

# LEONARD HULL

INTERNATIONAL PLC

## **Leonard Hull International Position on Corporate Governance**

Leonard Hull International welcomes the timely initiative of the Secretary of State for Trade and Industry and the Chancellor to review the role and effectiveness of non-executive directors.

Leonard Hull International believes that effective corporate governance cannot be created by attempts to mandate detailed processes and procedures for corporate boards to follow. We therefore support the approach proposed in the Consultation Paper (June 7, 2002) that the encouragement of best practice is the right starting point, rather than regulation or legislation.

Leonard Hull International holds the following general principles on best practice:

- In order to allow non-executive directors (NEDs) the time and focus required to perform their duties effectively, and to encourage the required development of a larger and more diverse pool of aspiring NED candidates, businesses should be encouraged to adopt a policy, suited to their own circumstances, regarding the maximum number of NEDs held by any one director. Our own observation is that, for most Directors, holding more than five NEDs creates time and focus constraints that may put performance at risk.
- While financial relationships between directors, managers and companies can be policed, personal relationships, friendships and loyalties between NEDs cannot: these often lay the basis for boardroom behaviour, and may affect the independence of NEDs. Though businesses must have the freedom to adopt policies suited to their own circumstances, a suggested maximum term of 6-9 years tenure (ie. 2-3 three year terms) for NEDs should be considered as a guideline to enhance independence. This will also encourage further opportunities for new NEDs to gain experience, enlarging the pool and diversity of NED talent. However, should the performance of certain NEDs be considered exceptional and indispensable to the effectiveness of the board as a whole, based on a credible self-evaluation of the board's performance, further terms should be considered where suitable candidates for replacement of the NED in question are unavailable.
- Boards should be encouraged to submit themselves to a credible self-evaluation process regularly (every three years) focusing on the performance of individual NEDs and the board as a whole, similar to the 360 degree feedback sessions practised at Executive Level.

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- Boards and executive management should actively encourage suitable candidates within their businesses to consider and seek NED roles on other boards. This will enlarge the pool and diversity of experienced NEDs over time.
- When appointing new NEDs, Boards should be encouraged to ensure that references have been taken on short-listed candidates reflecting their performance as NEDs specifically, rather than as Executives

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*Leonard Hull International Plc is a board-dedicated executive search firm.*

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