

# The Tyson Report on the Recruitment and Development of Non-Executive Directors



A report commissioned by the Department of Trade & Industry following the publication of the Higgs Review of the Role and Effectiveness of Non-Executive Directors in January 2003

June 2003

# The Tyson Report on the Recruitment and Development of Non-Executive Directors (June 2003)

## TABLE OF CONTENTS

Executive Summary	1
I. The Role of the Tyson Task Force	3
II. The Personal Attributes of Effective Non-Executive Directors	4
III. The Current Composition of Non-Executive Directors	5
IV. The Benefits of Greater Diversity Among Non-Executive Directors	6
V. Casting a Wider Net to Build More Diverse and Effective Boards	8
VI. Finding Diverse Non-Executive Director Talent: Help from the Private Sector	9
VII. Finding Diverse Non-Executive Director Talent: The Role of the Public Sector	10
VIII. Broadening the Sources of Non-Executive Director Talent	12
A. The Commercial Sector	12
B. The Non-Commercial Sector	13
C. The International Dimension	14
IX. A List of 100 Names from the Non-Commercial Sector?	15
X. Constraints of Creating More Diverse Corporate Boards	15
XI. The Need for On-going Training and Assessment	16
A. Training and Evaluation Priorities	16
B. Sources of Training for Non-Executive Directors	18
XII. Recommendations	19
A. Rigorous and Transparent Non-Executive Director Selection Processes	19
B. More and Better Evaluation and Training for Board Members	19
C. Research and Measurement to Encourage Greater Board Diversity	20
Bibliography	21
Appendix 1: Tips for Interested Non-Executive Director Candidates	22
Appendix 2: Comparative Data on Non-Commercial Organisations	23
Appendix 3: Data on Public and Other Government Bodies	26
Acknowledgements	31
The Tyson Task Force Members	32

=

## **The Tyson Report on the Recruitment and Development of Non-Executive Directors (June 2003)**

=

### **Executive Summary**

The report by Derek Higgs on the Role and Effectiveness of Non-Executive Directors raised the agenda of boardroom effectiveness. This report provides another piece of the jigsaw by highlighting how a range of different backgrounds and experiences among board members can enhance board effectiveness and by exploring how a broader range of non-executive directors can be identified and recruited.

The selection of each non-executive director (NED) should rest on a careful assessment of the needs and challenges of a particular company and on a broad, transparent and rigorous search that reflects this assessment.

Factors such as a company's size and age, the makeup of its customer and employee base, the extent of its participation in global markets, its future strategies, and its current board membership are important determinants of its NED requirements.

Diversity in the backgrounds, skills, and experiences of NEDs enhances board effectiveness by bringing a wider range of perspectives and knowledge to bear on issues of company performance, strategy and risk. Board diversity can also send a positive and motivating signal to customers, shareholders and employees, and can contribute to a better understanding by the company's leadership of the diverse constituencies that affect its success.

Broader, more rigorous and more transparent search processes for NEDs would not only enhance board talent and effectiveness but would also foster greater diversity in the background, experience, age, gender, ethnicity and nationality of NED.

Many UK companies would benefit from extending their searches for NEDs to new pools of talent. Possible sources of talented candidates that traditional, largely informal, search processes have tended to overlook include: the so-called "marzipan" layer of corporate management just below board level; unlisted companies and private equity firms; business services and consultancies; and organisations in the non-commercial sector.

In addition, despite the increasing globalisation of business, the NEDs of UK companies tend to be domestic citizens rather than foreign nationals. Such board membership represents a potential mismatch between the international issues a company faces and the knowledge that its domestic board members can bring. Such a mismatch is likely to compromise the global competitive strength of British-based companies over time.

To help individuals from non-traditional sources who want to be considered for NED positions, we describe the role of executive search firms in identifying potential NED candidates and we suggest what individuals can do to be considered for these positions. We also note that a growing number of non-commercial organisations such as the Association of Chief Executives of Voluntary Organisations (ACEVO) are developing databases of qualified individuals interested in NED positions.

Individuals with successful leadership careers in the non-commercial and public sectors have the attributes, skills and experience relevant to commercial NED positions. We provide information showing that large non-commercial organisations are comparable in scale and complexity to large commercial organisations.

We decided against developing our own list of qualified candidates of individuals from the non-commercial sector with the skills and experience relevant to NED positions in the commercial sector. Developing a list of candidates without a careful assessment of company needs and without a broad, rigorous and transparent search process would be inconsistent with our recommendations about how companies should select their NEDs.

