Non-Executive Research
December 2005

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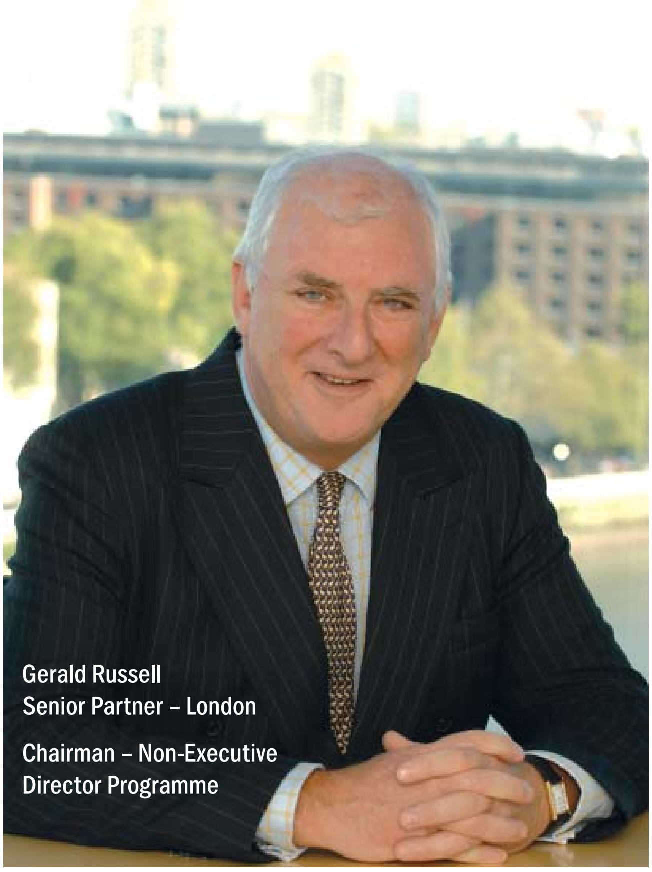
Ernst & Young
Quality In Everything We Do

Fifty Under Fifty

Views from Chairs of the Future

Introduction



Gerald Russell
Senior Partner – London

Chairman – Non-Executive
Director Programme

We are now in the third year of our Non-Executive Director programme. No one could have predicted in 2003 the roller coaster ride that Non-Executives would face and how they and their boards would cope with pressures from every quarter. But as we go into 2006, maybe the tide is changing.

Who would have thought that after all the comment, consultation and general acceptance of the inevitable Operating and Financial Review (OFR) that the Government would seek to drop it days before it was due to take effect by law? One can discern that regulators here and abroad are beginning to conclude that excessive regulation can damage competitiveness without necessarily having the consequent pay-off for investors, or even investor confidence. And a long running and high profile case against directors, including Non-Executives which will have focused the minds of many, has dissipated.

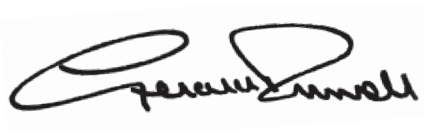
This year the Financial Reporting Council have also revised their guidance entitled 'Internal Control: Guidance for Directors on the Combined Code'[1] (known as the Turnbull Guidance). The new guidance comes into effect from 1 January 2006 and in fact little has changed. This probably indicates that on the whole the principles-based approach of comply or explain which we have in this country does seem to be working. Neither business nor regulators wish to go down the prescriptive regulation based route as they have done in the States – we certainly do not want a British Sarbanes-Oxley. But to ensure that doesn't happen, it is vital that companies take their responsibilities with regards to transparency and disclosure seriously, otherwise regulators, particularly those in Europe, might need to change their stance.

Our research suggests that taking responsibility seriously is exactly what is happening. Last year we examined how Non-Executives contribute to business performance. At that time the Higgs Report[2] was fresh in the minds of all boards. One key finding of our research was the criticality of the role of the Chairman in creating the board and company culture, selecting and motivating the Non-Executives and driving all aspects of business performance.

