of adverse publicity.

Source: ACEVO and Hay Group 2003, *Passionate Leadership* – The characteristics of outstanding leaders in the voluntary sector.

Anyone who has a large, complex organisation in the voluntary or wider public sectors will have encountered many of the challenges with which large companies are faced. Whether or not they are run for profit, all businesses demand clear vision and commitment, a focus on strategic direction and the need to deliver

results for stakeholders. Leaders in not-for-profit organisations can often bring not only specialist technical or scientific knowledge, but skills in dealing with a diverse cross-section of stakeholders and experience of handling sensitive political issues, nationally and internationally.

To date, however, companies have made limited use of this potentially rich source of talent. People from the third sector are generally perceived by companies as lacking requisite business skills and experience and the credibility to carry conviction with shareholders. Low take up means that people in the sector, with an interest in joining a company board, have little incentive to acquire any additional skills they might need in order to enhance their credibility and limited access to business networks.

More needs to be done to open up this part of the supply chain.

In conjunction with the Cass Business School the DTI is therefore sponsoring 'Thinking Laterally – The 21st Century Board', a conference for members of boards in both the private sector and the third sector, where participants will be able to debate with their peers from other organisations and with eminent speakers, issues associated with what chairmen and executive directors in the private sector would expect the non-executive directors from the third sector to contribute; and the qualities sought from potential non-executive directors. The aim is to raise awareness on both sides and identify ways to move forward the process of non-executive director recruitment from the non-commercial sector.

In the light of the conference, Cass intends to explore the scope for offering a programme to train senior executives in the third sector for non-executive positions in plcs. The programme will develop the competencies candidates need if they are to make a positive contribution to a company's board, addressing topical issues relating to accounting, auditing, and remuneration in public listed companies, and offer practical advice on CV construction, networking and dealing with headhunters. It will also give participants the opportunity to share experience, exchange views and interact with FTSE Chairmen and senior board directors, headhunters and people from the professions and academia.

Another possibility, using the same basic model as the FTSE 100 Chairmen's mentoring programme, might be the development of a scheme providing a basis for non-executive directors with experience of different kinds of

boards and companies to act as mentors to prospective candidates for appointments. Any such scheme might be particularly useful in relation to people from the third sector with non-commercial backgrounds.

Tips for Aspiring NEDs

The Tyson Report included a list of tips for aspiring non-executive directors with a view to encouraging more diverse recruitment. The Change Partnership and a number of other organisations have subsequently produced similar lists.

What comes out of these lists, and feedback from individual directors is that people seeking, or considering, first board appointments need to

- be clear about
 - why they want to join a board and what they hope to achieve by doing so;
 - what they have to offer and where they can best add value;
 - how a board appointment will fit in with their current job and help to take forward their personal development;
- recognise that the circumstances of every company are different and that they need to focus on those where they can make a difference and what is required in order to do that;
- raise their profile and establish personal credibility by acquiring relevant business qualifications or experience, finding a mentor or joining a business network;
- know what being a director involves in terms of legal responsibilities and liabilities and ensure that there is no scope for conflicts of interest.
- do as much homework as possible before accepting an appointment so as to build up a profile of the existing board and how it works;
- satisfy themselves that the company's induction process and arrangements for supporting board members will enable them objectively to carry out their role and contribute to the development of the company.

"My advice is to work out what your uniqueness is – what experience and skill sets you can bring – and then sell it relentlessly."

Debbie Hewitt, Managing Director, RAC Roadside Services

WHAT DO HEADHUNTERS LOOK FOR?

- **People who 'rule themselves in':** Those with a positive but realistic self-image who are able to show that they want – that they hunger for – the whole of the board role and not just the most exciting or prestigious aspects. Such people will have a story to tell. They will have been successful and will have thought through the reasons for that success such that they will always regard the role for which they are a candidate as 'the natural next step' in their career.
- **Confidence:** Those who speak with clarity, authority and a realistic sense of self, but do so in a style that is succinct and to the point, with evidence of having thought about their achievements and their context. This implies people who can explain how their presence in a board would add value with good (true!) stories of themselves to use by way of illustration.
- **Emotional intelligence:** This is a set of traits coming more and more to the fore. Headhunters will be alert to candidates who are polite and courteous as well as competent, professional and approachable: and who show real evidence of emotional intelligence...
- **Personal appearance:** It matters, for male and female candidates alike. It is not just about being well tailored, but coming across as being in control of your life. It is also about appropriateness of style, of 'looking the part', of taking pride in being asked to represent the company and its shareholders.
- **Longer-term preparation:** People who have consciously prepared themselves for success (e.g. by seeking relevant learning and new experiences) will make a better impression than those with a more laissez faire approach to career management. Having taken control of their own lives in that way, they are more likely to take control as a director.