As NED responsibilities continue to expand, companies will have to provide more training and evaluation for their board members. Companies should provide thorough induction programmes for all new NED appointees and should provide ongoing training opportunities for incumbent NEDs. Companies should also evaluate the performance of their boards on a regular basis, and NED training should be linked to the findings of such assessments. Training and evaluation processes are likely to be particularly important for companies committed to building diverse boards and to realising the benefits of diversity among their members.

Although board training is currently available in a variety of ways, there are possible gaps between what providers of training are offering and what companies need. We recommend an initiative to bring together companies and training providers to establish guidelines to ensure that training programmes for directors are providing what is needed, and that useful information about such programmes is easily accessible on a timely basis. London Business School has offered to play a full part in such discussions.

We recommend an initiative to monitor both progress on achieving rigorous and transparent processes for NED appointments and progress on building more diverse boardrooms. Such an initiative should provide reliable measures of board composition for individual companies, should disseminate best-practice examples of how individual companies build more diverse and meritocratic boards, and should foster research on the impact of board diversity on board and company performance.

Optimising board membership is vital for company performance and competitiveness. It can also play an important role in restoring shareholder and public trust in UK boardrooms.

This report was written by Dean Laura Tyson with input and advice from members of the Task Force, listed at the end of this document. The author wishes to thank Dr Dina Consolini (London Business School), Ms Dina Medland (Project Consultant), and Ms Anne Willcocks (DTI) for their assistance in compiling this report. Dean Tyson has tried to reflect the views of group members but bears final responsibility for the views expressed and the wording used to express them.

=

## **The Tyson Report on the Recruitment and Development of Non-Executive Directors**

**June 2003**

### **I. The Role of the Tyson Task Force**

In April 2002, the Treasury and the Department of Trade & Industry (DTI), concerned to improve the productivity performance of British industry, initiated a review of the role and effectiveness of non-executive directors (NEDs) in publicly listed companies in the United Kingdom. The review was motivated by the belief that stronger and more effective corporate boards could improve corporate performance.

Derek Higgs, a respected investment banker, accepted the invitation of the Chancellor and the Secretary of State for Trade & Industry to undertake this review and to issue a set of recommendations based on his findings.

The Higgs *Review of the Role and Effectiveness of Non-Executive Directors* was published on 20 January 2003 and contained a number of proposals to improve corporate governance and enhance corporate performance, including recommendations for changes to the Combined Code. The Financial Reporting Council (FRC) invited comments on these changes and is currently developing a revised Code taking into account the comments it has received.

The analytical and survey evidence prepared as part of the Higgs Review found that the standard practices by which non-executive directors are selected often overlooks talented individuals from a broad variety of backgrounds with the skills and experience required for effective board performance. The Review made several recommendations about how companies might improve the quality and performance of their boards through changes in the ways they identify, recruit, select and train individuals to serve in NED positions.

In addition, the Review proposed the creation of a group of business leaders and others to suggest how companies might draw on broader pools of talent with varied and complementary skills, experiences and perspectives to enhance board effectiveness. The Review recommended that this group pay particular attention to ways to bring “*to greater prominence candidates from the non-commercial sector who could have the skills and experience to make an effective contribution to the boards of listed companies. The group will describe the profile of relevant skills and experience that make an effective non-executive director with a non-commercial background.*” (*The Higgs Review*, 10.32)

At the invitation of the DTI, Dean Laura D’Andrea Tyson of London Business School agreed to chair such a group. This report contains the group’s findings.

## II. The Personal Attributes of Effective Non-Executive Directors

Non-executive directors have four broad responsibilities: to provide advice and direction to a company's management in the development and evaluation of its strategy; to monitor the company's management in strategy implementation and performance; to monitor the company's legal and ethical performance; and to monitor the veracity and adequacy of the financial and other company information provided to investors and other stakeholders. As part of their monitoring responsibilities over company management, NED directors are responsible for appointing, evaluating and where necessary removing senior management, and for succession planning for top management positions.

Clearly, effective NEDs need experience relevant to carrying out these broad responsibilities. Whether through prior experience or through training provided by the company or outside educational institutions, they also need adequate knowledge of the particular company on whose board they sit. But relevant experience and company-specific knowledge are not enough to make an effective NED. According to the evidence collected by the Higgs Review and confirmed in the corporate governance literature, effective NEDs need four personal attributes to carry out the responsibilities of their role:

- integrity and high ethical standards
- sound judgement
- the ability and willingness to challenge and probe, and
- strong interpersonal skills (Higgs, 6.12)

There is no doubt that integrity and high ethical standards are essential for effective NEDs. But other qualities are required as well.

