

4 September 2002

Mr Derek Higgs
Non Executive Directors Review
Room 2/42
Department of Trade & Industry
1 Victoria Street
LONDON
SW1H 0ET

Dear Derek,

The Non Executive Directors Review

I am delighted to respond to your review on the role and effectiveness of non-executive directors. ACEVO (Association of Chief Executives of Voluntary Organisations) is a unique organisation being the only one of its kind in England and Wales. We are a professional association for charity and not for profit chief executives and our object is to help the sector deliver by creating impact through leadership and management; through carefully focused services, training, advice and a series of activities to help members enhance leadership and personal development.

Our comments for the Review relate to the issue of attracting and appointing non-executives. We surveyed our members in the third sector on this issue and our comments are based on responses from 188 executives in the sector. The charitable and not for profit sector is usually ignored in such matters. This is despite the fact that our annual turnover is, according to the latest Treasury estimates, £15.2 billion with an investment base of over £80 billion. As an industry we are therefore larger than some of those from which you would normally attract non-executive directors.

The failure to consider and appoint chief executives from third sector organisation highlights the current inadequacies of the appointment process (if one can call it that) for non-executive directors in the commercial sector. I am attaching the analysis of the survey we conducted which I am sure you will find of interest.

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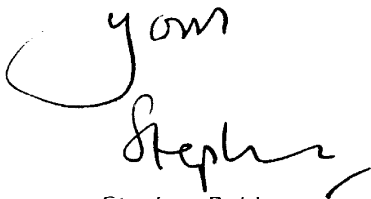
Mr Derek Higgs

You will note of our 188 surveyed chief executives only 18% have been NEDs in the commercial sector though 82% said they are interested. Many have significant business expertise. Participants expressed concern that there is a general reluctance by commercial firms to make appointments from our sector. There is a feeling they are overlooked because they have lower salaries and smaller budgets which is equated with lower ability. This is not the case.

In making this submission we would argue that practical steps need to be taken to expand opportunities for appointments. We would propose that DTI consider the establishment of a register or potential non-executive director candidates from the not for profit sector. ACEVO would be happy to assist in the establishment and running of such a register. The register would be open to applications from chief executives and senior directors in the sector. The selection criteria would clearly need to be established and a form of interview for placement on the register would ideally be sensible. Companies could then be encouraged to make use of the data available when considering the appointment of non-executive directors.

The talent/business acumen and understanding of corporate social responsibility and ethics make many not for profit chief executives prime candidates for appointments. Why are they not being considered?

Best wishes.

The image shows a handwritten signature in black ink. The signature is written in a cursive style and appears to read 'yom' on the top line and 'Steph' on the bottom line, with a long horizontal stroke extending to the right from the end of the name.

Stephen Bubb
Chief Executive

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ACEVO QUESTIONNAIRE ANALYSIS

September 2, 2002

The Voluntary Sector and Appointments of Non-Executive Directors to Commercial Plcs.

Introduction: (The Question)

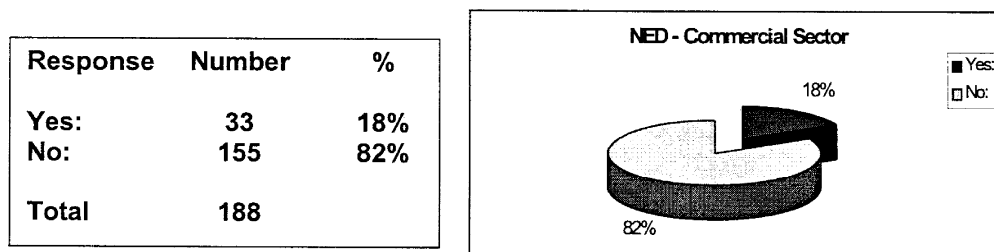
Over the past few weeks Hanover Fox International (HFI) has been working with the Association of Chief Executives of Voluntary Organisations (ACEVO) in preparation for their submission to the Derek Higgs Review, regarding their participation (or otherwise) as Non-Executive Directors. A key issue for ACEVO is the interface between the voluntary and commercial sectors, and in particular the role which senior executives in the voluntary sector may have to play in the composition of plc boards. HFI was interested in conducting this research upon meeting Mr. Stephen Bubb, Chief Executive of ACEVO. Mr. Bubb expressed concern that when Non-Executive Director positions become available, executives in the voluntary sector are generally overlooked. Essentially, he felt that Chief Executives in the third (not-for-profit) sector were discriminated against and wanted to know, firstly whether this was the case, and secondly, what were the possible reasons.

Part 1: Methodology

In response to Mr. Bubb's assertion, Hanover Fox International designed an online questionnaire (see Appendix 1) in order to understand ACEVO's position in this matter. The questionnaire was then forwarded to 1300 of ACEVO's members. HFI received 188 completed questionnaires. The findings were then tabulated, graphed and analysed. The following report is a discussion of the questionnaire findings along with our own recommendations to ACEVO. We hope that aspects of this research will be a welcome addition to ACEVO's submission to Mr. Higgs.

