

# Review of the role and effectiveness of non-executive directors

**Submission by Alex Hammond-Chambers,  
A professional non-executive and independent director of companies**

**About my submission:** It is based on observations (over a period of time), on opinions (which by their nature are personal views) and on convictions. Because there were so many questions posed by the paper - c.80 - and because many of the responses will not add much to the sum of knowledge, I have highlighted in yellow those parts that contain those convictions that I believe will not necessarily be given wisdom or indeed may be quite contrary to common consensus.

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- Background of submitter

I am non-executive Chairman of Dobbies Garden Centres, a small, AIM listed company; and Chairman or director of 15 investment trusts/companies.

I wish to make a submission to the Derek Higgs enquiry because

- (i) being a non-executive director is what I do for a living; and
- (ii) having been intimately involved with boards for over 33 years, I have considerable experience of their workings and *am concerned at some of the thinking on the matter.*

My career consisted of working for the fund managers, Ivory & Sime for 27 years - first of all as a fund manager and then latterly as executive Chairman of the Company. Ivory & Sime's fund management speciality was the management of investment trusts, so that from an early stage I was involved in working for a board of directors.

The investment process of Ivory & Sime involved a lot of company visiting, all over the world; assessing corporate governance was a key aspect of the decision making process concerning whether or not to invest in a company. Most unusually for a fund management company, it was the policy of the firm that their senior fund managers have one or two non-executive directorships so as to understand better the process of managing a company and what were the issues that their managements faced. We were schooled in the importance of good boards and their workings.

In 1992, I retired from Ivory & Sime and undertook a second career of being an independent, non-executive director of companies with particular but not exclusive focus on investment company directorships. During the last 33 years I have worked for and with (as a non-executive director) in excess of 200 directors (very largely non-executive) of circa 40 companies, mainly but by no means exclusively investment companies; I have been a director of different companies in the mining, oil, retail, wholesale, advertising, hospital, investment banking, fund management, factoring, and software industries in the UK, USA and Canada. Most of them were smaller companies. I have seen a myriad of good and bad directors and of good and bad boards.

## Summary of conclusions

- The very fact of instituting an enquiry into the role of non-executive directors suggests that - generally speaking - non-executive directors are not proving effective in their roles on boards. I believe this conclusion to be wrong and that this enquiry has been provoked by events in America, not in Britain.
- As a consequence of the various reports - Cadbury etc - and the increased attention paid by institutions on corporate governance, there is now a new, much more independent and conscientious culture amongst non-executive directors. While there is always room for improvement in anything we do, there is no need, nor indeed a case for substantive change. Having fixed it, it is working; don't refix it.
- However as a consequence of the considerable attention now accorded to monitoring performance, risk reduction and conflicts of interest, there is now a change of emphasis in the purpose of a board of directors. Business is about risk assessment and making decisions and the danger now is that we will create an environment of trying to do no wrong and succeed in doing no right: no Enrons, no Worldcoms BUT no Microsofts, no Wal-marts (to name but two great American success stories). Our corporate governance has not achieved great success stories.
- Much of the corporate governance best practice that has been established is based on the governance of large companies but applied to all companies whatever their size. This is a major criticism of our current corporate governance regime and needs separate consideration. The corporate governance of smaller companies is a subject of its own. In particular, the role of non-executive directors of small companies is different.
- It is also true to say that a lot of corporate governance best practice concerns perceptions, the need to be seen to be behaving in a prescribed manner. Such provisions generally add to the burden of corporate governance without improving its effectiveness. (I have not dwelt on the need for perception in my submission, disliking as I do the distrust that lies behind them). Rules, regulations and best practice guidance cannot be a substitute for the trust that must exist between a board of directors and shareholders for corporate governance to work properly.
- The role of non-executive directors covers both a positive aspect of contributing to the progress and development of a company and the passive aspect of monitoring performance, risks and conflicts of interests.
- On the whole boards are too big, making it difficult for non-executive directors to make much of a contribution to the successful development of a company's business. There should be a majority of non-executive directors on the boards of listed companies.

- The role of a non-executive director is becoming more and more onerous and specialised, requiring experience and understanding of business, law and accounting and certain business skills. The appointment of a non-executive director should not be seen as being akin to someone being honoured (c.f. the House of Lords). A board of directors is not a community committee with a broad base of special interests. There is no reasonable *business* case for greater diversity on boards.
- There is a surfeit (which will grow considerably in the coming years) of appropriate candidates for non-executive directorships. Non-executive directors too often find themselves being asked by others to find them board places for them. There is no need to widen the pool.
- The issue of independence of non-executive directors is controversial; there is a spectrum of opinion, which varies between the concept of box-ticking qualifications to that of the personal attributes. There is no doubt that "independence" refers to strong, independent behaviour (particularly in difficult situations) and is a function of a person's character - not his/her CV.
- In particular the concept that the time served on a board compromises independence is false. It takes quite a long time for any non-executive director to know and understand the company that he/she is a director of (at least a business cycle); experience and familiarity of a company (gained through time served) strengthens independent behaviour.
- The role of the Chairman is key to the success of the board generally and to the performance and independence of the non-executive directors. As with any team, a good leader brings out the best in members of the team - a bad leader reduces it effectiveness.
- The major issues that I believe need highlighting are:

- (i) The balance of emphasis of the business of boards has shifted from building for the future (positive role) to avoiding making mistakes (passive role) - too much so in my opinion;
- (ii) Too many corporate governance best practice guidelines have been arrived at by generalising from the particular and as a consequence quite a lot of them are generally not unequivocal. Where they are a matter of opinion, they need to be recognised as such.
- (iii) In particular too many corporate governance guidelines are based on what's relevant for large companies; smaller companies need separate consideration.
- (iv) Boards are generally too big and should have a majority of non-executive directors (they do).
- (v) Non-executive directorships are increasingly for the experienced.
- (vi) Independence concerns independent behaviour and is a character issue - not a CV one.
- (vii) The role of the Chairman is much more important than is given credence.

I believe these issues need highlighting but, as I repeat ad nauseam in my submission, they don't need yet more rules, regulations or best practice guidelines (particularly controversial ones).

ARTICLE FROM THE DAILY TELEGRAPHY

WRITTEN BY LUKE JOHNSON

Entitled

"THE AGONY AND THE ECSTASY OF NON-EXECS"

My hand written comment:

There is nod doubt that being a NED is like guaranteeing someone else's bank loan -  $\frac{1}{2}$ % upside, 100% downside.

## Formal answers to the questions posed by the Consultation Paper

### A: Role

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What role should non-executive directors perform, and how does this compare to the present position?

1. What is the role of the board? What is the role of the Chairman and how does it relate to the non-executive directors?

As the more formal name - the board of directors - implies, it is to *govern and direct* the management of the company; in turn it involves leadership. The role of the Chairman is to manage and lead the board in the execution of its duties; his/her relationship with the non-executive directors, is as *their sole leader* and in theory should be no different to that with the executive directors, who are also charged with the governance and direction of the management of the company; in practice the Chairman is the sole leader of the non-executive directors while the executive directors report to the CEO, *qua* their positions as executives (but not, it should be re-emphasised, *qua* their role as directors) and that can cause complications; a good and experienced chairman should be able to handle them.

2. What should be the key roles of non-executive directors on the board and what should be the balance between the different components? Within a board, should all non-executive directors be expected to fulfil each of the different roles?

There are three roles that non-executive directors should be expected to carry out:

- Helping management to manage and to develop the business of the company;
- Monitoring the performance of the company; and
- Dealing with conflicts of interest.

All three roles are very important. The importance of each role however will vary from company to company and is not capable of generalisations. However it would be fair to say that **the smaller the company the more important is the role of helping management**; the American venture capital non-executive directors are particularly adept at this.

Yes - all the non-executive directors should be expected to fulfil each of the different roles but each according to his/her own experience, aptitude and skills. It is basic to the concept of collective responsibility.

### 3. How does this compare to the present position?

Again this will vary from company to company but it is fair to say that, as a consequence of the huge emphasis laid on corporate governance in the last few years, board meetings have become more concerned with monitoring, with conflicts of interest and with personal reputational risk avoidance - detracting from dealing with the strategy and development of the business. If we are not careful we will create a corporate environment where nobody does anything wrong - nor anything positive and constructive.