NEDs must exercise sound judgement based on knowledge about the company and the environment in which it functions. They must be able to recognise problematic company actions or a flawed decision-making process. They must be able to identify issues of risk and judge how and when to raise them.

NEDs must be able and willing to challenge and probe the information presented to them by company management. According to a recent survey by global recruitment firm Korn/Ferry International, companies cite the willingness to confront management and raise difficult issues as one of the most important characteristics of an effective NED.

Strong interpersonal skills are essential. Without such skills, an individual NED will not be able to participate fully on a board of highly talented individuals or to question the recommendations of powerful executives. NEDs must have "*sufficient strength of character to seek and obtain full and satisfactory answers within the collegiate environment of the board*". (Higgs, 6.15)

In an analytical report prepared for the Higgs Review, Professors McNulty, Roberts and Stiles conclude that effective NEDs also need high levels of engagement and independence:

*“Effectiveness requires high levels of engagement ... It is not sufficient just to turn up at board meetings. Instead individuals need to build their knowledge of the business through all sorts of informal contact with executives, as well as their work on board sub-committees. Only with this sort of engagement and understanding of a company can individuals make a credible contribution to board discussions.”* (McNulty, Roberts, Stiles, 2003)

Finally, NEDs need “independence of mind” that allows them to test and challenge executive thinking on the basis of their experiences elsewhere. In the words of the Higgs Review:

*“A major contribution of the non-executive director is to bring wider experience and a fresh perspective to the boardroom. Although they need to establish close relationships with the executives and be well-informed, all non-executive directors need to be independent of mind and willing and able to challenge, question, and speak up.”* (Higgs, 9.1)

In addition, some NEDs must not only be independent thinkers, they must be independent in the stricter sense that there are no relationships or circumstances surrounding their involvement with the company that could affect or appear to affect their decisions as board members. (The Higgs Review proposed a definition of strict independence as a new provision to the Combined Code.)

In summary, the model NED must have relevant experience and adequate company knowledge. He or she must also be honest, ethical, challenging, able to express his or her views candidly and convincingly, engaged, and independent of mind. Aviva Chairman, Pehr Gyllenhammar, suggests useful guidelines for the selection of NEDs with the phrase “no crooks, no cronies, no cowards”.

### **III. The Current Composition of Non-Executive Directors**

Many successful individuals from diverse backgrounds in both the commercial and non-commercial sectors have both relevant experience and the four personal attributes required to serve as effective non-executive directors. There is nothing to suggest that previous boardroom or top management experience is the only source of relevant experience required for effective NEDs. Nor is there anything to indicate that such experience is either necessary or sufficient to guarantee the four personal attributes required to carry out the broad responsibilities of NEDs. Yet the background surveys and research performed for the Higgs Review found that previous boardroom or top management experience is often the main, and sometimes the only, competence that companies seek from candidates.

The Higgs Review found that the majority of NEDs in UK companies are white, middle-aged males of British origin with previous plc director experience. In the survey of companies completed for the Higgs Review, non-British nationals accounted for only 7% of NED positions, while British citizens from ethnic minority backgrounds accounted for only 1% of such positions. The survey also found that although about 30% of managers in the UK corporate sector are female, women hold only 6% of NED positions.

The striking homogeneity of board membership suggests that many UK companies are not searching broadly for talent, or at least have not done so in the past. As a result of traditional selection and recruitment practices, often informal in nature and relying on personal networks, many directors have been selected from relatively narrow pools of people sharing common experiences, career patterns and backgrounds.

Consequently, many boards lack a diverse range of skills, experiences and perspectives that could help them address the diverse challenges confronting their companies.

#### **IV. The Benefits of Greater Diversity Among Non-Executive Directors**

Experts on corporate governance agree that the best boards are composed of an appropriate mix of individuals with different skills, experiences and knowledge.

In the words of a recent study on high-performance boards:

*“The best boards are composed of individuals with different skills, knowledge, information, power, and time to contribute. Given the diversity of expertise, information, and availability that is needed to understand and govern today’s complex businesses, it is unrealistic to expect an individual director to be knowledgeable and informed about all phases of business. It is also unrealistic to expect individual directors to be available at all times and to influence all decisions. Thus, in staffing most boards, it is best to think of individuals contributing different pieces to the total picture that it takes to create an effective board.”* (Conger and Lawler, 2001)

Such recommendations about the value of diversity to board effectiveness are consistent with a growing academic literature on the effects of diversity among group members on group performance. According to a recent survey of this literature, groups that are more diverse in skill or knowledge-based dimensions have the potential to consider a greater range of perspectives and to generate more high-quality solutions to problems than less diverse groups (Milliken and Martins 1996). Research also supports the idea that diversity of knowledge and experience coupled with strong debate within top management groups is a predictor of success (Eisenhardt, Kahwajy, and Bourgeois 1997).