Part 2: The Findings (ACEVO Questionnaire Data)

***Figure 1: ACEVO Members who have been Non-Executive Director in the Commercial Sector.**

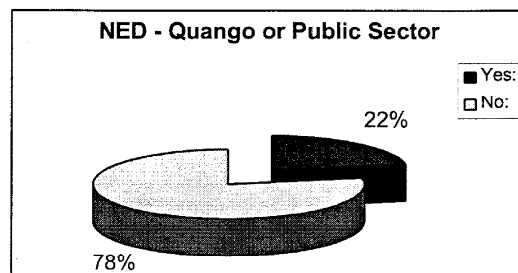


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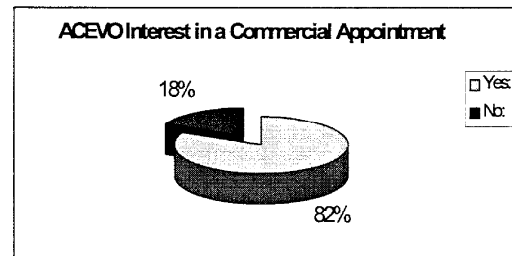
***Figure 2: ACEVO Members who have been a Non-Executive Director in a Quango or Public Sector body.**

Response	Number	%
Yes:	41	22%
No:	147	78%
Total	188	



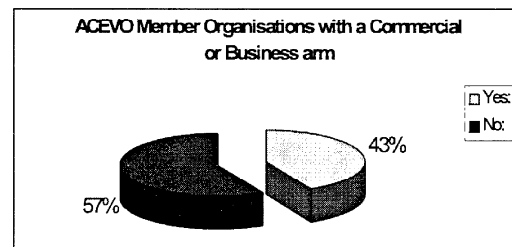
***Figure 3: ACEVO Members Interested in an Appointment as a Non-Executive Director in the Commercial Sector.**

Response	Number	%
Yes:	154	82%
No:	34	18%
Total	188	



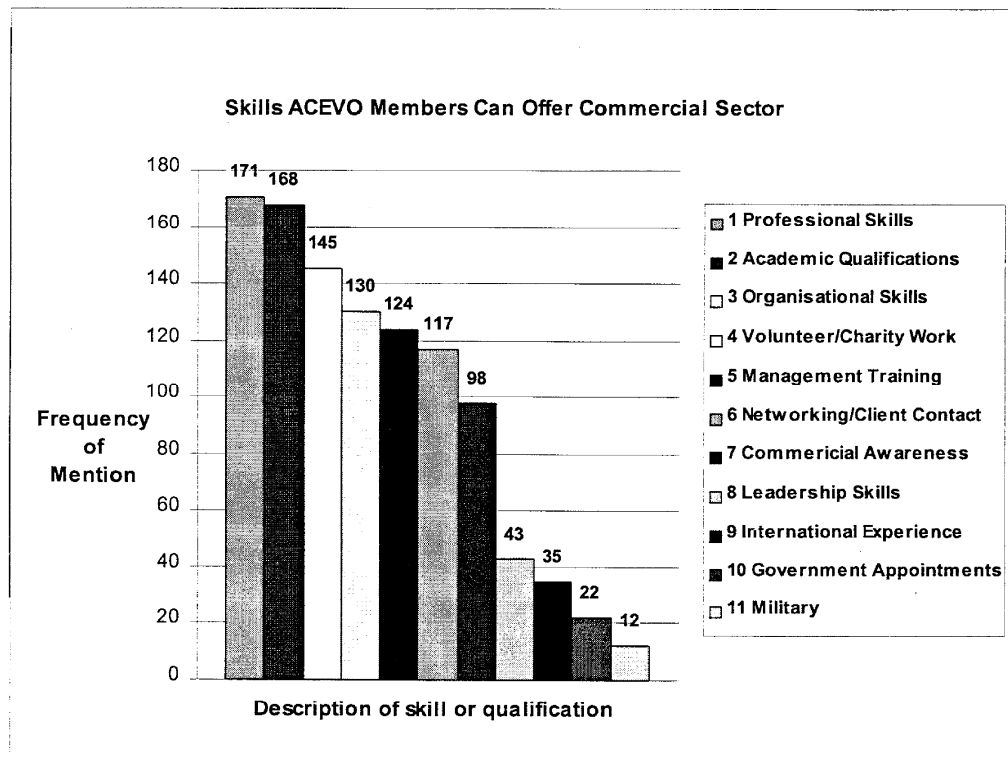
***Figure 4: ACEVO Members with a Commercial or Business Arm.**

Response	Number	%
Yes:	80	43%
No:	108	57%
Total	188	



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***Figure 5: Skills and Qualifications ACEVO Members could offer Commercial Plcs.**



Part 3: Conclusion (What does this data suggest?)