### 4. How independent do non-executive directors have to be for the different roles?

Because independence is primarily a state of mind (see definition of independence) and not determinable through a set of qualifications, there are no degrees of independence. Clearly non-executive directors with a financial interest in the operations of the company (excluding their fees and shareholding) are not independent and may, only may, find it difficult to deal with conflicts of interest issues. It is unfair to assume that all, even most, non-executive directors will not be able to handle conflicts of interest issues, given proper integrity and an awareness of the issue. If a non-executive director is not to be trusted to handle a personal conflict of interest issue, he/she should not be appointed to the board; it is a very basic point.

### 5. What are the main potential conflicts of interest which may arise within a company where the non-executive directors can play a role in protecting the interests of the company? What can be done to help non-executive directors to be effective in relation to these conflicts?

The answer must start with determining whose interests may be in conflict with the company - to which in the main it will be those of the executive directors. The most obvious and significant area where executive directors take from a company is that of remuneration - both monetary and non-monetary (e.g. perks). It is unreasonable to rely on the integrity of executive directors to determine their own remuneration, not because of the integrity issue but because it is difficult for any individual to make a objective assessment of his/her worth.

There will be all sorts of relatively minor conflicts of interests which may arise at the operational level (e.g. appointing a relative or friend to a post). It is unreasonable to police these and in any event it would cause a culture of suspicion and distrust which would not be healthy.

The issue of remuneration can be and indeed is dealt with by the work of the Remuneration Committee and the Board's accountability to the shareholders to provide a report on remuneration within the annual report. The lesser conflicts can be dealt with by non-executive directors focusing on integrity in making executive director appointments to the board and promoting a culture of selflessness and service to the company.

6. What time commitment is needed for the role of Chairman and for non-executive director roles and how far does this vary between different companies? Are there any implications for the number of non-executive posts that any one person can sensibly take on?

The first question is impossible to answer because not only is each company, each board and each circumstance different, but there will be times when things are going well and rather less time is required - while at other times, when there are difficulties, much more time is required. Furthermore different boards get differently involved in the extent of their direction of the company's strategy and development. **It is a dangerous concept to lay down time expectancy of a non-executive director; he/she is on call.**

**It is certainly true to say, however, that with the explosion of corporate governance bureaucracy and of other red tape involved in the governance and directing of a company's business, the time required to fulfil the three roles is growing - quite quickly.**

However the capacity of any individual to take on non-executive directorships depends entirely on the circumstances of the individual concerned and is not capable of generalisations. The role of the CEO of a multinational company is very time consuming and limits the amount of time he/she can reasonably give to outside non-executive directorships; however as a retired CEO he/she can give much more time and can therefore sensibly hold down many more non-executive directorships. **It is part of the duties of the Nomination Committee, in recommending a candidate for board appointment, to ensure that the person concerned can give the requisite amount of time needed for the post. Only they should be the judges of that.** Most Nomination Committees do just that.

No one should take on a commitment that he/she cannot fulfil and again only he/she can be the judge of that. Only he/she, depending on his/her circumstances, knows how many non-executive directorships he/she can assume. There should not be legislation on this matter.

For the record - of the 1,241 directors on the boards of FTSE 100 companies, there are:

- 14 directors who hold 3 directorships; and
- 102 directors who hold 2 directorships; and
- 995 directors who hold 1 directorship.

Which suggests to me that there is not a problem of individuals holding too many directorships.

## 7. Should there be a special role for a “senior independent” non-executive director?

Again the answer to the question is not capable of generalisations. The Combined Code recommends it but in my experience not one of the companies that I am a director of follows the recommendation. The idea evolved from the difficulty that (particularly weak) non-executive directors had in communicating and reasoning with a powerful *executive* chairman - such as Maxwell or Rowlands; a senior independent non-executive director would be an individual around whom other directors could rally and stand up to the Chairman. From such relatively unusual instances has this piece of best practice evolved. It **may however be a sensible position to establish for a company with an executive chairman**, giving the non-executive director the title of deputy or vice chairman; it is a rather less contrived title.

In fact it can prove disastrous with an unscrupulous senior independent non-executive director using it to promote him/herself. It is unquestionably **a divisive role, can encourage board politics and undermines the authority and leadership of the Chairman (indeed it is specifically designed to do so); it should not be necessary where the board is chaired by a non-executive chairman**; if it is necessary, then the board has appointed the wrong Chairman.

**It should be not be recommended as best practice where the Chairman is non-executive.**

## 8. Do you have comments on the proposed statement of directors' duties, which does not seek to distinguish between the legal duties of executive and non-executive directors?

The whole concept of collective responsibility, the whole *team* working of a board and the whole authority of the board would be undermined by having a different set of legal duties (and presumably responsibility and authority) for executive and non-executive directors. **The law should not seek to separate their legal duties.**

## B: Attracting and appointing non-executive directors

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What knowledge, skills and attributes are needed and what can be done to attract, recruit and appoint the best people to non-executive roles?

**9. What are the key skills, knowledge and experience which are needed by non-executive directors to perform the role effectively and how is this likely to change over the next, say, ten years? Are some of the skills essential and, if so, what are they?**

It is not clear that any particular skill is essential to the performance of a non-executive director, although an understanding of accounting is difficult to do without. In short time a non-executive director must come to understand the accounting issues that are relevant to the business and to the company, of which he/she is a director - whether or not he/she sits on the audit committee. Furthermore a non-executive director of a public company has got to come to terms with the growing bureaucratic procedure now required of the board by the FSA and its listing requirements - but they can easily be learnt. Other skills, such as marketing, financing or man management, are important to the board but not all are needed by each non-executive director. Question 11 deals with the mix of qualities required of a non-executive director; it is however important that a non-executive director does have a skill and/or experience that is relevant to the business of the board.

Clearly knowledge and experience of business are absolutely essential to the performance of a non-executive director. It obviously is advantageous to appoint persons who have non-executive director experience but it should not be a *sine qua non* in looking for non-executive directors - or how will anyone ever learn to be one.

I wish I knew how business is likely to change over the next ten years, yet alone what skills, knowledge and experiences will be needed then. However it is certain that those already required will be as important then as now.

**10. What personal qualities and attributes are needed?**

More than any other personal quality or attribute, more than any skill, knowledge or experience that of INTEGRITY is a must. It is a *sine qua non*. It is the most difficult thing to determine, except in the most obvious cases where a public reputation - one way or the other - has established it. It is the good reason (there are also bad ones) that directors are inclined to recommend for appointment persons whom they know and with whom they have served on a board. Integrity covers more than just honesty; it covers selflessness and commitment. It is - in my experience - the thing given least time to when assessing the candidacy of an individual for appointment to a board - if only because recommendations are accepted as having passed the test or they wouldn't have been made. After many years of serving boards, I am personally reluctant

to accept a candidacy without this question being addressed and therefore without somebody having had first hand experience of the candidate's integrity.

**The second most important personal quality is courage** - the ability to take and live with the risks involved in making decisions and the ability to stand up for one's views - particularly in the area of conflicts of interest. Ultimately integrity and courage, the two key attributes of independent behaviour, come together in the instance when a director is prepared to resign for what he/she believes to be right. **Clearly the ability to listen and learn, common sense, a positive but enquiring nature and wisdom are also other important attributes.** In particular it is necessary to be able to question without being generally distrusting.

It is important to identify those **attributes which make it unlikely** that a person can **be an effective non-executive director** and they would include: **selfishness** (especially being overly concerned about being criticised and about personal reputation); **sycophancy**; and **unbridled cynicism.**

**11. What sort of mix of experience and attributes is desirable on a board? Specific examples of cases where non-executive directors have contributed with particular effect to company performance or to corporate governance would be helpful.**

A board of directors is a team and as such each member has a part to play - be it the general role of being a director or the specific role involving a specific skill, knowledge or experience. The composition of a board should cover the various aspects of management of the company concerned. The executive directors apart - who bring the knowledge of the management of the company - there should be experience amongst the non-executive directors of the industry, of accounting, of finance and the City, of marketing and of corporate governance. **Each non-executive director should offer experience of at least one of those disciplines.**

**The example:** I would like to highlight is that of Dobbies Garden Centres plc. It is a small, AIM quoted company with sales forecast by the brokers to reach c.£40 million this year. Its board of directors numbers seven, which is quite large enough. The majority of its directors are non-executive. The four non-executive directors have been assembled with the appropriate balance of skills and experience, covering retail, horticulture, accounting, corporate governance and finance and the City to be able to fulfil the three roles required of it (helping, monitoring and dealing with conflicts); it has been absolutely vital to the success of the Company that this balance exists. The board is worked hard and the management uses the non-executive directors experience and skills within *and outwith* board meetings; that has been important to the successful development of the Company. It is I believe an excellent case of the non-executive directors playing all three roles; Dobbies Garden Centres has won the Stock Exchange's Scottish AIM Company of the Year award twice; one of the reasons cited for its success has been its corporate governance. All the non-executive directors are shareholders, some quite large ones.



the last ten years and can be expected to get worse; **boards are not places for amateurs - talented or otherwise.**

As I have already mentioned **it is very important not to arrive at general conclusions that are applied to all companies but actually only relevant to large, multinational companies.** This particularly applies to international representation on boards: it must depend on the geography of the company's business. It is much more difficult to get a full commitment from a non-executive director living outside the country, particularly for those commitments outwith board meetings. So: yes for large multinational companies and (usually) no for most other companies.

