NON EXECUTIVE RESEARCH
2007

ERNST & YOUNG
Quality In Everything We Do

Why does the strategic agenda remain elusive?

Non Executive Director Roundtable

Ernst & Young's Services for Non Executives

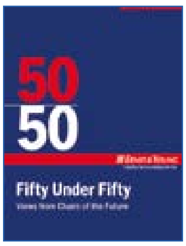
Ernst & Young National workshop programme for Non Executive Directors

How do you keep abreast of the latest issues to discuss with your board?

Ernst & Young are now in the fourth year of running a successful series of workshops for FTSE 350 Non Executive Directors. We bring together subject matter experts and like-minded directors to discuss key boardroom issues.

We also offer regionally based NED workshops.

For further information about our 2007 workshop programme
e-mail neds@uk.ey.com
or telephone Sam Salimi on +44 (0)20 7951 6548



Non Executive Director research

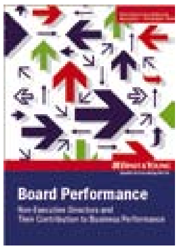
Fifty Under Fifty – The View from Chairs of the Future

This report summarises the results of an interesting and different research programme. Fifty Non Executive Directors, fifty years old or younger, from FTSE 100 and FTSE 250 companies, participated in qualitative face-to-face interviews. We looked for insight into the challenges that these potential Chairs of the Future see coming to prominence over the next five years.

To download any reports or to learn more visit www.ey.com/uk/nonexecutivedirectors

The Non-Executive Director
non-execs.com

We have teamed up with exec-appointments.com to support the Non Executive Director service through their website www.non-execs.com. As the key source of latest thinking, informed comment and emerging trends, this site provides a one-stop-shop for accessing copies of relevant reports, latest news and views, tips and tools, as well as providing a place to search for new Non Executive positions or to promote yourself to companies and recruiters looking for Non Executive Directors.



Non Executive Director research

Board Performance: Non Executive Directors and their Contribution to Business Performance

The introduction of the Higgs Review recommendations into the Combined Code in November 2003 was intended to promote a higher contribution from Non Executives. Twelve months on what are the challenges for the successful Non Executive in this new environment and has anything actually changed as a result of the extensive consultation process that preceded it?

Conclusions were developed on how Non Executives contribute to business performance; the importance of their strategy role; the overriding influence of the Chairman on individual Non Executive and board performance; the need to examine total board performance rather than just individuals; balancing the conformance and performance aspects of their roles; how formal qualification is viewed and changes that are occurring in the selection process.

Introduction

Gerald Russell
Senior Partner – London

Chairman – Non Executive
Director Programme

This is our third year of research into topics of interest to Non Executive Directors. We took the challenges prompted in last year's '50 Under 50' report and put them in front of a group of FTSE Non Executives. We wanted their candid perspectives on why these issues are important, or not. Two issues that were a concern last year continue to be front of mind: strategy formulation and succession planning, particularly for Audit Committee Chairs.

A recurring theme has centred on how Non Executives execute their strategy role. An apparent lack of a consistent or effective approach across the FTSE 150 emerges.

Why do satisfactory outcomes in strategy formulation remain elusive? The only point of consensus is that good examples are found when there are strong Chairmen who make strategy a priority. This is an area which clearly deserves more in-depth evaluation and will be the focus of future studies.

Statistics bear out that churn at the top of companies does not help with these issues. The number of FTSE 350 chairman departures increased by 60% between 2003 and 2004, which was even higher than the rate of CEO departures, and it was at the same level as CEO turnover in 2005. The current average period of tenure of a FTSE 350 chairman is five years, only marginally higher than that of CEOs (4.8 years).[1]

Finding the next generation of Audit Committee Chairs is going to require both lateral thinking and a better understanding of the role. Also the sharper requirements of the European 8th Directive on competence in that a member (most likely the chairman) will need to demonstrate "Competence in accounting and/or auditing" will narrow the pool.

Our questions on risk to our round-table participants shows that the kinds of risks they are concerned about are increasingly global, and increasingly difficult to predict and control. The problems that brought down Enron – particularly around internal control and fraud – seem less relevant to our participants compared to organised crime and manslaughter.