This year we decided to expand the point of view of the Chair – but in a refreshing and interesting way. By interviewing fifty Non-Executives who were 50 years old or younger we built a picture of what potential Chairs of the future see as their current and upcoming challenges. The enthusiasm that this group has for UK plc is encouraging, but they have a collective view that provides warning shots about the performance of boards over the next several years.

Our research programme is part of a comprehensive range of activities to provide the Non-Executive community with focused, relevant guidance. This includes Non-Executive Director Workshops in a peer-group setting; sponsorship of The Audit Committee Chair Forum with the CBI and Cranfield University; other thought leadership; and an online service for Non-Executives at www.non-execs.com.

I am looking forward to continuing the debate on, and with, Non-Executives over the course of the coming year.



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Summary

To develop a view of the challenges that Chairs are facing today and will face in five years' time we invited a group of FTSE 100 and 250 Non-Executives who are representative of the larger population, aged 50 and under, to participate in a qualitative interview programme. The use of face-to-face interviews prompted discussion on a wide range of topics and provided a relaxed atmosphere in which to elicit the most candid remarks.

The consistency of response is a surprise. Looking at the diversity of the group in terms of experience and industry we expected responses to polarise along such lines. This alignment implies that the challenges faced by FTSE companies, their boards and Chairs are similar. That similarity is driven by three overall themes:

- Talent management and succession
- Compliance versus performance
- Growth and globalisation.

The overarching picture is that there is a real and worrying call for better board strategies, backed by rigorous scenario and contingency planning. Few are satisfied that their board process delivers the quality of forward-looking plans that will enable them to deliver expected results.

Other themes to emerge include:

- The choice available to this group because of their age and socio-economic position means that companies cannot automatically assume they will be attracted to FTSE roles versus other opportunities.
- Finding Audit Committee Chairs is potentially a show-stopper as the burden of time and knowledge increases, without a corresponding increase in reward.
- Each sits on an average of 2.4 committees per company in addition to their core Non-Executive roles. Chairs will need to break the back of the committee burden by delegating more to Executives, driving clear and value-adding agendas and resisting the temptation to create new committees.
- The ownership of UK plc is likely to change substantially in five years as emerging markets look outward for cash-rich, well-run companies. UK plc is an easy target with a tolerant regulatory regime and investor desire for short-term gain.
- Consequently, Chairs will need to be adept at dealing with, and targeting, significant shareholders from new markets and different cultures. This also has implications for the collective power of the London markets and their ownership. Chairs will have an obligation to understand where these investors are coming from and their expectations.

Our five year horizon then prompts us to ask such questions as:

- Will these Non-Executives continue to choose to take on FTSE Non-Executive and Chair roles?
- How will private equity change the faces at the board table? And the structure of UK plc?
- Where will strategic thinking, so keenly desired, come from?
- Is risk management becoming a 'core' skill like strategy?
- Will risk aversion fling open the door to new competitors?

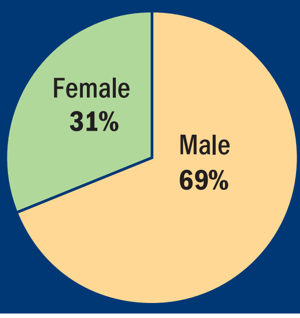
These younger Non-Executives are impatient for performance, role satisfaction and contribution. But they also relish the challenge of a FTSE role and bring valuable insight into the challenges that Chairs face today, and will face in the future.

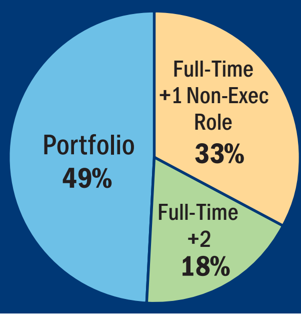
Our 'Fifty Under Fifty'

It is interesting the number of people who at this age are portfolio people. All of the full-time people were either CEOs or FDs. And those with two roles typically had one big one and one little one. So this says that either portfolio people have more time on their hands for interviews or the characteristics of board members are changing much earlier in their careers.