**14. Are the rewards for non-executive directors appropriate, both in terms of levels of pay and the form that remuneration takes - e.g. cash/shares/options? Are the current pay levels a significant factor in whether good non-executive directors can be attracted?**

I have not yet come across a case where the remuneration on offer for a non-executive director has proved a stumbling block but there will be cases; as a generalisation the answer is that current levels, which have risen a lot in the last few years, are probably adequate *pro tem*. However the growing responsibilities and time commitment and the horrendous rise in litigation, and thence reputational risk, mean that remuneration is likely to have to rise; the risk reward for being a non-executive director is deteriorating quite quickly.

The Combined Code recommends that non-executive directors do not participate in any stock option plans. Furthermore, the ABI adds the recommendation that stock option plans be limited to 10% of the issued capital of a company. As with many cases of rules, regulations and best practice, they emerge as generalisations from a limited number of abuses - normally in large companies. In the instance of stock options, there was an objection to non-executive directors of recently privatised utilities making large sums of capital out of doing nothing. It is probably reasonable that large companies do not offer stock options to their non-executive directors.

It is however quite wrong in the case of small companies. First of all non-executive directors have a much larger role to play in the development of the business and the creation of shareholder value. Secondly, **smaller companies tend to be short of cash (needing it for the development of the business) and stock options are an excellent way of paying non-executive directors for the success of their commitment.**

**The Combined Code and Best practice in this matter needs to be revised.**

**15. Do you have comments on the issue of risks or insurance provision for non-executive directors?**

The undertaking of a non-executive directorship assumes risk - if only a reputational one. Those who are not prepared to take the risk of delegating authority to management but retaining responsibility for its actions should not take on non-executive directorships. It is an act of trust, which distrustful people should not take on. It is an important aspect of the job.

Clearly, in this highly litigious world we do business in - especially if the business involves Americans - it is a condition of the job of being a non-executive director that the company provides D&O insurance cover; however insurance cover does not cover reputational risk and that undoubtedly is responsible for some negative, selfish and even occasionally cowardly behaviour by some directors, more concerned about themselves than anything else.

I am not sure that there is anything that should be done about it, other than to make sure that newly appointed directors understand the risks they assume on becoming a director. It would not be right to make the job risk free.

## C: Structures and accountability

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Do existing structures and procedures facilitate effective performance by non-executive directors?

16. How is the Combined Code working in practice? In particular, how are the provisions on the balance between executive and non-executive directors and the role of independent directors working? Is further definition needed of independence in the Combined Code and, if so, what would a sensible definition be.

It is an impossible question to answer because the effectiveness of the Combined Code will vary with each of the two to three thousand listed companies. I certainly don't know despite being a director of six such companies. But I am quite certain that the Combined Code has had the effect of bringing a huge amount of extra bureaucracy and procedure to the workings of a board and has undoubtedly crowded out attention to the future prospects and development of companies; it has altered the balance between risk avoidance and risk taking - not always in the interests of the company's future. *The bureaucracy of the Combined Code has gone far enough.*

As I mention later, the boards of most listed companies are probably too large. I believe that there should be a majority of non-executive directors on a board; it has the effect of establishing their authority in board meetings.

Because independence is first and foremost a state of mind, it is difficult to define what an independent director would be. However I will take a definition provided in a recent paper entitled:

*"AITC Guide to Issues in the Governance of Investment Trust Companies:*

"There is a strong view that this independence stems from the ability to make those objective decisions that may be in conflict with the interests of management or other subcontractors. This in turn is a function of confidence (borne of courage and experience), integrity (personal character) and judgement (borne of knowledge and experience). Whilst box ticking can be a comfort to those not personally acquainted with individual directors, it will not achieve good governance in the absence of these traits."

Attempting to define independence merely as an absence of conflicts of interest is a flawed approach and is highly unlikely to promote success. The best judges of independence of a non-executive director are the other directors themselves - if they cannot be trusted to make those judgements, they shouldn't be directors.

**17. Do the recommended structures for board committees facilitate governance and an effective contribution by non-executive directors? Are board meeting procedures working effectively? Do you have comments on board size?**

On the whole I think that the concept of having board committees (under the control of the non-executive directors) to carry out most of the work involved in corporate governance duties is a sound and effective working structure for a board of directors. A non-executive director must understand clearly that he/she takes responsibility for the corporate governance of a company whether or not he/she sits on the relevant committee; all committees are answerable to the full board of directors. Such a delegation of duties does allow board meetings to focus more than they otherwise would on the important issues of carrying on and developing the business of the company. I do not think that this structure should be tampered with.

**Yes, yes - as a generalisation - boards are too large.** There is a geometric relationship between the size of a board and the length of any board discussion - or if there isn't then some directors must feel that they are not able to contribute properly or speak up (for fear of being a nuisance?) and that they are unable to make much contribution to the business *per se*. Board meetings can become a lecture from executives to non-executive directors; that cannot be an effective way to govern and direct a company. It is difficult to make a meaningful contribution to a board meeting where there are ten or more directors involved; it is very difficult to have good and effective debate with a lot of people around a table.

**I append a schedule showing an analysis of the board sizes of the FTSE 100 companies, which shows the average size of a board to be  $12\frac{1}{2}$  directors, of which  $7\frac{1}{2}$  are non-executive directors. The plurality of non-executive directors is good, the average size too big.** I believe that the boards of companies are optimal at somewhere between 5 and 7 - nine at the very most.

**18. Do you have comments on the composition and duties of Audit Committees? How effectively are Audit Committees working in practice? Do you see a need to strengthen the existing Combined Code provisions on Audit Committees?**

The only extra provision that I would suggest for the composition of Audit Committees is that the chairman of the company is not chairman of the Audit Committee. In practice the two positions are not normally held by one and the same person (except in the instance of investment trust companies, most of which are entirely populated by non-executive directors).

**As a generalisation, and in my experience, there are already too many provisions in all aspects of corporate governance** and I think well should be left alone; if new provisions are indeed required, then others should be deleted. In my experience Audit Committees are working pretty well considering the bureaucracy imposed on them (example: the recent Audit Committee papers of an investment trust company that I chair contained c.200 pages in four volumes). Having said that I do believe that **risk management is an important part of management's job and the work done by**

the Audit Committee on reviewing and monitoring it (Turnbull) is an excellent corporate governance development and if done well should prove very effective.

**19. Similarly, do you have comments on the composition, duties or operation in practice of Nomination and Remuneration Committees?**

As above I think that the composition, duties and operations in practice of these committees work reasonable well; as above they do not need more rules and regulations.

**20. What processes are in place for setting objectives and reviewing performance against those objectives, for the board as a whole and for the individual directors?**

I cannot make a general response to this question. Specifically I can say that those boards that I have served or served on have not indulged in self-assessment and only the executive directors are set objectives (normally for the purpose of determining bonuses or options). In my experience non-executive directors are not set objectives and thence their performances are not measured or reviewed.

I believe the concept of setting objectives for non-executive directors a difficult one. It is rather akin to setting objectives for members of a football team before a match; it sounds good but is unlikely to work in practice and is quite capable of being counterproductive. It seems to me that if a non-executive director is not pulling his/her weight then it is up to the chairman to deal with the situation as the circumstances dictate (just like the football manager). Objectives and targets are the building blocks for lack of flexibility, mismanagement and excuses.