- When compared, Figures 1 and 2 indicate that only 18% of ACEVO members have been Non-Executive Directors in the commercial sector, while 22% have been appointed NED's in the Quango or public sectors.
- Figure 3 clearly indicates that ACEVO members are genuinely interested in Non-Executive Director appointments in the commercial sector. The data in Figure 3 illustrates that 82% of ACEVO participants, who have not already served as NED's in the commercial sector, wish to do so.
- Figures 1 to 3 show that there is a incongruence between the aspirations of ACEVO Chief Executives gaining appointments to commercial boards and the lack of achievement of this objective by this group. However, the data does not conclusively indicate whether ACEVO members are under-represented as NED's in the commercial sector.
- Figure 4 suggests that a significant percentage of ACEVO members have the commercial and or business expertise to be taken seriously by members of commercial boards. According to our findings, 41% of

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ACEVO members are heading organisations with a commercial or business arm. This figure may appear low, but it should be noted that the remaining 57% who indicated that their organisation did not have a business arm, informed us that they ran their organisations with the same accountability and standards employed by the commercial sector.

- Interestingly enough, among the many issues under consideration, the Higgs Review is concerned with determining what knowledge, skills and attributes are needed, and what can be done to attract, recruit and appoint the best people to non-executive roles. Figure 5 illustrates the depth and range of skills that ACEVO members could bring to appointments in the commercial sector. ACEVO members have submitted that many of the requisite skills and qualifications needed to be effective in the voluntary sector are transferable and interchangeable with those demanded in the commercial sector.
- The extent to which third sector skills or qualifications are transferable or interchangeable in the private and commercial sectors, cannot be concluded with any certainty until the role of Non-Executive Directors is clarified by the Higgs Review.
- Participants also expressed concern that there is a general reluctance by commercial executives to make appointments from the voluntary sector. Accordingly, ACEVO participants maintain that appointments from the voluntary sector are often overlooked on the basis of their having lower salaries and managing smaller budgets. Unfortunately, this perception is often equated with lesser ability, which is simply not the case.
- Figure 5 indicates that members of the voluntary sector are multidimensional and possess the requisite commercial awareness. According to ACEVO responses, the strength and suitability of third sector skills and qualifications (Figure 5) are overlooked frequently by commercial plcs.

Part 5: What Can be Done?

In the following section we offer further reasons why third sector executives are often overlooked by commercial plcs. We also provide recommendations for overcoming these barriers.

What is Needed?

1) Further Research:

- These figures and findings from ACEVO members suggest that Chief Executives in the third sector are discriminated against when it comes to NED appointments to the commercial sector. In short, the skills and qualifications of ACEVO members are occasionally not recognised by commercial boards as having similar value. The question as to whether a perceived prejudice does in fact exist, however, will not be ascertainable without further analysis of the commercial sector. In an attempt to address this concern, HFI targeted Company Secretaries of FTSE 100/250 businesses with a slightly different questionnaire in order to identify any common trends arising with regard to their views as to the suitability of third sector executives for Non-Executive Directorships in commercial plcs. To date, out of 85 questionnaires sent to commercial Company Secretaries, we have received an insufficient number to make such an analysis. Nonetheless, we will obtain feedback from the commercial sector provided these concerns are brought to the attention of Mr. Higgs. The combination of our findings would provide an ideal context for which to review the effectiveness and methods of appointing Non-Executive Directors in both the commercial and third sectors.

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2) Raising the Profile of ACEVO Members.

- As for the contention that there is a general reluctance to appoint from the voluntary sector, steps should be taken by ACEVO to ensure that misconceptions, such as lower pay amounting to less ability, are dispelled. The findings of Figures 4 and 5 suggests that ACEVO and others from the Third Sector can offer much to commercial boards in terms of breadth and depth of organisational expertise.
- Many participants in the questionnaire felt that CEO's of small and medium voluntary sector organisations are in many respects both generalists and specialists and can, therefore, offer greater insight when reviewing the governance of plc boards. It is, therefore, crucial that ACEVO makes considerable efforts to raise the profile of the third sector.

4) Recruitment

- When asked in Question 6 (See Appendix 1) "to what do you ascribe the unsuccessful outcome?," a large contingent responded that their failure to gain an appointment to a Non-Executive Director role in the commercial sector was largely the result of inadequate or unfavourable recruitment practices. ACEVO members believed that selection is made primarily on "old boy" network-type connections. This concern should be brought to the attention of Mr. Higgs, so that he may be able to determine the selection criteria employed by commercial plcs. Again, the Higgs Review is very interested to determine what knowledge, skills and attributes are needed, and what can be done to attract, recruit and appoint the best people to non-executive roles. ACEVO can assist him greatly in this regard.
- Many of the ACEVO members who served as an NED on a commercial board maintained, however, that their success was largely due to personal or professional connections. Many members, because of their professional history, had been board members or were appointed because their skills were known and of significance to the plc in question. A trend, therefore, emerged whereby successful applicants had the requisite experience and the contacts to get them in the door. Finally, the data suggested that success was not solely a matter of being in the right place at the right time, but rather a combination of possessing necessary qualifications and having valuable contacts.