Statistics

Average Age	46.4 years
Audit Committee Chairs	25%
Audit Committee	60%
Remuneration Committee	52%
Nominations Committee	47%
Average Chair Remuneration	£153,333
Average Chair Days	96
Average Non-Exec Remuneration	£ 42,292
Average Non-Exec Days	26





1 In five years' time, what do you believe will be the 3 most significant challenges for Chairs of FTSE 150 companies? Why?

The industries represented by our sample include banking, industrials, consumer products, regulated industries, technology and media. It is perhaps surprising, therefore, that the responses to this question were remarkably similar. This suggests that the strategic perspective and experience required for FTSE boards is relatively homogeneous.

Three areas of challenge are consistently reported:

- Talent management and succession planning for both Executives and Non-Executives
- Balancing the increasing demands of corporate governance with the need to deliver exceptional business results
- Achieving accelerated growth in a globally competitive environment, particularly with the emergence of India and China.

Talent management and succession

> *"Succession is shorthand for people and people are the difference between good businesses and bad businesses."*

The sample represents an interesting sociological and economic phenomena not present 15 years ago. **Choice**. Each participant has the intellect, experience and financial wherewithal to opt-out of a traditional FTSE career path and pursue other areas of interest and reward. According to a recent article in the Financial Times[3], private equity is, and will increasingly, lure the best and brightest because of its lack of public scrutiny versus the potential financial rewards.

> *"Corporate governance and regulation are driving talent into private equity. It is creating a disparity between public company returns and private equity that in my mind is not commensurate with the personal risk to reputation. What are the compelling reasons for me to do this?"*

They foresee that in five years Chairs will not only need to develop the people in their business to step up to Executive roles, but that the pool of relevant, up-to-date Non-Executives is also being refreshed. The scarcity of talent will mean that innovative management development programmes and creative executive search mechanisms will be required to deliver the calibre and quantity of candidates to lead the boards of the future.

> *"The challenge to find excellent Non-Executives is real and will get worse over the next five years, particularly as the pool of existing FTSE Non-Executives is gradually withdrawing from their appointments or retiring."*

The composition of Boards is also an area of comment, particularly the proportion of non-British people required to guide increasingly international companies. Our sample includes 12% who are not British by birth. The drive to find a more diverse pool of candidates will inevitably reach outside the UK. Finding qualified overseas candidates is seen as an important aspect for expanding the talent pool; however, if boards become more international there will be inherent cultural conflicts. The Chairman will have to juggle very different sets of values, particularly with respect to remuneration.

> *"With a North American on a Remuneration Committee, they just do not understand how us poor, narrow minded Brits can get themselves so exercised about the minutiae of executive pay and perceive this as a waste of time. 'Pay the executive three times as much and move to the next agenda item!'"*

On the other hand, there is concern that Nomination Committees are today too quick to go externally to fill vacancies, particularly in a crisis. Chairs need to be building sustainable succession structures that identify the top performers at all levels, develop mechanisms to retain and motivate them, and ensure that the internal process is better than competitors. This, coupled with an innovative and inspiring remuneration policy, will help Chairs to ensure they develop the leaders of the future.

> *"How can we give our Directors a scheme which seems meaningful and that is actually going to deliver? We are considering cash-based long-term incentive plans rather than a share-based one. We have to change the status quo to keep our best people."*

Finding Audit Committee Chairs was seen as potentially a show-stopper for future Chairs. 25% of the sample are Audit Chairs and 22% are full-time Finance Directors. Only 40% of the Finance Directors are Audit Chairs. Those who were not Audit Chairs cited that they did not have enough time to do a full-time FTSE role and be an Audit Chair of another FTSE company.

There was a consensus view that the FTSE Audit Chair[4] should be a full-time Finance Director in a large company as he/she has to be up-to-date on complex governance and regulatory issues. However, this implies by definition that all FTSE Finance Directors are willing and able to be Audit Chairs. As this is practically unrealistic another robust source of finance experts needs to be identified.

