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Non Executive Directors Review

Please find a few brief responses.

1. Overall, the non executive candidate population is defined and targeted too narrowly. There is a focus on "names", rather than specific skills and experience that serve the company and its strategy or keys to success.
2. This phenomenon is exacerbated by the non-exec headhunters. Further there is a lot of mutual "back scratching" between headhunters and candidates. I have first hand experience, as an ex CEO, of CEO's colluding with headhunters such that if they receive non exec introductions, then that headhunter will get assignments within the CEO's company. This occurs at the biggest and best headhunters.
3. There is a lack of systematic thought about the purpose and role of the plc board and of the contributions required from non-execs...e.g.to what extent are their contributions complementary and supportive of the company's strategic/people imperatives. Examples of where this works well are Bunzl and Exel, two companies over the last decade that have recovered from poor positions to successful ftse 100 companies.
4. There is insufficient understanding of and focus on board effectiveness. The roles are poorly defined and there are no "metrics" in place. Further, the lack of courage and lack of clarity means that there is usually no evaluation of the performance of the board nor its non executive directors. Too often it is the CEO controlling the board and appointments to it rather than the Chairman.

5. Following points 3 and 4 there is insufficient group and individual development activities for the board and little training or coaching for non executives. There should be a greater willingness of the Chairman or board to engage in developmental activities with development or coaching organisations.

6. Often non execs are not great strategists and do not pay sufficient attention to people development in the company. These are key qualities.

7. Non execs are frequently dependent on the rewards and status of these roles and are not prepared to face up to differences of opinion with the executive directors.

8. Understanding what went wrong in Marconi would teach us some lessons; either the non execs were not as close to the situation as they should have been, or they were incapable, and or they did not stand up to the CEO and Finance Director.

9. Non execs should be required to visit and understand the operations of the company sufficient to enable them to really understand the components of strategic discussions at the board. Their responsibilities and expected duties should to a limited extent be formalised on appointment. The appointments committee should develop formalised non exec. remits that are aligned to the strategic needs and experience lacking at board level.

10. Chairmen require a delicate balance of assertiveness and an inclusive facilitative style that encourage open discussion. Development activity for Chairman should be more frequent. Clearly these are sensitive issues, but non executive/chairman coaching or development would help. Just as execs go through an assessment process perhaps non execs should.

11. Perhaps in terms of retaining their independence, rather than encouraging non execs to invest in the company's shares they might be prevented from so doing. There is an argument that share ownership encourages short termism. Or perhaps they have a stock grant that vests over three plus years. I would rather that they were paid an appropriate rate for the job with clear definition of their contribution and transparent performance evaluation by the Chairman/ appointment committee.

12. There should be developed a code of best practise for non execs that is recognised by all stakeholders in the uk and companies should

be obliged to state in the annual report whether or not they comply with this code. Such a code could insist that the board itself annually reviews the way it functions and identifies actions to be implemented to raise its effectiveness in meeting its goals. This code need not be overly rigid or bureaucratic but a guide to help the board be constituted and raise its overall effectiveness. In many ways this is what the Higgs report is providing, in substance.

As always, it is about the judgement of the Chairmen and the quality of the candidates. The former are of varying quality themselves and need external support.... they should be regarded as carrying out a valuable profession rather than a quieter role towards the end of a career. They need to expand their horizons and be more innovative; conversely the city institutions are critically conservative. But who appoints the Chairman? Should there be more stakeholders involved with his/her appointment, e.g. shareholders.

Yours faithfully,

Raymond Dinkin