Our research is part of an ongoing programme for Non Executives which now reaches into the regions of the UK and the Channel Islands. More details about all of these programmes can be found on our website.

Your comments on our research are important for framing future initiatives. Please send any views or suggestions to neds@uk.ey.com. 2007 will be, yet again, a time for change in the Non Executive sphere and we look forward to expanding our reach into this important arena.

Summary

Our Roundtable Participants

Over the course of an evening we conducted 15 group interviews on five questions, each with a facilitator. The five questions were also sent in survey format to the members of The Non Executive Director at www.non-execs.com.

Since the Higgs review was published in 2003 the landscape of Non Executive issues has changed significantly. From an environment of blame, scandal and abuse we now have the largest piece of company law ever written lumbering into place. Undoubtedly the next two to three years will see the 'teeth' of this legislation being revealed and almost certainly in ways never intended.

This year we gathered together a group of experienced FTSE Non Executives to discuss, in an informal and confidential roundtable setting, five questions that challenge both their performance in their FTSE roles and commitment to them.

Like last year, few are satisfied with their board's strategic process, its outcomes or their contribution. There was a common voice of dissatisfaction with governance box-ticking and the pressure to 'control' rather than lead or advise. Many argued that Non Executives don't make very good controllers anyway, so getting out of the control mindset and into a strategic one is critical to the success of both board and company.

The Higgs Review of Corporate Governance was prompted by a need to have a practical and common-sense guideline for Non Executives in listed companies. But Higgs described only 'what' should be done, not 'how'. Perhaps the time has come for a comprehensive review of the most important role performed by Non Executives – the strategic one.

There was overwhelming consensus that there needs to be:

- More time devoted to strategic discussion, outside of regular board meetings
- A clearer, better managed perspective on how strategies are being implemented, progressed against expectations and corrective actions are being taken
- More time spent inside companies to gain an understanding of the most important challenges as seen by the people who work there.

We asked if the growth in private equity would change the faces at the board table. The answer was "yes". The rewards available to those who are successful, coupled with the lack of governance bureaucracy, has created an attractive, if very demanding, alternative to listed company roles.

The creative ways in which private equity-backed firms built their boards was admired, particularly their ability to bring diverse but highly qualified people to the table.

The expectation that Audit Committee Chairs will have to know everything that is happening needs to change. Indeed there appears to be a need for regulatory recognition that it is naïve to assume the Audit Committee Chair has more knowledge or expertise than the CEO, and that the role is to chair the committee, not assume command of all risk.

A call for a clearer definition and description of the Chair's responsibilities seems a reasonable focus for our future NED research.

The word 'risk' was a consistent theme through all of our discussions. There was not any demand for a new-style risk committee (for non-financial services firms), but some new and interesting risks were mentioned including:

- Organised crime
- Pensions, particularly funds in deficit
- High turnover of transaction based staff – those who are at the coalface of where mistakes can be made.

What, then, do we see as challenges on the horizon?

- Why does strategy continue to be an area of Non Executive frustration and disappointment? Who gets the strategy process at board level right?
- What is the Audit Committee Chair's practical job description? How do boards develop effective succession plans? What can we learn from those who don't?
- What is the fall-out over time of the Companies Act? Will the Act provide a safe haven or drive companies into the arms of private equity and foreign ownership?

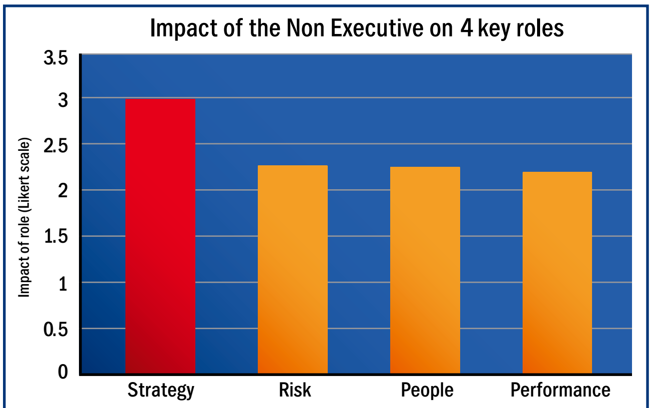
1 What should Non Executives do to improve the quality of strategy in their companies?