Balance: compliance versus performance

There have been numerous reports during 2005 that question the burden of compliance for public companies and how this distracts from performance. A common frustration voiced in our research is the low priority that strategic and scenario planning plays in today's boardroom agenda. This is not necessarily because the boards are overwhelmed with a compliance agenda but that the younger Non-Executives see strategy development as particularly important.

They see 'balance' as it relates to dealing with issues of the past versus stimulating important, and high-quality, strategic thinking. This implies that Chairs will be compelled by the Non-Executives to shift the board agenda from historical reporting and increasingly focus on looking forward, resisting the push from the City to focus on the short-term.

> *"We say long-term but we don't mean it because, to be candid, the current Non-Executives aren't going to be around in the long-term. The average shareholder generally does not benefit at all from the PLC short-term mindset."*

> *"I could quote a number of companies who clearly don't think in the ten year strategy space at all. It's not a strategy, it's actually a business plan for the next three years."*

Getting the balance right between the time commitment required for both the board and committees is also important. Each of our Non-Executives sit on an average of 2.4 committees per company in addition to their core Non-Executive roles.

> *"Chairs have to set the agenda to swing back from corporate governance to what is actually helping management better run the business. As Chairman I'd take firm action to remind the board of its very important role in creating value, not just protecting it and listening to the reports from the various committees."*

What techniques will Chairs use to achieve balance? The vicious circle of managing performance and risk, with investors demanding returns today, effectively tie the Chair's hands. It is clear that our sample will only **choose** to be Chairs of the future if allowed to create balance **and** add value.

Growth and global competitiveness

Companies who are not aggressively addressing growth and globalisation today will not be around to have a Chair in five years. The comments in this area were particularly negative about UK companies competing actively and successfully on the global stage.

> *"Without doubt we are sleepwalking into something that could be a very, very big problem, not only for our own companies, but also for UK plc."*

> *"Companies are getting bigger and bigger, which means they get more top heavy, more introspective, they tend to generate cash, but find it very hard to generate real organic growth."*

In addition, by focusing on short-term, low risk returns, the City is putting UK plc and the pensions of millions of people at serious risk by discouraging risk-taking in global expansion and investment.

> *"The traditional long-term shareholders are really struggling in terms of growth. With an ageing population and a shortage of saving, the whole thing starts to get very, very difficult, and quite frankly, unsustainable."*

Many companies may face a reality that growth may only be achievable by shifting infrastructure out of the high-cost European market or going private.

> *"The European Parliament, with its drive to focus on worker rights, is the antithesis of what is happening in Asia."*

Chairs will need to be adept at dealing with, and targeting, significant shareholders from new markets and different cultures.

> *"In five years the centre of gravity where wealth is created will be shifting towards China, India and Russia. My board has its head in the sand on this subject."*

Chairs will have an obligation to understand where these investors are coming from and their expectations. It is inevitable that the investor base will be global and that they will have different demands and expectations.

2 As a FTSE Non-Executive, on what subjects do you feel most vulnerable? Why? What are you doing/would like to do to increase your knowledge in these areas?

When we reported on Board Performance in 2004 the Non-Executives we met were overwhelmed with changes from a compliance perspective. The mood was rather bleak as these Non-Executives struggled under the weight of Sarbanes-Oxley, IFRS, Higgs and the prospective OFR. This wave has now subsided. Beyond the obvious concerns about control, fraud, compliance and litigation, we wanted to understand what these Non-Executives worry about.

“When the FSA is investigating what has gone wrong they would never accept as an argument the volume of information that you needed to know was just too high and a reasonable person couldn’t have got through it. So, why were you sat on that board?”

Reputational risk

The legal risk associated with being a Non-Executive Director is well known and understood by this group who are all, or have been, Executive Directors. The recent public legal proceedings against Directors have resulted in reputational damage that in many cases has been irreparable. One suggestion is to have a top-class senior legal representative at board level, not just the company secretary.