Much the same applies for the performance of the board as a whole. Part of a chairman's role is to monitor continually but informally the performance of a board and its contribution to the progress of the company. If something needs to be done about it then that too is part of the role of the chairman. Creating rules, regulations and best practice for this would not improve performance and could be counterproductive.

**21. Could more be done to review performance? Should more information and board performance be reported to shareholders? Should companies provide more information on the performance of non-executive directors?**

The performance of a board of directors is best reflected in the performance of the company as reported to shareholders in the annual and semi-annual reports. Could more be done to review performance? Obviously, yes. Should more be done? I believe no. Non-executive directors are in an invidious enough position with their responsibilities without having to be treated like children in a schoolroom. To produce reports, whether made public or not, on the performance of

non-executive directors would be pretty demeaning - whether good or bad - and make the role of non-executive directors more unappealing. Furthermore, it will make non-executive directors even more conscious of their reputation and less effective in making risk/reward decisions.

**22. Are non-executive directors able successfully to challenge executive decisions or expose serious problems? Should it be made easier for them to do so and, if so, how?**

The ability of a non-executive director to stand up to executive directors - particularly the CEO - is fundamentally an attribute of their personal character. If they have the integrity, courage, experience, self-confidence and wisdom, there should be no problem about standing up to executive directors - when necessary. To create yet more artificial rules, regulations, best practice and procedures, in order to fortify weak directors, could not possibly be considered a sensible course of action and would build in to the operations of a board an unhealthy culture of distrust.

Clearly, the greater the number of non-executive directors on a board - particularly in relation to the number of executive directors - the easier it is for the non-executive directors to challenge the executive; put another way, it creates an extra degree of accountability for an executive to have to account for him/herself to a larger number of non-executive directors.

## D: Relationships with shareholders and others

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Do existing relationships with shareholders and others need to be strengthened?

23. How well do the relationships between non-executive directors and shareholders and stakeholders work and could they be improved? For example, we would be interested to hear the views on what the relationship might be between non-executive directors and institutional shareholders. Could this relationship be strengthened?

In truth there is probably not much of a working relationship between *independent* non-executive directors and shareholders or stakeholders. It is far from a given that there should be more than there already is. All relationships between any two persons or bodies are capable of improvement but that does not mean that there should be laws, rules, regulations or best practice established to force better relationships. In any event relationships are a personal issue and no law in the land can dictate good relationships. They just need constant working at.

Having said that there is established a mechanism established in law that allows good face to face communication between all shareholders and non-executive directors - namely the Annual General Meeting. Institutional shareholders do by and large eschew AGMs - which is a pity because it would give the non-executive directors a chance to hear from them - but which is understandable because many institutions have too many holdings in their portfolios for their senior people (and it must be the senior people) to attend all AGMs. Certainly more should be made of AGMs and certainly, where institutions have views and concerns about a company, they should attend the AGM and lay them before all the shareholders. *It is the process of corporate democracy.*

24. To what extent are Chairmen creating the conditions for non-executive directors to be effective? Is there more that they could do by promoting constructive relationships, managing the discussion processes, encouraging challenging and effective contributions in board meetings and ensuring appropriate information flows, or otherwise?

The role of Chairman involves leadership, leading the board of directors in the process of carrying out its duties and fulfilling its responsibilities. Good leadership makes an enormous difference to the performance of any team and that includes a board of directors. Good chairmanship will promote constructive relationships, encourage challenging and effective contributions at board meetings and ensure appropriate information flows; bad leadership will have the opposite effects and can lead to that most destructive of corporate ailments: corporate politics.

One of the primary roles of the Chairman is to promote and guide discussion so as to reach a consensus that can be turned into a decision. It is not his duty to "lay down the law" and obtain approval of it. If he has different views then - at a later stage in the discussion - he makes them

known but caveating them with the rider that he accepts that they are not the views of the board - which are the ones that will obtain. There is all the difference in the world between establishing his/her leadership on the board and forcing his/her views on the board.

**25. What should be the relationship between non-executive directors and executive directors and with senior management? What should their relationship be with the Chairman and the Chief Executive? What would their relationship be with key advisors to the company?**

The relationships should be one of familiarity (in the sense of the synonyms: acquaintance, knowledge of, understanding, openness and naturalness). The relationships should not require terms and conditions or formalities. It is my belief that one of the key parts of the process of the functioning of a board of directors of a company is the away day. It is the occasion when non-executive directors, executive directors and senior management can get together, work together, get to know each other, establish trust and respect (the ingredients of any good relationship) and work as a team on the interests of the company. The occasion can include key Advisors for part of it.

Clearly it is important that all individuals concerned feel that they can talk to each other - for formal or informal reasons. Most crucial of all relationships must be those with the Chairman and the Chief Executive; it is a particular onus on the Chairman to know all those concerned; it is also an onus on each individual to establish his/her own relationship with the Chairman. There should not be rules and regulations dictating relationships.

**26. How can Company Secretaries support effective performance by non-executive directors?**

Companies secretaries play a board facilitating role, be it organising board meetings, making the necessary returns on behalf of the board to the various authorities, recording the minutes of meetings (a particularly important role), following up on "matters arising" and so on. They can be an enormous help in providing services to all directors on *relevant* matters and normally are. I do not see that their role needs to be changed in order to maximise the contribution of non-executive directors.

How can non-executive directors best be supported to perform their role?

**27. How much access to information from management do non-executive directors need to be effective? In practice, are information flows and communication channels sufficiently open and unrestrictive?**

The question can only be answered on a case by case basis. In general my experience is that the directors get the information that they ask for. Indeed if they are not getting it, it is their own fault. Experienced non-executive directors know the information that they need and it doesn't have to be laid down by rules and regulations. If they don't know then they should not be directors.

Are all information flows and communications channels open and unrestricted? Again the answer to that will be on a case by case basis; again the onus is on the directors to make sure that they are. There will always be managements who manage the information that they give on a selective basis; good chairmen won't allow it, good non-executive directors can see through it.

**28. What training and development opportunities are available? Could they be improved and, if so, how?**

I cannot answer this question with any authority but I do know that a new director - whether it be a non-executive or executive director - needs some induction when he/she joins a board. It is an important aspect of joining a board and the Combined Code addresses it.

**29. Can induction of non-executive directors be improved?**

Most companies will have a decent induction process. On a case by case basis - of course it can be improved but I am sure that it is not an excuse for yet more rules and regulations.

**30. Do non-executive directors get clear guidance on what is expected of them and do they get feedback on whether they are meeting expectations?**

In my experience most of the non-executive director appointments involve people who are already directors of companies elsewhere; they are however given an induction which allows them to understand the nature of the company as well as the responsibilities and accountability of directors; they have ample chance to ask any questions that they need to.

Again in my experience non-executive directors are not assessed in any formal manner nor am I certain that they should be. I am sure that in those cases where a non-executive director is not

being effective, it will be brought to the Chairman's attention and there is then an onus on him/her to do something about it. I do have experience of non-executive directors being asked to leave a board because of lack of contribution - so it does happen. Formal school reports should be discouraged.

## F: Smaller Listed Companies

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In what ways is the position different for smaller listed companies?

### IN MANY, MANY WAYS

So much so that it is a subject in itself.

**31. To what extent do the different factors apply in the case of smaller listed companies? Is different provision necessary?**

Smaller companies are, and indeed should be, run quite differently from large ones; the transition from small to large is an awkward one and is the major reason that many, if not most, smaller companies do not become larger ones. There is no doubt that, despite the recent examples of corporate governance failure among large American companies, the Americans handle this form of corporate puberty (excuse the analogy) better than anyone else in the world and much is to be learnt from them - including the role of boards and non-executive directors; it is also clear that the Continental Europeans and Japanese corporate governance helps stifle small company development and it is no accident that these countries - as a generalisation - are not successful at developing the businesses of their smaller companies. The type of corporate governance undertaken by large British companies (large boards and bureaucratic procedure) would stifle the development of many smaller companies.

While many of the principles of good corporate governance apply to any company - whether large or small - the practical implementation of those principles needs to be different. **IT IS VERY IMPORTANT THAT GENERALISATIONS MADE ABOUT THE ROLE OF NON-EXECUTIVE DIRECTORS FOR LARGE COMPANIES ARE NOT APPLIED WHOLESAL TO SMALLER COMPANIES.** The Combined Code does not pay enough attention to this.