In the '50 Under 50' report there was a clear message of frustration about the ability of boards to produce excellent strategies based on scenario planning and robust industry and market knowledge.

This is particularly worrying given that our 2004 report showed that Non Executives believed their strategic role provided their greatest contribution to board performance.

This sentiment is echoed again through our discussions this year.

"The proportion of time my boards spend on strategy is less than I would like it to be. We do spend a reasonable amount of time outside the board meeting in typical away days, strategy sessions and things. But even so I still personally would like us to spend more time."



Mean of the impact of each role (max score =4)[2]
Source: Ernst & Young Board Performance Report (2004)

It is perplexing as to why boards seem so paralysed by their inability to:

- Bring strategy to the top of the agenda
- Ensure Non Executives are able to provide value through strategy
- Break out of the compliance-driven agenda.

Why is this? What are the symptoms of an ailing strategic process?

"I think the frustrations are probably pretty typical. Not enough time for strategy, too much transactional discussion and going through the motions to tick the box."

"I would like to be able to participate in the thinking on strategy a little earlier in the process. On my FTSE 100 board everything was so perfect by the time it was presented to you that you sort of felt the decisions had all been made."

"I asked in my first strategy session 'Is this here for us to debate or is it here for us to endorse?' And everyone stuttered and said 'you know it's here for you to debate' and of course it wasn't."

"The strategy went wrong because there is a lack of appreciation of what it takes to implement strategy. Often the people who end up as Chief Executive or Chairman have not had a delivery orientation or experience."

We asked what were the characteristics of the best strategic processes. Amazingly the participants were short of examples. Many said that they felt their boards were in a strategic comfort zone. A few offered their views on how boards make their strategic process more robust.

"The new Chief Executive did a lot of thinking about the company strategy in the period just before he took up the role. The most interesting thing was that he took a huge account of customer feedback."

"Our board found that external benchmarking provided a real wake-up call. We were doing very well at 5% planned growth. But to stay in the top three in the world it was clear we had to move to 25% growth. No matter what you do you can't do it the way you were going to do it, you've got to think about doing something fundamentally different. It pushes you out of your comfort zone."

Most of our sample found that the only way to extract some value from Non Executives was through strategy away days. They viewed this as the only viable mechanism for ensuring the strategic debate had focus and energy. Suggestions for successful away days included:

"It's really important to have someone from outside to set some context which comes from an external perspective. I don't think it particularly matters where the challenge comes from, providing it's good in quality and robust."

"I have both presided over and seen strategy away days where the Non Executives just don't get a word in because it's just crowded out by hours of detailed PowerPoint presentations from the executive team. So my conclusion is that strategy away days need a happy medium between being lead by the executive team but allowing space for the Non Executives to make constructive challenging contribution."

> “If it’s done well you can start to generate a great degree of involvement, participation and very importantly stretch people’s minds in terms of what could you do differently.”

In our ‘50 Under 50’ report we found that the younger Non Executives, our ‘Chairs of the Future’ felt that the most important contribution as Chair would be to encourage strategic debate. Despite study after study revealing issues around strategy, nothing seems to be changing. Why is this? The simple answer from the current group was ‘a good Chairman’. How is this manifested?

> “If your Chairman is not interested in a proper strategic debate, isn’t able to chair the gathering in a way which is inclusive and encourages people to contribute, then it’s a waste of time.”

> “A good Chairman is someone who is facilitating discussion amongst his team, getting participation from the maximum level of diversity and really, really stretching and getting results in a dynamically different way.”

> “Executive teams often get confused between strategic planning and financial planning. Then the whole things winds up becoming a humungous exercise. The Chairman should be good at preventing this happening.”

> “A good Chairman (as does a good Non Executive director) invests time and energy outside the boardroom. So not just understanding the views of the other directors but getting a broader understanding of what views are being held within the business, what things people are worrying about in the business, and what’s actually happening in the business.”

Challenges

What should Non Executives and their boards consider?

- How can you personally influence the board agenda to ensure there is more time for strategic discussion?
- Is strategy kept off the agenda until it is too late?
- Does the board understand and value strategic debate? Or does strategy end up being an annual presentation from the Executive?