“I am still not convinced most companies can clearly articulate the level of risk that they are taking in particular areas. There is a technical gap between what is expected of a Non-Executive and what they are realistically achieving.”

“The risk of ‘I didn’t know’ is what I worry about. ‘ I didn’t know we were doing that. I didn’t know we employed people in the jungles of Brazil chopping down virgin teak forests. I didn’t know that, you didn’t tell me’.”

Understanding a new industry sector

By definition it is impossible for a Non-Executive to know everything about a company in an average of 26 days per year. Various mechanisms are being used to accelerate both industry and company knowledge including holding board meetings at operating locations around the world, serving as a mentor to an Executive to understand their issues and concerns, visiting retail and operations centres, subscribing to industry publications and attending Institute and industry seminars. However, given demands on their time, site visits appear to provide the most insight into how a company works.

“We have a “teach-in” where an expert will teach the executive committee for an hour or two on a topical issue. This is important because at my first board meetings they were using a technical language which I didn’t understand. I don’t like sitting there and not really understanding the questions, but I don’t think I am unique.”

Audit and financial areas

With 25% serving as Audit Chair and 60% on an Audit Committee, it is not surprising that the issues surrounding the Audit Committee are at the forefront. Many rely on their accountants and lawyers to provide access to thought leadership. They also value networking with their peers to debate issues. For those without a financial background the depth and detail of the Audit Committee, and risk assessment, are particularly challenging.

“I feel increasingly vulnerable in the financial requirements arena and keeping up to date is not easy. My boards provide no support in these areas; I have to find knowledge elsewhere.”

Changes in the legal framework outside the UK and US

The geographic diversity of many of the companies was cause for concern. This has prompted most to spend extra time, particularly during the first year, to get to know the company in addition to their formal induction programme.

“I’m most worried about being in a situation where the rules in other countries are changing, the penalties for the rules changing may be quite significant and you didn’t even know the rules had changed. In fact, I can’t remember what the rules were in the first place.”

Technology and security

With businesses increasingly dependent on technology to run day-to-day operations, for financial information and communication, few Non-Executives appear to have a clear perspective on the risk associated with business continuity as a result of viruses, malicious actions or terrorism. Several believed that this area of risk was not being addressed in a pro-active manner.

Remuneration policy

The ongoing controversy associated with setting remuneration policy for the Executives and Non-Executives means that most Non-Executives feel that they can’t possibly get it right.

“The vulnerability is not so much understanding the guidelines as understanding what’s the right response.”

Many queried whether the growing international content of their businesses would force radical changes to Executive and Non-Executive remuneration expectations.

3 Which areas do you believe are the most important for preparing you for a Chair role?

The role of the Chair has changed dramatically in a short time, requiring specific industry and functional knowledge rather than the perspective of 'a sage from a commanding height'.

The average age of the Non-Executives in our survey in 2004 was 57.6 years. Most were Chairs of significant organisations. This year, with an average age of 46.4, most are not Chairs. In many cases they have been Non-Executives for less than two years.

" My role as a Chairman in the FTSE 150? My first reaction would be I need a few more years. "

Business experience

Several characteristics of experience are relevant:

- Working for a variety of Chairs, both good and bad, provides insight into how boards function in different circumstances
- Having a diversity of experience with a variety of companies
- Being able to bring proven international experience and perspective
- Understanding how a listed company works from an Executive point of view, most likely as a Chief Executive or Finance Director

Many felt that they would not be ready to be a Chair of a FTSE company for several years, simply because of experience. There was also a hesitation about possible age prejudice.

" I have typically been the youngest person on the Board, and I'm always the only female. To have a female Chair who is also one of the youngest is a difficult prejudice to overcome. "

Understanding the City

For those who have not been a Chief Executive or Finance Director of a FTSE company there may be a gap in terms of managing investor relations, developing insight into the London Stock Exchange, other exchanges and capital markets, and leveraging the financial press. City exposure can be achieved by getting to know the investment analysts, attending investor briefings, participating in AGMs and networking in the venture capital community.