I have singled out the following questions from the consultation Paper where there needs to be special consideration given to the answer for smaller companies:

A: 1, 2, 6, 7

B: 9, 10, 11, 12, 14

C: 16, 17, 18, 20

D: 23, 25

G: 33, 34

There is no doubt that the extent of the bureaucracy of corporate governance can be an inhibition to the effective governance of smaller companies. That is not to say that all the Combined Code's requirements are unhelpful nuisances - far from it - but it is to say that excessive attention to procedure and perception is a costly detraction for non-executive

directors from the role they play in the development of smaller companies; the involvement is more personal and the commitment more considerable.

## G: International context

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What can we learn from international experience?

### 32. What lessons can be learnt from international experience, either in terms of structures or behaviours?

Around the world there are different regimes that dictate the governance of companies and by and large they exist because of the history and culture of the individual country's businesses. They have grown up over time and have certain strengths and weaknesses. The German and Japanese corporate governance has been built around the relationships with banks, takes a longer term view of things but is very protective of good and bad. French corporate governance focuses on the relationship with government and subjects business to political priorities. The British and American corporate governance focuses on accountability to shareholders and tends to promote profitability and thence job creation. **Trying to mix cultures is a dangerous concept and likely to prove counterproductive.**

Having said that no one has a monopoly of good ideas and all boards should be aware of what is going on in the field of corporate governance around the world - just as they need to be aware of what is going on internationally in other aspects of their businesses. Where there are new and good ideas boards should be prepared to consider them and, if appropriate to the company, adopt them.

### 33. Do other models of corporate governance or different boardroom roles or dynamics contribute more to company performance?

**On balance I think that the UK has adopted a good model of corporate governance and is more advanced than other countries in this aspect of the management and direction of companies. It is the one that we are comfortable with and by and large works. Its major weakness in my opinion is that it focuses too much on not doing wrong but not enough on doing right.** It is more concerned about preventing Enrons and Worldcoms happening here than on encouraging the emergence of Microsofts and Wal-marts. **IT IS A MATTER THAT NEEDS TO BE ADDRESSED.**

The American model, although apparently weaker in respect of monitoring performance and conflicts of interest, appears to offer a better approach to the role that corporate governance can play in the development of smaller companies, especially in the role that venture capitalists play as non-executive directors of small companies; in particular they pay a lot of attention to the development of management teams.

34. Would it be beneficial to bring practice more in line with that in any other countries?  
If so, why and how?

As a generalisation NO.

There is, for some reason, always an assumption that others do things better than we do and that it would be better if we did the same as others - the politically correct phrase "bring into line with others". Actually in general we are more advanced and better at corporate governance than most other countries and, while we have always have something to learn from others, and they from us, we do not need to change our corporate governance practice to bring it into line with anyone else's.

**Board Room Sizes and Composition**  
**FTSE 100 Companies**

Company	Board	Execs	NonExecs	% Non-Execs
3i Group plc	12	6	6	50.0%
AMVESCAP plc	15	7	8	53.3%
AVIVA plc	15	6	9	60.0%
Abbey National plc	13	5	8	61.5%
Alliance & Leicester plc	11	3	8	72.7%
Allied Domecq plc	10	4	6	60.0%
Amersham plc	14	5	9	64.3%
Anglo American plc	14	5	9	64.3%
Associated British Foods plc	10	4	6	60.0%
AstraZeneca plc	14	5	9	64.3%
BAA plc	13	6	7	53.8%
BAE SYSTEMS plc	14	7	7	50.0%
BG Group plc	14	4	10	71.4%
BHP Billiton plc	19	3	16	84.2%
BOC Group plc; The	12	5	7	58.3%
BP plc	17	5	12	70.6%
BT Group plc	13	6	7	53.8%
Barclays plc	14	4	10	71.4%
Boots Company plc; The	15	7	8	53.3%
Bradford & Bingley plc	11	4	7	63.6%
Brambles Industries plc	11	2	9	81.8%
British Airways plc	12	3	9	75.0%
British American Tobacco plc	13	4	9	69.2%
British Land Company; The	11	6	5	45.5%
British Sky Broadcasting Group plc	13	2	11	84.6%
Bunzl plc	9	3	6	66.7%
Cable & Wireless plc	11	5	6	54.5%
Cadbury Schweppes plc	12	5	7	58.3%
Canary Wharf Group plc	11	3	8	72.7%
Capita Group; The	7	4	3	42.9%
Centrica plc	10	5	5	50.0%
Compass Group plc	8	4	4	50.0%
Corus Group plc	10	4	6	60.0%
Daily Mail & General Trust plc	15	6	9	60.0%
Diageo plc	11	2	9	81.8%
Dixons Group plc	11	6	5	45.5%
EMI Group plc	8	4	4	50.0%
Exel plc	14	6	8	57.1%
Friends Provident plc	11	6	5	45.5%
GKN plc	13	7	6	46.2%
GUS plc	11	4	7	63.6%
Gallaher Group plc	13	6	7	53.8%
GlaxoSmithKline plc	13	2	11	84.6%
Granada plc	9	4	5	55.6%
HBOS plc	19	9	10	52.6%
HSBC Holdings plc	22	8	14	63.6%
Hanson plc	13	5	8	61.5%
Hays plc	10	6	4	40.0%
Hilton Group plc	11	4	7	63.6%
Imperial Chemical Industries plc	11	5	6	54.5%

**Board Room Sizes and Composition**  
**FTSE 100 Companies**

Company	Board	Execs	NonExecs	% Non-Execs
Imperial Tobacco Group plc	11	3	8	72.7%
International Power plc	8	3	5	62.5%
Invensys plc	9	2	7	77.8%
Johnson Matthey plc	11	5	6	54.5%
Kingfisher plc	13	6	7	53.8%
Land Securities plc	9	3	6	66.7%
Lattice Group plc	12	5	7	58.3%
Legal & General Group plc	15	6	9	60.0%
Lloyds TSB Group plc	19	8	11	57.9%
Man Group plc	8	3	5	62.5%
Marks & Spencer Group plc	13	6	7	53.8%
Morrison (Wm) Supermarkets plc	8	7	1	12.5%
National Grid Group plc	13	6	7	53.8%
Next plc	10	5	5	50.0%
Northern Rock plc	10	3	7	70.0%
Old Mutual plc	12	3	9	75.0%
P&O Princess Cruises plc	8	3	5	62.5%
Pearson plc	10	4	6	60.0%
Prudential plc	13	6	7	53.8%
Reckitt Benckiser plc	11	2	9	81.8%
Reed Elsevier plc	13	5	8	61.5%
Rentokil Initial plc	8	4	4	50.0%
Reuters Group plc	12	3	9	75.0%
Rio Tinto plc	15	6	9	60.0%
Rolls-Royce plc	14	8	6	42.9%
Royal & Sun Alliance Insurance Group plc	12	3	9	75.0%
Royal Bank of Scotland Group plc; The	19	6	13	68.4%
SAB Miller plc	14	5	9	64.3%
Safeway plc	10	6	4	40.0%
Sage Group plc	12	5	7	58.3%
Sainsbury (J) plc	13	6	7	53.8%
Schroders plc	15	5	10	66.7%
Scottish & Newcastle plc	16	7	9	56.3%
Scottish Power plc	11	3	8	72.7%
Scottish and Southern Energy plc	12	5	7	58.3%
Severn Trent plc	13	5	8	61.5%
Shell Transport & Trading Company plc	12	2	10	83.3%
Shire Pharmaceuticals Group plc	11	3	8	72.7%
Six Continents plc	10	4	6	60.0%
Smith & Nephew plc	10	2	8	80.0%
Smiths Group plc	14	7	7	50.0%
Standard Chartered plc	19	7	12	63.2%
Tesco plc	14	8	6	42.9%
Unilever plc	20	8	12	60.0%
United Utilities plc	11	4	7	63.6%
Vodafone Group plc	15	6	9	60.0%
WPP Group plc	16	4	12	75.0%
Wolseley plc	12	6	6	50.0%
Xstrata	13	3	10	76.9%
mmQ2 plc	9	3	6	66.7%
<b>Average</b>	<b>12.41</b>	<b>4.79</b>	<b>7.62</b>	<b>61.4%</b>

Source: Manifest - The Proxy Voting

**Board Room Sizes and Composition**  
**FTSE 100 Companies**

Company	Board	Execs	NonExecs	% Non-Execs
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Agency

