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Mr Derek Higgs  
Non-Executive Directors Review  
Room 2142  
1 Victoria Street  
London  
SW1H 0ET

27th August 2002

Dear Derek,

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

Enclosed are four documents representing our formal submission to your Consultation Paper, which we felt was admirably clear and also very interesting to read. The first enclosure, entitled "The Directors' Early Warning (DEW) Report", is a considered response to your question E27 and is intended to provide practical help to both non-executive and executive directors. The second enclosure "After Enron" has already been submitted to Patricia Hewitt and we enclose it herein for completeness. The third and fourth documents are copies of newspaper articles that appeared subsequently in *The Times* and in *The Observer*, based on our After Enron text.

In response to the consultation paper's paragraph E27: "*How much access to information from management do non-executives need to be effective? In practice, are information flows and communication channels sufficiently open and unrestricted?*" we submit that:

1. The information reports provided to non-executive directors should be prospective in their primary focus, concentrating not only on historic data but also on the next financial year-end and beyond;
2. They should be able to access the trends of key indicators such as orders, sales, profit and cash generation for every subsidiary in the group on whose board they sit, not merely for the group as a whole and its main divisions. The reason for this is the "*iceberg syndrome*" - i.e. the fact that a small subsidiary which can never make a very substantial profit can nevertheless make a very substantial loss. This fact of corporate life means that

the traditional "materiality" argument is no longer an adequate basis to use for deciding how much subsidiary detail a director needs to be able to access.

3. Objective statistical techniques should be used to assess the risk of meeting future forecasts.
4. The reports should be presented as a digestible and user-friendly sequence of graphs and diagrams that do not presuppose specialist financial expertise in the reader.
5. The Internet should be used as a means of briefing directors on the above issues each month (with appropriate security safeguards) to avoid the delays associated with paper report preparation and distribution.

Finally perhaps I might add that we are encouraged by the significant level of interest in our DEW Report proposal on both sides of the Atlantic and we would be happy to assist your advisory team on this matter in further detail if that would be helpful.

Yours sincerely,

Robert Bittlestone  
Managing Director  
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*enc. Documents in support of our response to the Consultation Paper*