Preparation and Practice

A variety of methods are being used to gain Chair experience:

- Chairing board Committees

" A Chairman operates through influencing and coaching, whereas my CEO role is more hands-on. If you don't recognise it is quite a different job you can be a poor Chairman. "

- Serving as a Chair of a smaller company or charity/ public sector entity

" I have chaired a large charitable organisation so I had to learn what it means to control a disparate group of directors. This has been much more valuable than being a Non-Exec on several boards. I would rather chair a small board than be a Non-Executive on a big one in terms of the experience it gave me. "

- Using opportunities in the current Executive role with a view to becoming a Chair

" I'm chairing probably about five or six meetings a week. They're not board meetings, but often there are thirty people there. If I put my 'future Chair' hat on I should use these to practice my Chair skills. "

Style

The skills required to be a Chair of a FTSE company are just one part of the equation. Many mentioned that the 'style' that they had to adopt was equally important.

On the lighter side, several Finance Directors in our sample suggested that they needed to improve their listening skills as the kinds of activities they are involved with today are not consultative.

" I think one of my biggest challenges if I ever were to become a Chairman would be to know when to shut up. "

Networking

Successful Chairs typically have a broad network in business built through a variety of means. It appears that this allows them to be significantly more influential in a less confrontational way with regulators, investors and other stakeholders. Several Chairs were held up as excellent examples of those who use networking not only to advance their own position, but also that of their board and the company.

" I am invited to many dinners, events, exhibitions, launches, retirements, etc. The challenge is to find high-quality opportunities to not only meet peers but to candidly discuss common issues. "

4 What changes have you seen since the Higgs Report on your FTSE board? What is still to come? Never to happen? Why?

The Higgs Report (see box below) triggered extensive debate on compliance and governance. Because many of the participants have been in their Non-Executive role(s) less than two years their view 'pre-Higgs' is limited. However, there is consistency amongst the replies as to the impact and implications of Higgs:

- The single most important area of change is board evaluation and self-assessment
- The Senior Independent Director (SID) should only be used when a board is in crisis
- The formality and frequency of communication with shareholders has increased
- That the limit on number of Chair roles will create an artificial market for talent
- The most controversial point is tenure on boards and the (wrong) assumption that automatically after nine years Non-Executives should be forced to step down.

There is no consensus on how frequently self-assessment should be done or whether it should be undertaken internally or externally. Strong views are expressed both ways.

"I'm a convert to doing board evaluation - every three years" versus *"board evaluation and individual appraisal is now an annual event"*

"Before Higgs I sat on one Board that did a review and now all my Boards do it."

"The internal board evaluation process seems to just result in a 'happy clappy' outcome – aren't we all great and friends. I think an external perspective is required for honest and constructive feedback."

The role of the SID, when used in an intervention, was seen as positive. However, warnings were raised that if used to undermine the Chairman or CEO it would have long-term negative implications for the dynamics of the board.

"The SID mustn't be the first port of call, he must be the last port of call for shareholders, because otherwise the Chairman is fatally undermined."

There is concern about the restriction on the number of FTSE Chair roles an individual may have.

"If a Chair is not performing he's going to be out anyway – what I see happening is a tiered system of rating Chairs by the headhunters that results in an 'A' list demanding a premium rate and a 'B' list, etc. The market will sort this issue – there is no need for a Code requirement."

The Higgs Report[5]

The Financial Reporting Council's revised Combined Code (Code) came into effect for listed companies with reporting years beginning on or after 1 November 2003. This implements most of the recommendations made in the *'Review of the Role and Effectiveness of Non-Executive Directors'* (the Higgs Report).

Key changes to the Code were as follows:

Independence. That *'the board should determine whether the director is independent in character and judgment'*. This includes those who have served on the board for more than nine years.

Board composition. That at least half the board, excluding the Chairman, should comprise independent Non-Executives.

Length of service. That Non-Executives may serve beyond six years (ie two terms) but longer periods of service should be subject to rigorous review.