**Overlapping Directorships**  
FTSE 100 companies

Full Name	Number of Positions	Company Name	Position	Date Appointed	Date Resigned
Prosser, (Ian) Maurice Gray	3	GlaxoSmithKline plc	Non-executive Director	23-May-00	
Prosser, (Ian) Maurice Gray	3	Six Continents plc	Chairman	01-Oct-00	
Prosser, (Ian) Maurice Gray	3	BP plc	Deputy Chairman	15-Feb-99	
Isaac, Anthony (Tony) Eric	3	Exel plc	Non-executive Director	25-Feb-97	
Isaac, Anthony (Tony) Eric	3	International Power plc	Senior Non-executive Director	02-Oct-00	
Isaac, Anthony (Tony) Eric	3	BOC Group plc; The	Chief Executive	17-Oct-94	
Marshall, Colin	3	HSBC Holdings plc	Non-executive Director	01-Jan-93	
Marshall, Colin	3	Invensys plc	Chairman	01-Jan-98	
Marshall, Colin	3	British Airways plc	Chairman	01-Jan-96	
Sinclair, Charles James Francis	3	Reuters Group plc	Non-executive Director	01-Jan-94	
Sinclair, Charles James Francis	3	Schroders plc	Non-executive Director	01-Mar-90	
Sinclair, Charles James Francis	3	Daily Mail & General Trust plc	Chief Executive	01-Jan-88	
Parker, Thomas (John)	3	Lattice Group plc	Chairman & Chief Executive	01-Jan-02	
Parker, Thomas (John)	3	P&O Princess Cruises plc	Non-executive Director	18-Sep-00	
Parker, Thomas (John)	3	Brambles Industries plc	Non-executive Director	19-Jun-01	
Job, (Peter) James Denton	3	Schroders plc	Non-executive Director	05-Nov-99	
Job, (Peter) James Denton	3	GlaxoSmithKline plc	Non-executive Director	23-May-00	
Job, (Peter) James Denton	3	Shell Transport & Trading Company plc	Non-executive Director	02-Aug-01	
Robins, Ralph Harry	3	Standard Chartered plc	Non-executive Director	01-Oct-88	
Robins, Ralph Harry	3	Rolls-Royce plc	Chairman	01-Jan-82	
Robins, Ralph Harry	3	Cable & Wireless plc	Chairman	27-Jun-98	31-Dec-02
Carr, Roger Martyn	3	Cadbury Schweppes plc	Senior Non-executive Director	22-Jan-01	
Carr, Roger Martyn	3	Centrica plc	Non-executive Director	01-Jan-01	
Carr, Roger Martyn	3	Six Continents plc	Senior Non-executive Director	18-Sep-96	
Margetts, Robert (Rob) John	3	Anglo American plc	Non-executive Director	18-Mar-99	
Margetts, Robert (Rob) John	3	Legal & General Group plc	Chairman	02-Feb-00	
Margetts, Robert (Rob) John	3	BOC Group plc; The	Chairman	18-Jan-02	
Einsmann, Harald	3	EMI Group plc	Non-executive Director	01-May-92	
Einsmann, Harald	3	Tesco plc	Non-executive Director	01-Apr-99	
Einsmann, Harald	3	British American Tobacco plc	Non-executive Director	01-Apr-99	
Renwick of Clifton, Robin William	3	SAB Miller plc	Non-executive Director	08-Feb-99	
Renwick of Clifton, Robin William	3	BHP Billiton plc	Non-executive Director	01-Jun-96	
Renwick of Clifton, Robin William	3	British Airways plc	Non-executive Director	01-Mar-96	
Hogg, Sarah Elizabeth Mary	3	P&O Princess Cruises plc	Non-executive Director	18-Sep-00	
Hogg, Sarah Elizabeth Mary	3	GKN plc	Non-executive Director	04-Nov-96	
Hogg, Sarah Elizabeth Mary	3	3i Group plc	Chairman	01-Jan-02	
Buchanan, John G S	3	Boots Company plc; The	Non-executive Director	18-Dec-97	
Buchanan, John G S	3	AstraZeneca plc	Non-executive Director	25-Apr-02	
Buchanan, John G S	3	BP plc	Finance Director	01-Oct-96	
Burns, Terry	3	Pearson plc	Non-executive Director	06-May-99	
Burns, Terry	3	British Land Company; The	Non-executive Director	15-Jul-00	
Burns, Terry	3	Abbey National plc	Chairman	01-Feb-02	
Williams, Stephen Geoffrey	2	Unilever plc	Company Secretary	01-Dec-86	
Williams, Stephen Geoffrey	2	Bunzl plc	Non-executive Director	13-Jul-94	
Larcombe, Brian Paul	2	3i Group plc	Chief Executive	10-Jul-97	
Larcombe, Brian Paul	2	Smith & Nephew plc	Non-executive Director	01-Mar-02	
Gillam, (Patrick) John	2	Standard Chartered plc	Chairman	01-Aug-88	
Gillam, (Patrick) John	2	Royal & Sun Alliance Insurance Group plc	Chairman	05-Mar-97	
Stocken, Oliver Henry James	2	3i Group plc	Deputy Chairman	01-Jan-02	
Stocken, Oliver Henry James	2	GUS plc	Non-executive Director	01-Apr-00	
Middleton, Peter Edward	2	United Utilities plc	Dep Chairman & Senior NED	01-Jan-01	
Middleton, Peter Edward	2	Barclays plc	Chairman	24-Apr-99	
Broughton, (Martin) Faulkner	2	British American Tobacco plc	Chairman	20-Feb-98	
Broughton, (Martin) Faulkner	2	British Airways plc	Senior Non-executive Director	12-May-00	
Giordano, Richard Vincent	2	BG Group plc	Chairman	01-Dec-93	
Giordano, Richard Vincent	2	Rio Tinto plc	Dep Chairman & Senior NED	02-Nov-99	
Evans, Richard (Dick) Harry	2	BAE SYSTEMS plc	Chairman	01-May-98	
Evans, Richard (Dick) Harry	2	United Utilities plc	Chairman	01-Jan-01	
O'Donovan, Kathleen A	2	EMI Group plc	Non-executive Director	21-Nov-97	
O'Donovan, Kathleen A	2	Invensys plc	Finance Director	01-Jan-91	
Strachan, Ian Charles	2	Reuters Group plc	Non-executive Director	10-May-00	
Strachan, Ian Charles	2	Johnson Matthey plc	Non-executive Director	01-Jan-02	
Mackay, Francis Henry	2	Compass Group plc	Chairman	02-Feb-01	
Mackay, Francis Henry	2	Kingfisher plc	Chairman	01-Dec-01	
Hogg, (Christopher) Anthony	2	Reuters Group plc	Chairman	01-Jan-84	
Hogg, (Christopher) Anthony	2	GlaxoSmithKline plc	Chairman	21-May-02	
Lees, David Bryan	2	Brambles Industries plc	Joint Deputy Chairman	19-Jun-01	
Lees, David Bryan	2	GKN plc	Chairman	01-Jan-97	
Arculus, Thomas (David) Guy	2	Barclays plc	Non-executive Director	01-Feb-97	
Arculus, Thomas (David) Guy	2	Severn Trent plc	Chairman	29-Jul-98	
Hearne, Graham James	2	Gallaher Group plc	Dep Chairman & Senior NED	13-May-97	
Hearne, Graham James	2	Invensys plc	Non-executive Director	01-Jan-98	
Scholey, David	2	Anglo American plc	Senior Non-executive Director	28-Sep-01	
Scholey, David	2	Vodafone Group plc	Non-executive Director	01-Mar-98	

