

I have read your terms of reference and also your initial comments on the issues arising and I am much in agreement with what you have to say.

There is, I believe, a number of issues that are not easily covered in any written document and yet which I think are critical to any changes that might be forthcoming from your review.

I have tried to set these out here as cogently as I can. I should emphasise that these are my own personal opinions and I am not, in this instance, representing the views of PwC.

- 1 Central to any change in our Boardrooms is the personality of the Chairman and the way in which he chooses to play his role. It is he who will set the way in which the members operate within the boardroom and how individuals are able to contribute and challenge as the need arises.
- 2 A good Chairman will not need any further “best practice” governance guidelines; he will be setting those already. A poor chairman will neither recognise the fact that he is poor; nor will he be prepared to improve the way in which he operates. When I refer to a poor chairman I am thinking of those that are arrogant, or dominant, or too heavily sided with the executives, or weak and who will neither listen to, nor encourage, good debate outside his own predetermined framework. Based on my personal observations, there are quite a few of these individuals operating in UK plc.
- 3 Hand-in-hand with the issue of the effectiveness of the Chairman, sits, in my view, the issue of “boardroom etiquette”. I find this is a delicate subject and I often receive sharp responses when I raise it for debate amongst directors and particularly Chairmen. Nonetheless I think that the current ways of communicating within the Boardroom and amongst the board members are due for review. For example:
  - (i) It is “bad form” to raise an objection/issue in the boardroom of which the Chairman has not had prior notice.
  - (ii) Much debate takes place outside of the boardroom, either in the pre-meetings held between the Chairman and the CEO, or the CEO and his executives, or the Chairman and the non-executives.
  - (iii) Non-executives have expressed to me their concern about how they can best deal with the problem of being faced with a pre-determined decision, made either by the Chairman or the CEO.
  - (iv) Many Boards do not set out clearly what they expect of their non-executives, individually and collectively.
  - (v) Many boards do not operate a culture which encourages members to probe, challenge, or to think outside the box and so, faced with uncertainty; members tend not to raise the debate.

These and other ways of working may inhibit the depth and openness of debate that some of the complex issues facing today’s Boards requires.

- 4 This issue also feeds into the way in which individuals are recruited into the boardroom. I have been told many times that, before you can be a director of a plc board, you need to have been a director of a plc board. The reasons are as much about “how to behave” in the boardroom as about having the experience in the way in which boards operate.

These thoughts have been developed over the last three years in many workshops, seminars and one on one discussion with the non-executives of the FTSE 250 companies. In these situations I have found them to be happy to talk off the record about the difficulties that they face in contributing and about the “loneliness” that many of them feel, either within their boards or as a profession. I have, however, met few who, when challenged, are prepared to be different in a way that would bring about a change in the boardroom overall.

So my concern is how will the non-executives, and the Chairmen in particular, be persuaded to be different in the way in which they work. I think it was Ghandi who said that we have to be the change that we want. If, and I am not sure that this is the case, our non-executives want things to be different, then they will have to start with themselves. This will require courage and will be hard.

If however change is to be imposed upon them and is not of their seeking, then we will be here again in a few years time looking at the next review.

So some thoughts that I have had about the “how”.

- 1 Whilst there is a body for directors in the IOD, this does not provide a forum for the non-executives alone. I think that such a forum would be helpful. It could facilitate their having a voice in these issues in a way that currently they do not. It could also provide some kind of long term training/development of the kind of skills that we need to see in the boardroom, which are not based on technicalities or procedures but on behavioural skills. It could also set up some kind of benchmarking of best practice and oversee the way in which members are recruited into the boardroom by possibly even requiring accreditation before directors can be non-executives.
- 2 The most important matter to many non-executives is the balance of pay versus time commitment. According to surveys that I have done, companies have said that non-executive workloads have increased by more than 1/3<sup>rd</sup> in the last 3 years and pay has not. Some kind of balance needs to be put in place between time and pay. Until this is done, I do not believe that the non-executives will be prepared to give their best other than in times of crisis. This is exacerbated by the fact that they have the same legal responsibilities as the executives and a part of the latter’s pay is definitely linked to the responsibilities that they take on when entering the boardroom.

- 3 Finally there is a need to reconsider the power of individual non-executives. At present, when faced with a Chairman or CEO or a particular decision that they believe to be bad for the shareholder, ultimately their only sanction is to resign. This action may of itself bring about the crisis that they were seeking to avoid. So, those that are faced with this will merely seek not to be re-appointed when next up for re-election at an AGM. Somehow they need another, safer route to air their concerns and have them heard properly without setting off a public scare. Perhaps the senior non-executive could play a role here but this would need to be formalised.

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