Remuneration. That remuneration should reflect the time commitment required from, and the responsibilities of, each Non-Executive. Non-Executives should not receive share options.

Role of Chairman. The Chairman must meet the test of independence on appointment but thereafter is not regarded as independent. A Chief Executive should not become Chairman of the company except in exceptional cases. The Chairman will be permitted to Chair the Nomination Committee except when it is considering the appointment of a new Chairman.

Directorships of other companies. The board should not agree to a full-time executive director taking on more than one Non-Executive directorship in, or the Chairmanship of, a FTSE 100 company. No individual should Chair more than one FTSE 100 company.

Remuneration Committee. Must consist of at least three independent Non-Executives.

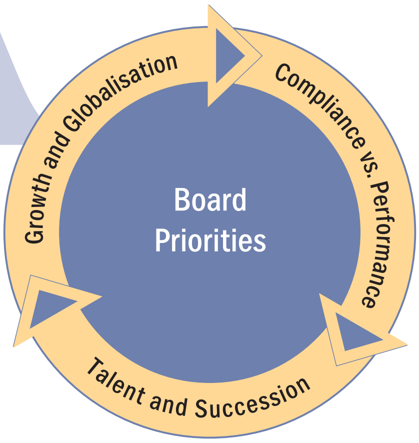
Audit Committee. The Smith Report – Audit Committees: Combined Code Guidance – was published at the same time as the Higgs Report and its recommendations have been included in the Code.

Senior independent Non-Executive director. That the Chairman should communicate shareholder views to the board and should discuss governance and strategy with major shareholders. The SID is expected to attend sufficient meetings with major shareholders to develop an understanding of their concerns.

Professional development and performance evaluation of the board. The Chairman is responsible for ensuring all new directors receive an induction on joining the board. The annual report must state how performance evaluations of the board, its committees and each individual director are conducted.

5 If you were the Chair of your current Board, what would be your top three priorities? Why?

The issues cited in Question 1: Talent, Balance and Growth, are the centre of discussion here. But the emphasis is not as clear on any one area. Each of the Non-Executives' perspectives varies according to where the company they represent is in its business cycle.



Talent and succession

Of specific interest, therefore, is the strong emphasis on talent management and succession in five years' time. The sample clearly see this as a potential 'sting in the tail' that will occur if boards continue to operate as they do today.

Suggestions for attacking the talent issue included:

- Identifying who at any level has the potential to be on the board. Finding the 'stars' below the Executive is considered to be a priority.
- Developing plans for what to do to help them succeed and to ensure they are retained.
- Not leaping to sourcing talent externally – and if you do are you satisfied that the rest of your internal capability is high performing?
- Don't accept mediocre performance from people at any level.

"I buddy three people who are not board directors and are two levels below the board. We change buddies every twelve months. Once a year you all have to stand up and say what you've each got from it."

"I've been a big fan of mentoring, since I lived and worked in America, and when I came back from America I was sort of a 'mentor man' insisting everyone around me had a mentor. My own mentor is superb and this had made a real difference to me."

Balance: compliance versus performance

Given that the Non-Executives are on at least two committees per company, there appears to be a constraint on time allocated versus what they believe to be their priority – strategy. Are boards 'doing things right' or are they 'doing the right things'?

The technical running of the board is cited as another area of potential change. Key points include:

- Allocating enough time at board meetings to adequately debate and refine proposed strategies
- Ensuring that the timing of the agenda is realistic
- Looking forward rather than reviewing history
- Encouraging debate rather than reporting.

"There are people going home at the end of the day, all over the country, saying to their spouses "I just can't believe he let that meeting go on for 3 hours and we still didn't decide anything at the end of it."

"I'd certainly streamline the committees, we've got far too many committees and we've got far too many of us on too many committees."

Growth and globalisation

There was loud and clear frustration about the ability of boards to produce excellent strategies based on scenario planning and robust global industry and market knowledge.