**Overlapping Directorships**  
FTSE 100 companies

Full Name	Number of Positions	Company Name	Position	Date Appointed	Date Resigned
Robinson, Gerry J	2	Allied Domecq plc	Chairman	01-Apr-02	
Robinson, Gerry J	2	Granada plc	Non-executive Director	02-Feb-01	
Bonham, (Derek) Charles	2	Cadbury Schweppes plc	Chairman	12-May-00	
Bonham, (Derek) Charles	2	Imperial Tobacco Group plc	Chairman	06-Aug-96	
Mulcahy, Geoffrey John	2	Six Continents plc	Non-executive Director	05-Apr-89	
Mulcahy, Geoffrey John	2	Kingfisher plc	Chief Executive	01-Jan-95	
Jackson, John Bernard Haysom	2	WPP Group plc	Non-executive Director	01-Sep-93	
Jackson, John Bernard Haysom	2	BHP Billiton plc	Deputy Chairman & SNED	01-Jul-01	
Allan, John Murray	2	Wolseley plc	Non-executive Director	01-Jun-99	
Allan, John Murray	2	Exel plc	Chief Executive	01-Sep-94	
Dennistoun (Dennis)	2	Pearson plc	Chairman	02-May-97	
Dennistoun (Dennis)	2	HBOs plc	Chairman	05-Jun-01	
Myners, Paul	2	mmO2 plc	Non-executive Director	31-Aug-01	
Myners, Paul	2	Marks & Spencer Group plc	Non-executive Director	02-Apr-02	
Webster, David Gordon Comyn	2	Reed Elsevier plc	Non-executive Director	01-Jan-92	
Webster, David Gordon Comyn	2	Safeway plc	Chairman	27-Mar-97	
Bischoff, Winfried Franz Wilhelm	2	Land Securities plc	Non-executive Director	01-Nov-99	
Bischoff, Winfried Franz Wilhelm	2	Cable & Wireless plc	Dep Chairman & Senior NED	01-Feb-91	
Grossart, Angus	2	Royal Bank of Scotland Group plc; The	Vice Chairman & Senior NED	01-Sep-85	
Grossart, Angus	2	Scottish & Newcastle plc	Non-executive Director	28-May-98	
Moody-Stuart, Mark	2	HSBC Holdings plc	Non-executive Director	01-Mar-01	
Moody-Stuart, Mark	2	Shell Transport & Trading Company plc	Non-executive Director	01-Jul-01	
Thompson, David A R	2	Cadbury Schweppes plc	Non-executive Director	09-Mar-98	
Thompson, David A R	2	Boots Company plc; The	Deputy Chief Executive	01-Apr-02	
Seitz, Raymond George Hardenbergh	2	Cable & Wireless plc	Non-executive Director	01-Feb-95	
Seitz, Raymond George Hardenbergh	2	Rio Tinto plc	Non-executive Director	19-Nov-96	
Rich, Nigel Mervyn Sutherland	2	Granada plc	Non-executive Director	02-Feb-01	
Rich, Nigel Mervyn Sutherland	2	Exel plc	Dep Chairman & Senior NED	03-May-00	30-Sep-02
Rudd, Anthony (Nigel) Russell	2	Barclays plc	Non-executive Director	01-Feb-96	
Rudd, Anthony (Nigel) Russell	2	Boots Company plc; The	Deputy Chairman & SNED	03-Dec-01	
McKillop, Thomas (Tom) Fulton	2	Lloyds TSB Group plc	Non-executive Director	01-Jan-99	
McKillop, Thomas (Tom) Fulton	2	AstraZeneca plc	Chief Executive	06-Apr-99	
Burdus, J (Ann)	2	Next plc	Non-executive Director	01-Jan-93	
Burdus, J (Ann)	2	Prudential plc	Non-executive Director	21-Nov-96	
Bowman, Philip	2	British Sky Broadcasting Group plc	Non-executive Director	01-Dec-94	
Bowman, Philip	2	Allied Domecq plc	Chief Executive	03-Aug-99	
Chow, Chung (CK) Kong	2	Standard Chartered plc	Non-executive Director	24-Feb-97	
Chow, Chung (CK) Kong	2	Brambles Industries plc	Chief Executive	07-Aug-01	
Mackrell, (Keith) Ashley Victor	2	Standard Chartered plc	Non-executive Director	01-Oct-91	
Mackrell, (Keith) Ashley Victor	2	BG Group plc	Deputy Chairman & SNED	23-Oct-00	
Cawdron, Peter Edward Blackburn	2	Compass Group plc	Dep Chairman & Senior NED	02-Feb-01	
Cawdron, Peter Edward Blackburn	2	Capita Group; The	Senior Non-executive Director	09-Nov-00	
Allen, Charles Lamb	2	Granada plc	Chairman	02-Feb-01	
Allen, Charles Lamb	2	Tesco plc	Non-executive Director	19-Feb-99	
Wallace, Graham Martyn	2	Cable & Wireless plc	Chief Executive	01-Feb-99	
Wallace, Graham Martyn	2	Barclays plc	Non-executive Director	30-Apr-01	
Collins, (Christopher) D	2	Hanson plc	Chairman	01-Jan-98	
Collins, (Christopher) D	2	Old Mutual plc	Non-executive Director	25-Mar-99	
Miles, Henry (Michael) Pearson	2	Johnson Matthey plc	Chairman & Senior NED	09-Jun-98	
Miles, Henry (Michael) Pearson	2	BP plc	Non-executive Director	01-Jun-94	
Virginia C	2	Hilton Group plc	Non-executive Director	01-Feb-93	
Virginia C	2	GUS plc	Non-executive Director	24-Feb-97	
Rough, David	2	Xstrata	Deputy Chairman	01-Apr-02	
Rough, David	2	Land Securities plc	Non-executive Director	02-Apr-02	
Nicholson, Robin Buchanan	2	Rolls-Royce plc	Non-executive Director	01-Jan-86	
Nicholson, Robin Buchanan	2	BP plc	Non-executive Director	01-Oct-87	
Turner, Richard T	2	Corus Group plc	Non-executive Director	23-Jul-99	
Turner, Richard T	2	Rolls-Royce plc	Director	01-Jan-92	
O'Donnell, Christopher J	2	BOC Group plc; The	Non-executive Director	19-Mar-01	
O'Donnell, Christopher J	2	Smith & Nephew plc	Chief Executive	01-Jul-97	
Gildersleeve, John	2	Tesco plc	Director	01-Jan-84	
Gildersleeve, John	2	Gallaher Group plc	Non-executive Director	13-May-97	
Chase, Rodney Frank	2	BP plc	Deputy Chief Executive	01-Jan-98	
Chase, Rodney Frank	2	Diageo plc	Non-executive Director	01-Jan-99	
Butler, A (Clive)	2	Unilever plc	Director	01-May-92	
Butler, A (Clive)	2	Lloyds TSB Group plc	Senior Non-executive Director	28-Dec-95	
Brown, Roy D	2	GKN plc	Senior Non-executive Director	01-Jan-96	
Brown, Roy D	2	Brambles Industries plc	Non-executive Director	19-Jun-01	
Walker, Paul Ashton	2	Diageo plc	Non-executive Director	31-May-02	
Walker, Paul Ashton	2	Sage Group plc	Chief Executive	01-Jan-87	
Julius, DeAnne Shirley	2	Lloyds TSB Group plc	Non-executive Director	01-Oct-01	
Julius, DeAnne Shirley	2	BP plc	Non-executive Director	29-Nov-01	
Sutherland, Peter D	2	BP plc	Chairman	08-May-97	
Sutherland, Peter D	2	Royal Bank of Scotland Group plc; The	Non-executive Director	31-Jan-01	
Stomberg, Rolf Wilhelm H	2	Smith & Nephew plc	Senior Non-executive Director	01-Jan-98	
Stomberg, Rolf Wilhelm H	2	Reed Elsevier plc	Senior Non-executive Director	01-Jan-99	