2 Will the growth in private equity change the faces at the board table?

The increase in private equity-backed companies over the past 15 years has seen a soaring demand for Non Executives for these boards. Often led by a strong Chairman who is an investor in the company, the boards tend to be smaller and top-heavy with industry experience.

Half of the ‘50 Under 50’ Non Executives had a portfolio of roles. It was common for at least one of these roles to be with a private-equity backed company. One of the participants outlined why being a Chair of a private equity company was very different than that of a FTSE 350.

> “What happens in a private equity-backed situation is that the private equity firm will sit down with the Chairman, and they will say this is the value creation agenda for this business, this is the strategy, this is the plan that it will follow and you, as the Chairman, will be responsible for ensuring that that is delivered.”

So if it so tough, why is it attractive? Will Non Executives opt to take on more private equity roles at the expense of the FTSE 350?

According to a recent report by Ernst & Young, Private Equity owned businesses grew enterprise value on average by 26% per annum, twice the rate of equivalent public companies. This research suggests that the highest equity returns are linked with private equity investors taking an active role in driving the business plan and management succession.[3] The evidence from our participants confirms that this ‘hands-on’ approach of private equity is a lure. Interestingly, in an interview with the Financial Times, Sir Derek Higgs confirmed that ‘it would not be possible to slavishly impose upon private equity the Combined Code’.[4]

> “Short-term focus, a ruthless application and a quicker agreement to take a risk if you want to do it. Those are the things that you do in private equity that corporate governance spoils.”

> “If you move to private equity what do you get? Well, you get the opportunity probably to be much more entrepreneurial, to be able to move with a degree of pace.”

“Why would you want to be the director of a public company today? Your salary details are exposed, your benefits package exposed. Why do you want all of that when you can do it behind closed doors in private equity?”

Another reason private equity roles are sought is the learning transferred to other boards.

“Within my portfolio I have a mix of PLCs and private equity and I enjoy them both. I would want this to continue because there is learning that is certainly transferable between the two.”

We asked what were the key differentiators between private equity versus public boards, and whether these differences were sustainable. The factors that emerged were:

- Thinking laterally

“Private equity companies quite often think laterally about who they want to put on to the board. They look for ways to bring people to the board that can bring a different dimension, pairing this with constructive challenge and thinking outside the box.”

- Emphasising strategy

“I spend much more time dealing with issues around wealth creation – not compliance.”

- Financially rewarding

“The magnitude of reward can be an important incentive to take more personal risk.”

Challenges

What should Non Executives and their boards consider?

- Is your remuneration policy robust enough to compete with private equity? Have you benchmarked your Non Executive and Executive pay to understand your strengths and weaknesses?
- Are you doing enough due diligence when approached about a private equity role? Are you prepared to say ‘No’?
- Are you taking advantage of cross-fertilisation from your Non Executive members? Are you actively seeking the lessons they have learned from other boards they are on?

3 Is risk management becoming a core Non Executive skill?

Risk is becoming the remit of the Audit Committee, but with increased compliance pressures the time available for this topic is often squeezed. The ‘50 Under 50’ report showed that there were clear concerns about how risk avoidance would affect decision-making, particularly when considering international expansion.

How do Non Executives define risk?

“What is risk? I think that has always been a question mark. Obviously if you talk to someone in the Insurance Department, they know exactly what it is – and they insure it. You talk to the Treasury and Finance departments; it’s all the risk management items mentioned in note 73 in the accounts covering foreign exchange, interest rates, etc. And then you talk to the Planning department; they say well, it’s actually all those and about 7,000 other things as well.”

“Is risk management about the risk that something bad will happen or is risk management about the risk that something good won’t happen if you fail to do something?”

“Risk management asks ‘How do we run our business well so that we spot quickly the things that are going wrong and the key points which will allow us to achieve our objectives?’”

“If we define it as being what might make the shareholders lose their shirts, then the process by which the top risks are established becomes clearer.”

These answers are so diverse that it is no wonder that the identification, management and control of risk has become its own industry. It is difficult to imagine that risk can be adequately dealt with at board level when the scope is so broad and potentially intangible. We asked how participants see risk being tackled on their own boards, and how Non Executives were involved.