"Boards are so focused on the short term that they just do not have the headlights on full beam and do not see what is coming round the corner."

"I would dearly love to see a really clear long-term strategy."

The consistency of comment on strategy is puzzling given the access to strategic resource these boards have. In last year's report the Non-Executives believed that their strategic role provided their greatest contribution to board performance. From the comments in the interviews we conclude the following:

- Non-Executives are not sufficiently engaged in the development of strategy and the strategic process
- There is insufficient evidence that the strategies produced provide for inevitable changes in circumstances
- Non-Executives are not confident in their depth of knowledge of global markets.

Challenges

Collectively the responses to our questions provide both Non-Executives and boards with some useful prompts.

For Non-Executives

- Do you have a clear Non-Executive career direction? Do you want to move to a portfolio career? If so, when? Other research suggests that those planning to go 'plural' should start thinking about this at least two years in advance.[6]
- Are you planning how and when you will take on Chair roles? What skills do you need to strengthen?
- Is there a Chair who could be a mentor? Perhaps someone you have worked for in the past in a different industry or country?
- Have you considered serving as a Chair on a private or smaller board? Do you have access to different ways to explore the market?
- Are you confident of your knowledge of the City? Are you making the most of opportunities on your current boards to interface with shareholders and stakeholders?
- Are you making the most of networking opportunities? Do you know who provides access to relevant topics and events?
- Would you know an 'excellent' strategy from a 'poor' one? How can you further develop your strategic perspective?

For Boards

- Is strategy at the top of your board agenda? Are you allowing enough time for strategic thinking as well as budgeting? Is contingency planning included?
- Do you have a robust process for succession planning across all board roles? How far does this reach down into your organisation? Do you know who the 'stars' are and how you will make them your leaders of the future?
- Does your board reflect your markets/customers? Where can you add value to the board through diversity?
- Do you understand how international growth will add value and where real opportunities for globalisation exist? Do you understand both organic and non-organic routes? Are you taking advantage of the current buoyant market?
- Do you have the appetite to take on risk associated with growth programmes? Can you explain why or why not to your key shareholders? Is risk return management a central part of your planning scenarios?

Practical Actions

“I experimented with what I called a Board Café, where the board split up to discuss specific sub-issues. We're now running our board on this basis, where we divide the agenda into sections. Every agenda item has four dialogue sessions. There are presentations for each dialogue and the group rotates between different sections. We reconvene for a plenary session. It takes more preparation time, and sometimes it can be messy reconciling different views.

Not everyone is completely comfortable with it. But somehow we've got to crack that old crusty captains of industry sort of board environment and create a far greater set of variety of skills and styles within the boardroom. If it can happen within the board meeting process, then great. If it means separating away days where there is a different style from the board meeting, then it's halfway there, but at the moment, away days are too often simply set piece extensions of the boardroom. The right things just don't get done.”

“We have an international board meeting in a non-UK location where we meet for two days at a time. We get to see the local management, take in the local environment and understand more about our far-flung operations. It also gives us more time to reflect on our strategy as it relates to these various businesses.”

“Informal sessions with management are important. If there is a board dinner we will bring in area managers and every time I learn a lot about some of the issues that they are facing. It is an excellent development opportunity for those below board level and on a selective basis you do improve your knowledge.”

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Footnotes

1 Financial Reporting Council, Internal Control – Revised Guidance for Directors on the Combined Code, October 2005, www.frc.org.uk/corporate/internalcontrol.cfm

2 Higgs, Derek. Review of the role and effectiveness of non-executive directors, January 2003, www.dti.gov.uk/cld/non_exec_review/pdfs/higgsreport.pdf

3 'Survey shows more executives being lured to private equity', *The Financial Times*, 19 September 2005, page 21

4 For the purposes of this report the term FTSE is deemed to represent directors of the top 200 companies

5 'New Combined Code – implementation of the Higgs Report', Freshfields Bruckhaus Deringer, September 2003

6 Portfolio Working Survey, exec-appointments.com and IDDAS, 2003

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