Source: The Change Partnership

Conclusion

All this underlines the central theme of this booklet. Building better boards is about people and how they work together. Perception, and personal connections, matter. Having necessary basic skills and attributes is no guarantee that a

person will be appointed to a board, any more than it guarantees that a group of directors will function as effectively as a board. People need to work at it.

"In recruiting to the board, companies should have the confidence to look at candidates from a wide range of backgrounds and not just those who have come through the 'traditional' route. At the end of the day, companies need to be open-minded in looking for those people who can add value to the board.

Miles Templeman, Director General, Institute of Directors



Appendix 1: Sources of Further Information

Confederation of British Industry
<http://www.cbi.org.uk>

Providers of Board Development Programmes:

Ashridge Management College
<http://www.ashridge.org.uk/>

Cranfield School of Management
<http://www.cranfield.ac.uk/prospectus/som/index.cfm>

Durham University Business School
www.dur.ac.uk/dubs/

Henley Management College
<http://www.henleymc.ac.uk/>

Manchester Business School
<http://www.mbs.ac.uk/>

Institute of Chartered Secretaries and Administrators
<http://www.icsa.org.uk/>

Institute of Directors
<http://www.iod.com>

Leeds Metropolitan University
<http://www.lmu.ac.uk/lbs/>

London Business School
<http://www.london.edu/>

Loughborough University
<http://www.lboro.ac.uk/departments/bs/>

Oxford University /Templeton
<http://www.templeton.ox.ac.uk/>

Sunley Management Centre
<http://www.sunley-northampton.co.uk/index.php>

University of Bristol
<http://www.bris.ac.uk/index/faculties/>

University of Salford
<http://www.som.salford.ac.uk/>

3i
<http://www.3i.com/about/peopleprogrammes.html>

The inclusion of a list of training providers within this document does not indicate competence within the field and the information provided is not an exhaustivelist of available providers. However, care has been taken to ensure that the key providers are listed within this document.

Other Information Sources:

Association of Chief Executives of Voluntary Organisations
www.acevo.org.uk

Board Performance Ltd
www.Boardperformance.com/

Combined Code
<http://www.frc.org.uk/documents/pdf/combinedcodefinal.pdf>

Companies House
<http://www.companieshouse.gov.uk/>

and the role of a company director
<http://ws2.companieshouse.gov.uk/frame.cgi?OPT=notesfaq&PAGE=notes/>

Convivium
<http://www.forleaders.co.uk/>

Financial Reporting Council (FRC)
<http://www.frc.org.uk>

Institute of Chartered Accountants in England and Wales (ICAEW).
<http://www.icaew.co.uk/idregister/>

National Council for Voluntary Organisations
<http://www.ncvo-vol.org.uk/asp/search/ncvo/main.aspx?siteID=1>

The Boardroom
<http://www.theboardroomcentre.co.uk/>

The Higgs Report
http://www.dti.gov.uk/cld/non_exec_review/pdf/higgsreport.pdf

The Tyson Report
http://www.london.edu/tysonreport/Tyson_Report_June_2003.pdf

The Change Partnership
http://www.wmann.com/cp_uk.asp?ID=6



Appendix 2: List of Contacts

List of people and organisations that we have spoken to or, received input from, in preparing this publication. We are grateful to all concerned for their help.

Aurora Gender Capital Management	Mercer Delta Consulting
Acevo	Mothercare
Asda	MTI Partners Ltd
Astrazeneca	Murray Steele
BoardEx	National Grid Transco Plc
Board Performance Ltd	National Council for Voluntary Organisations
The Boardroom	Odgers
BP	Penna Plc
Brenda Hopkins	PriceWaterhouseCoopers
Business in the Community	RAC Plc
Caroline Theobald	Russell Reynolds Associates Ltd
Cass Business School of Management	Saxton Bampfylde Hever Plc
Chris Guest	Spencer Stuart
City Women's Network	Standard & Poor's
Confederation of British Industry	Tomorrow's Company
Convivium	3i
Cranfield University	Unilever Plc
The Centre for Developing Women Business Leaders	Vodafone
The Change Partnership	Veredus
Diverse Board Appointments	Women Directors on Boards
Egon Zehnder International	Women Into the Network Group – Durham
Exec-Appointments	University
T S Filatotchev	The Zygus Partnership
Flomerics Ltd	
FormScape Software Ltd	
Goldman Sachs	
Hanson Green	
Heidrick & Struggles	
Hermes	
ICAEW	
Independent Director Search	
Institute of Directors	
The International Alliance for Women	
Jacey Graham	
Keith Jordon	
Korn Ferry International	
London Business School	
Longbridge International	