“We ask the management team ‘What are the 10 things that keep you awake at night?’”

“As a board we considered what mistakes we’d made in the prior year, or decisions that had been made late. We asked where could we have done a better job. This was a fairly soul-searching exercise and we identified a few key areas where we could do better.”

"There are two parts. The first is that you have an obligation to see that there is a proper risk management process within the organisation. Step two is to ensure the Non Executives provide a challenge about the judgement of which risks are the most important."

"People have got to be able to feel that they can bring you bad news as soon as it is identified."

The top ten risks keeping Non Executives awake at night were identified as follows:

- Health and safety
- Market risk
- Financial risk including financial crime
- Environmental
- Implementation of large complex projects
- High turnover of transaction based staff
- Pensions, particularly deficits in funds
- Knowledge of the industry
- Speed of critical decision making
- Organised crime

"Health and safety is at the top of eveyone's agenda and with corporate manslaughter on the cards we will be watching this one closely."

The group then considered how they as individuals keep their eyes on risk. What would they advise new Non Executives on their boards to do?

"You've got to visit every site. You have to be on first name terms with second level management."

"You need to ask questions outside of the meetings. If there is something in the board papers that in any way worries you, you raise it for the meeting and go out and see the people."

Challenges

What should Non Executives and their boards consider?

- Are you confident that you are looking at risk from both sides – the bad things that could happen and the good things that should?
- Are your Non Executives investing enough time out of the boardroom to really understand the company?
- Do you know the 10 things that keep your senior management team awake at night? How are these risks being addressed?

4 What will FTSE boards have to do to find quality Audit Committee Chairs?

According to the '50 Under 50' report the most significant challenge facing Chairs of FTSE 350 companies was talent management and succession. Finding Audit Committee Chairs was one of the areas identified as particularly difficult.

Many of the FTSE Finance Directors in that sample cited that they were struggling to have enough time to do a full-time FTSE role and be an Audit Chair of another FTSE company.

Why then would someone want this role? What are the issues?

"I think it's probably the second most interesting job after being Chairman."

"I'll tell you what I wouldn't do - I wouldn't sit on an audit committee and not Chair it."

"You want quality people joining the rough tough large companies. That's where you want the skills, but that's not where people want to go because of the risks. So what's happening is that the quality is drying up for companies that actually need it."

"How do you persuade the right people to do it? To take on that time commitment for the small amount of money that tends to be available? And a lot of them are rich anyway, so they don't need it. The money's sort of irrelevant in a way except it never really is."

Almost all of our participants serve on an Audit Committee, with about half serving as a Chair. They had divergent views as to what makes an Audit Committee Chair effective, and, therefore, successful. Specific attributes included:

- Ability to leverage the committee to create value for the business
- Managing the potential conflicts between the committee, the auditor and the Finance Director
- Knowing where to draw the line between the Risk Committee and the Audit Committee
- Having sufficient understanding of the issues to satisfy both stakeholders and the board.

"You pay them more and give them more time but I think the third leg of that stool is thinking very hard about what support the Audit Committee Chairman should have to fulfil his or her role - from the internal and external auditors and the company secretary."

The Smith Report[5]

Recommendations from the Smith Report were incorporated into the Combined Code in 2003.

C.3 Audit Committee and Auditors

Main Principle - The board should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors.

C.3.1 The board should establish an audit committee of at least three members, who should all be independent Non Executive directors. The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience.

C.3.2 The main role and responsibilities of the audit committee should be set out in written terms of reference.

C.3.3 The terms of reference of the audit committee should be made available. A separate section of the annual report should describe the work of the committee.

C.3.4 The audit committee should review arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The audit committee's objective should be to ensure that arrangements are in place for the independent investigation of such matters and for appropriate follow-up.

C.3.5 The audit committee should monitor and review the effectiveness of the internal audit activities. Where there is no internal audit function, the audit committee should consider annually whether there is a need for an internal audit function and make a recommendation to the board, and the reasons for no function should be explained in the annual report.

C.3.6 The audit committee should have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors. If the board does not accept the audit committee's recommendation, it should include in the annual report a statement from the audit committee explaining the recommendation and should set out reasons why the board has taken a different position.