**Overlapping Directorships**  
FTSE 100 companies

Full Name	Number of Positions	Company Name	Position	Date Appointed	Date Resigned
Hurn, Francis (Roger)	2	Prudential plc	Chairman	05-May-00	
Hurn, Francis (Roger)	2	GlaxoSmithKline plc	Deputy Chairman	23-May-00	
Brock, John F	2	Cadbury Schweppes plc	Chief Operating Officer	11-Jan-96	
Brock, John F	2	Reed Elsevier plc	Non-executive Director	15-Apr-99	
Moffat, Brian Scott	2	HSBC Holdings plc	Dep Chairman & Senior NED	26-May-01	
Moffat, Brian Scott	2	Corus Group plc	Chairman	01-Sep-01	
Haythornthwaite, Richard	2	Invensys plc	Chief Executive	01-Oct-01	
Haythornthwaite, Richard	2	Imperial Chemical Industries plc	Non-executive Director	20-Feb-01	
Wallace, Brian Godman	2	Hilton Group plc	Finance Director & Dep Ch Exec	01-Jun-00	
Wallace, Brian Godman	2	Hays plc	Non-executive Director	05-Mar-01	
MacGregor, (John) R R	2	Associated British Foods plc	Non-executive Director	09-Dec-94	
MacGregor, (John) R R	2	Friends Provident plc	Non-executive Director	05-Jun-01	
Burt, Peter A	2	Shell Transport & Trading Company plc	Non-executive Director	25-Jul-02	
Burt, Peter A	2	HBOS plc	Deputy Chairman	05-Jun-01	
Allen, Michael J	2	Safeway plc	Non-executive Director	08-May-95	
Allen, Michael J	2	Alliance & Leicester plc	Non-executive Director	01-Jan-00	
Horn-Smith, Julian M	2	Vodafone Group plc	Director	04-Jun-96	
Horn-Smith, Julian M	2	Smiths Group plc	Non-executive Director	08-Feb-00	
Walker, Robert	2	Wolseley plc	Non-executive Director	01-Jul-99	
Walker, Robert	2	Severn Trent plc	Chief Executive	01-Aug-00	
Read, Martin Peter	2	British Airways plc	Non-executive Director	12-May-00	
Read, Martin Peter	2	Boots Company plc; The	Non-executive Director	23-Sep-99	
Broadhurst, Norman Neill	2	United Utilities plc	Non-executive Director	01-Apr-99	
Broadhurst, Norman Neill	2	Old Mutual plc	Non-executive Director	25-Mar-99	
Levett, Michael (Mike) John	2	Old Mutual plc	Chairman	01-Nov-01	
Levett, Michael (Mike) John	2	SAB Miller plc	Non-executive Director	08-Feb-99	
Butler-Wheelhouse, Keith	2	Smiths Group plc	Chief Executive	01-Nov-96	
Butler-Wheelhouse, Keith	2	Sainsbury (J) plc	Non-executive Director	23-Sep-99	
Clare, Mark Sydney	2	BAA plc	Non-executive Director	01-Nov-01	
Clare, Mark Sydney	2	Centrica plc	Deputy Chief Executive	20-Nov-00	
Alexander, Michael Richard	2	Associated British Foods plc	Non-executive Director	16-Jan-02	
Alexander, Michael Richard	2	Centrica plc	Director	20-Nov-96	
Brydon, Donald Hood	2	Allied Domecq plc	Senior Non-executive Director	20-Mar-97	
Brydon, Donald Hood	2	Amersham plc	Non-executive Director	06-Jun-97	
Schmitz, Ronaldo	2	GlaxoSmithKline plc	Non-executive Director	23-May-00	
Schmitz, Ronaldo	2	Legal & General Group plc	Non-executive Director	01-Oct-00	
Rimington, Stella	2	BG Group plc	Non-executive Director	17-Feb-97	
Rimington, Stella	2	Marks & Spencer Group plc	Non-executive Director	01-Jan-97	
Rose, George W	2	BAE SYSTEMS plc	Finance Director	01-Apr-98	
Rose, George W	2	Lattice Group plc	Senior Non-executive Director	01-Sep-00	
Green, Colin H	2	BAA plc	Non-executive Director	01-Aug-01	
Green, Colin H	2	Rolls-Royce plc	Director	30-Apr-96	
Foy, Peter	2	P&O Princess Cruises plc	Deputy Chairman & SNED	04-Oct-01	
Foy, Peter	2	Safeway plc	Non-executive Director	01-Aug-99	
Olver, Richard (Dick) L	2	BP plc	Director	01-Jan-98	
Olver, Richard (Dick) L	2	Reuters Group plc	Non-executive Director	01-Dec-97	
Heiden, Paul	2	Bunzl plc	Non-executive Director	01-Jul-98	
Heiden, Paul	2	Rolls-Royce plc	Finance Director	01-Oct-99	31-Dec-02
Gooding, Valerie Frances (Val)	2	BAA plc	Non-executive Director	01-Nov-98	
Gooding, Valerie Frances (Val)	2	Compass Group plc	Non-executive Director	02-Feb-01	
Nelson, John F	2	Kingfisher plc	Deputy Chairman	11-Jan-02	
Nelson, John F	2	BT Group plc	Non-executive Director	14-Jan-02	
Russell, Stephen G	2	Barclays plc	Non-executive Director	25-Oct-00	
Russell, Stephen G	2	Boots Company plc; The	Chief Executive	01-Apr-00	
Markham, Rudolph (Rudy) H P	2	Unilever plc	Finance Director	04-Aug-00	
Markham, Rudolph (Rudy) H P	2	Standard Chartered plc	Non-executive Director	19-Feb-01	
Mendoza, Roberto	2	Reuters Group plc	Non-executive Director	18-Feb-98	
Mendoza, Roberto	2	Prudential plc	Non-executive Director	25-May-00	
Butler of Brockwell,	2	HSBC Holdings plc	Non-executive Director	02-May-98	
Butler of Brockwell,	2	Imperial Chemical Industries plc	Non-executive Director	01-Jul-98	
Cescau, Patrick	2	Pearson plc	Non-executive Director	01-Apr-02	
Cescau, Patrick	2	Unilever plc	Director	04-Aug-00	
Mogren, Hakan	2	AstraZeneca plc	Deputy Chairman	06-Apr-99	
Mogren, Hakan	2	Reckitt Benckiser plc	Chairman	10-May-01	
McAdam, John D G	2	Imperial Chemical Industries plc	Director	01-Mar-99	
McAdam, John D G	2	Severn Trent plc	Non-executive Director	18-Sep-00	
Fay, Christopher (Chris) Ernest	2	Anglo American plc	Non-executive Director	19-Apr-99	
Fay, Christopher (Chris) Ernest	2	BAA plc	Senior Non-executive Director	01-Aug-98	
Hazen, Paul	2	Vodafone Group plc	Dep Chairman & Senior NED	01-Oct-00	
Hazen, Paul	2	Xstrata	Non-executive Director	01-May-00	
Clare, Barry	2	Boots Company plc; The	Director	01-Apr-99	
Clare, Barry	2	Standard Chartered plc	Non-executive Director	31-Jul-00	
Ball, Tony	2	British Sky Broadcasting Group plc	Managing Director & Chief Exec	02-Jun-99	
Ball, Tony	2	Marks & Spencer Group plc	Non-executive Director	01-Sep-00	
Symon, Carl G	2	BT Group plc	Non-executive Director	14-Jan-02	
Symon, Carl G	2	Rolls-Royce plc	Non-executive Director	01-Jun-99	

**Overlapping Directorships**  
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Full Name	Number of Positions	Company Name	Position	Date Appointed	Date Resigned
Sharman of Redlynch, Colin	2	Reed Elsevier plc	Non-executive Director	01-Jan-02	
Sharman of Redlynch, Colin	2	BG Group plc	Non-executive Director	23-Oct-00	
Dik, Wim	2	AVIVA plc	Non-executive Director	07-Dec-99	
Dik, Wim	2	Unilever plc	Non-executive Director	09-May-01	
Dunstone, Charles	2	HBOS plc	Non-executive Director	05-Jun-01	
Dunstone, Charles	2	Daily Mail & General Trust plc	Non-executive Director	01-Dec-01	
Skinner, Paul D	2	Rio Tinto plc	Non-executive Director	05-Dec-01	
Skinner, Paul D	2	Shell Transport & Trading Company plc	Managing Director	01-Jan-00	
Matthews, Colin	2	HBOS plc	Director	05-Jun-01	
Matthews, Colin	2	Lattice Group plc	Director	01-Nov-01	
van den Bergh, Maarten	2	BT Group plc	Non-executive Director	01-Sep-00	
van den Bergh, Maarten	2	Lloyds TSB Group plc	Chairman	18-Apr-01	
Schubert, John M	2	Hanson plc	Non-executive Director	10-May-00	
Schubert, John M	2	BHP Billiton plc	Non-executive Director	01-Jul-01	
Argus, Donald Robert	2	Brambles Industries plc	Chairman	07-Aug-01	
Argus, Donald Robert	2	BHP Billiton plc	Chairman	01-Jul-01	
Robson, Steve	2	Xstrata	Non-executive Director	01-Jan-00	
Robson, Steve	2	Royal Bank of Scotland Group plc; The	Non-executive Director	25-Jul-01	
Baan, Adri	2	International Power plc	Non-executive Director	01-Jun-02	
Baan, Adri	2	Imperial Chemical Industries plc	Non-executive Director	25-Jun-01	

Source: Manifest - The Proxy Voting Agency