The management literature identifies two distinct advantages to diversity among group members. First, groups make better decisions to the extent that the information available to the group is more diverse, provided the group understands “who knows what” and takes advantage of this knowledge.

Second, diverse teams can leverage their diversity to reach out more effectively to a broader set of constituencies to help avert problems or solve them when they arise. For example, diversity on boards of directors has been found to help companies manage key constituencies including shareholders and employees (Goodstein, Gautam, and Boeker 1994).



Despite these advantages of diversity to group performance, research also suggests that diversity can lead to lower cohesion, less trust and higher turnover within groups unless members are encouraged and trained to trust one another and work together. This finding is true across different kinds of diversity including age, gender, racial/ethnic background and tenure within a group. Research also finds that individuals who differ from the group majority are more likely to be stereotyped and to receive lower performance evaluations. Groups valuing diversity must have leaders committed to counteracting such tendencies and to developing mechanisms for doing so. This conclusion underscores the importance of training and evaluation processes for companies committed to realising the benefits of diversity among their board members. We discuss the benefits of board training and evaluation later in this report.

Diversity of skills and background among NEDs is likely to provide the broad mix of relevant experiences and to foster the independence of mind, the probing, challenging attitude, and the sound judgement characteristic of effective boardroom cultures and performance.

In addition, companies may reap substantial benefits to their reputations from building more diverse boards of qualified individuals. First, a healthy mix of backgrounds and perspectives among NEDs can enhance a company's sensitivity to a wider range of possible risks to its reputation. For example, selecting NEDs with experience in customer relations, human resources or environmental regulation may help a company develop strategy and contain risks in these areas.

Second, the composition of a company's board can send a positive signal to customers, shareholders and employees, and contribute to a better understanding of the company's leadership of the diverse constituencies that underpin its commercial success. Such a signal can be particularly beneficial for companies with diverse employee and customer groups.

Third, greater diversity in the boardroom can help a company build its reputation as a responsible corporate citizen that understands its community and deserves its trust. As Frances O'Grady, Deputy General Secretary of the Trades Union Congress (TUC) says "*appointing a wider range of NEDs could do much to mend the damaged reputation of British business*".

But the most fundamental business rationale for a company's commitment to greater diversity in the boardroom, like its commitment to diversity at all levels, is a simple and compelling one - the desire to find and employ the best talent.

In the words of Lord Browne, Group Chief Executive of BP plc, "*a commitment to finding the best talent for a company means a commitment to diversity. Companies should want to employ the best people at every level including the board level and should therefore want to search for the best people everywhere.*" (Browne speech in Berlin, 2002)

## **V. Casting a Wider Net to Build More Diverse and Effective Boards**

Our group believes that UK companies could benefit from greater diversity among their NEDs. We recognise, however, that achieving the right board composition and realising the maximum benefits of board diversity are complex and time-consuming tasks. There is no blueprint or “one size fits all” approach for the perfect board. A company’s board should reflect its distinct opportunities and challenges.

A company should begin a NED search by articulating its specific board needs taking into account the composition of existing board members. Only by analysing what its board lacks in skills and expertise can a company move forward to identify the best talent.

Factors such as a company’s size and age, the makeup of its customer and employee populations, the extent of its participation in global markets and its possible future strategies are important determinants of its NED requirements. Since the work of directors is interdependent, board members must also be able to work together. Therefore, the selection of a new director should depend on the makeup of the existing board and on the chairman’s ability to create a well-functioning team.

The Higgs Review found that despite the importance of board effectiveness to company performance and despite the substantial challenges involved in achieving the right board composition, a high level of informality still surrounds the process of appointing NEDs. Almost half of all NEDs surveyed for the Review reported that they had been recruited to their role through personal contacts or friendships and only 4% had had a formal interview.

In response to these findings, Higgs recommended that companies should follow the best practices of some of their peers by identifying the roles and capabilities required for a particular NED appointment after a careful assessment of the skills, knowledge and experience of existing board members.

We agree. And we were pleased to find anecdotal evidence among our group members suggesting that the status quo is improving as more companies begin to search more broadly and rigorously for the right talent for their boardrooms. McNulty et al. also found that traditional informal methods of NED recruitment are giving way to formal processes that focus on selecting candidates with the appropriate skills, experience and attributes. We applaud this emerging trend.