C.3.7 The annual report should explain to shareholders how, if the auditor provides non-audit services, auditor objectivity and independence is safeguarded.

"I think it depends on what you want the Chairman to do. Who sets the agenda? The Chair of the Audit Committee or the Finance Director? I'm sure any competent Chairman could chair an Audit Committee as long as the agenda is right, but the issue is 'Who puts the agenda in?'"

The Smith Report (see above) provided the first prescriptive view of the role of the Audit Committee, but does not specifically address the role of the Chair. There was consensus amongst our participants that a 'best practice' role description would be useful.

Failing a standard description we asked what other qualities stood out as being required for a FTSE 350 Audit Chair.

"It may be a bit harsh, but it might also be that for board members it is quite difficult to effectively choose their policemen."

"I'm not convinced that understanding the minutiae of the latest accounting rules is as crucial as having a more general background understanding of general finance. An understanding of the implication of a change in the rules is crucial."

"You need a superman. It's not just pure accounting skills but it's the wider financial skills that come from places like merchant banking. You need someone who's quite good at understanding legal issues because the average meeting's got at least one argument about the niceties of some legal interpretation or other."

The implications of our discussions point to a potential lack of qualified, and interested, candidates for the FTSE 350 Audit Committee Chair role. We asked the group for their suggestions on where to look. The obvious place is to ask FTSE 350 Finance Directors to take on the role, but those in the group acknowledged that the time requirements were becoming increasingly onerous. A second avenue was to identify senior managers just below the board in large companies, both public and private. They could be 'groomed' as Audit Chairs by first serving as Non Executives on Audit Committees.

There was some cynicism as to how recruitment takes place and why new avenues are not being explored.

"If you ask head-hunters what they look for - for company Chairmen they're always looking for people who have been CEOs, which statistically don't make the best Chairmen. And if they're looking for Audit Committee Chairs they're looking for current FTSE 100 FDs and, again, we think they don't have enough time. So it must be that the head-hunters are fishing in the wrong pond."

Challenges

What should Non Executives and their boards consider?

- Do you know a 'non-traditional' candidate that would make a good Audit Committee Chair for one of your boards? Are you thinking laterally in your selection processes?
- Do you have a robust succession plan for your Audit Committee Chair? If not, why not?

5 How will the Companies Act affect the willingness to take on a Non Executive role?

In November 2006 the Government quickly passed the The Companies Act of 2006. With over 1,500 clauses, it is by far the longest piece of legislation ever to be passed in the UK.

The Companies Act 2006[6]

"Company law will be substantially changed to make it easier to understand and more flexible - especially for small businesses. The plans will help keep the regulatory burden to a minimum, and promote shareholder engagement and a long-term investment culture."
DTI Guidance

Directors Duties

There are seven general duties.

1 Duty to act within powers –a director must comply with the articles of association and any shareholder resolutions.

2 Duty to promote the success of the company – a director must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. This is the most controversial of the seven duties. The existing duty to act in good faith in the best interests of the company has been reworded as a duty to "promote the success of the company".

3 Duty to exercise independent judgment – even where a director is appointed on behalf of a particular shareholder of the company, he must always exercise his own judgment when making decisions concerning the company and not simply do the bidding of the shareholder who appointed him.

4 Duty to exercise reasonable care, skill and diligence. This duty is assessed both on an objective and a subjective basis. A director must show the general knowledge, skill and experience that may reasonably be expected of a person in his position. This means, for example, that a director who is also a qualified accountant may be expected to show a greater level of skill when dealing with the company's finances than would be required from a director who was not qualified in accountancy.

5 Duty to avoid conflicts of interest – directors must not place themselves in a situation where they have, or could have, an interest which conflicts, or is likely to conflict, with the interests of the company.

6 Duty not to accept benefits from third parties. This covers benefits which are given either because he is a director or by reason of his doing (or not doing) anything as director. This is a restatement of the existing rule that a director must not make an unauthorised profit from his position.

7 Duty to declare interest in proposed transaction or arrangement – there is a new procedure for a director to declare an interest when a company proposes to enter into an arrangement in which he is interested. There are separate rules in the Act for declaring an interest in an existing arrangement.

Although the ink on the Act was still wet when our group met, the publicity surrounding its various possible impacts was hard to ignore. We wanted to know whether the codification of what has been case law would dramatically affect the group.

"With the growing predilection for shareholder activism and regulatory action it will probably make the position more demanding."

"It will certainly have an impact on the quantity, and cost, of legal advice Non Executives should take. Twenty years ago legal contracts were 4 pages, now they could fill 4 tables and I'm sure that in a few years time they'll be 4 rooms' worth."

When the Higgs Review was published and then incorporated into the Combined Code there was speculation that it would discourage people from taking on FTSE 350 roles. The reality was that it appeared to have no effect on supply and demand. The codification of what has been case law, we thought, might have a slightly more negative impact on the willingness of our group to consider taking on additional roles, but again, this appears not to be the case.

"This will not frighten off the professional and experienced business people. Why should it? If they don't have confidence in the solidity of their foundation of experience and insight then they are not suitable for senior Non Executive roles in any case."

"The Act in and of itself would not necessarily stop you, but it increases the necessity for thorough due diligence when you're thinking through the risk profile of a company and whether to take on a role."

"I think that there are certainly aspects of it that make it potentially significantly less attractive. The law now makes no differentiation between the scope of extended duties between a Non Executive and an executive, and that, I think, is the sort of fundamental starting point that a lot of the quite real concerns for Non Executives flow from."

Challenges

What should Non Executives and their boards consider?

- Is your Director Liability policy up to date with the new legislation?
- Has the board taken advice on how changes to the Companies Act might affect corporate governance?

Comment from Murray Steele, Cranfield School of Management

"This research highlights the increasing complexity and pace of change which requires greater knowledge on the part of an effective Non Executive Director. An example of this is that during the period between conducting the research and finalising the report, tumultuous events may have caused Private Equity Non Executive roles to lose some of their attractiveness.

To fulfil the essential role of a Non Executive, i.e. 'To ensure the company is properly run but not to run it' Non-Executives will have to have more than a superficial knowledge of the topics addressed in this report. Therefore time will have to be invested to acquire an adequate level of understanding in all of them.

This research adds further weight to the argument that today being a Non Executive is definitely not a job for the lucky gifted amateur."

The roundtable event was facilitated by Murray Steele, Senior Lecturer at the Cranfield School of Management and Director of the School's Non Executive programme. Murray Steele holds Bachelor and Masters degrees in engineering from the University of Glasgow, and an MBA from Cranfield School of Management.

Ernst & Young

Gerald Russell
Senior Partner – London

Chairman – Non Executive Director Programme
Ernst & Young LLP

Tel +44 (0) 207 951 3434
Fax +44 (0) 207 951 9310

neds@uk.ey.com
www.ey.com/uk/nonexecutivedirectors

Acknowledgements

Ernst & Young wishes to thank exec-appointments.com for managing and co-authoring this report.

exec-appointments.com
global executive jobs

The Non-Executive Director
non-execs.com

Betty Thayer
Chief Executive
exec-appointments.com and
The Non Executive Director

Tel +44 (0) 845 458 9850
Fax +44 (0) 845 458 9840

director@exec-appointments.com
www.exec-appointments.com
www.non-execs.com

Ernst & Young also wishes to thank Murray Steele of the Cranfield School of Management for facilitating the roundtable event.

Footnotes

1 'Insights from the Chair- Chairman Succession, Navigating the Rapids', Heidrick & Struggles, August 2006

2 'Board Performance, Non Executive Directors and their Contribution to Business Performance', Ernst & Young, November 2004

3 'Private Equity Creates Value', Ernst & Young, October 2006

4 'The boardroom reformer enjoys the sound of silence', Financial Times, 2 January 2007

5 Audit Committees Combined Code Guidance – 'The Smith Report'. To download a copy visit www.frc.org.uk/images/upload/dcouments/acreport.pdf

6 The Companies Act 2006. To purchase a copy visit www.dti.gov.uk/bbf/co-act-2006/index.html

Ernst & Young LLP

www.ey.com/uk

In line with Ernst & Young's commitment to minimise its impact on the environment, this document has been printed on recycled paper.

1 More London Place, London SE1 2AF

3444.indd 04/2007 Produced by Ernst & Young Creative Services.