We recommend that the selection process for each NED appointment rest on a careful assessment of the needs and challenges of a particular company and on a broad, transparent and rigorous search that reflects this assessment. And we believe that broader, more rigorous NED search processes will not only enhance board talent and effectiveness but will also foster greater diversity in knowledge, skills, experience, gender, race, nationality and age of board members.

## **VI. Finding Diverse Non-Executive Director Talent: Help from the Private Sector**

The evidence examined by our group suggests that the current lack of diversity on UK boards reflects more a lack of company demand for diversity and the informal nature of traditional NED recruitment processes than a lack of supply of talented NED candidates and information about how to find them. A company that is committed to achieving a diverse mix of skills and talents among its NEDs should be able to find qualified candidates. A company might begin its search by advertising new NED positions broadly or in carefully selected relevant industry publications. Or a company might seek the help of an executive search firm to identify promising candidates.

Although search firms may be well equipped to search for diverse talent across wide areas, it is usually not in their interest unless they are requested to do so by the company hiring them. The job specification and candidate profile that will guide a search strategy are normally developed at the initial meetings between a company and the search firm it employs.

At the beginning of the search process, a search firm can encourage its client to broaden, rather than narrow, the candidate profiles it is willing to consider. Ultimately, however, a search firm is driven by its client's remit. If the search firm develops a list of candidates that strays too far from this remit, it will risk its credibility without affecting the client's final selection.

The search firm industry is competitive with a growing number of new entrants and an increasing degree of specialisation and differentiation among suppliers. The services of a search firm, particularly an established global player, can be expensive. But search fees for NED positions are in line with fees companies regularly pay to search for top management and executive positions. And search firms compete on the basis of fees with some firms offering fixed fee contracts and others setting fees as a percentage of the salaries paid for the candidates they recruit.

A growing number of search firms have begun to build NED practices in anticipation of an increase in company demand for NED appointments resulting from the recommendations of the Higgs Review. The search community maintains databases with hundreds of resumés of individuals considered to be qualified for NED positions. Some search firms have also begun to use advertising to expand their databases of potential NED talent.

Although some members of our group expressed concern that the search industry was unregulated, most members were not convinced that this posed a public policy problem or a problem for clients given the large number of competing suppliers and the relative ease in acquiring information about them.

Companies interested in using search firms to find suitable candidates for NED positions, as well as individuals who wish to explore them, may find the following information useful.

The Association of Executive Search Consultants ([www.aesc.org](http://www.aesc.org)) is the worldwide professional association for executive search consulting firms.

Recent NED initiatives outside the search community include Directorbank ([www.directorbank.com](http://www.directorbank.com)), a database of Europe-based senior executives. Directorbank charges fees to venture capital and corporate finance clients in order to maintain this database. There is no charge to candidates for using the service.

A new recruitment site for senior executive and non-executive positions across all sectors is [www.exec-appointments.com](http://www.exec-appointments.com). Working with recruitment consultants from a range of firms, the site advertises worldwide permanent, interim and contract executive positions.

Charity and Fundraising Appointments ([www.cfappointments.com](http://www.cfappointments.com)) specialises in recruiting senior executives and non-commercial leaders to charities and other non-profit boards.

Ernst & Young and the Institute of Directors (IoD) have jointly launched the site [www.independentdirector.co.uk](http://www.independentdirector.co.uk) to promote wider understanding of the NED role and to publicise a programme of targeted events and developmental materials.

Several non-profit organisations also provide useful information for companies seeking to identify diverse NED talent. ACEVO is developing a database of qualified individuals interested in NED positions. The National Council of Voluntary Organisations (NCVO) is another possible source of information for qualified candidates from the not-for-profit sector.

There are also several women's groups actively working to develop databases of qualified female candidates for NED positions. For example, High Tech Women ([www.hightech-women.com](http://www.hightech-women.com)) and the CWN (City Women's Network) are developing such databases. Shell International Ltd, a sponsor of the 2002 Institute of Directors Women's Leadership Summit, has organised a Women's Directors Project and is examining the option of establishing a board bank for women, along with mentoring and educational initiatives to prepare women for NED positions.

Appendix 1 of this report gives a brief description of how search firms identify talent. This has been designed to help individuals who want to be considered for NED positions.

## **VII. Finding Diverse Non-Executive Director Talent: The Role of the Public Sector**

Our group considered the question of whether the government should develop and maintain a database of candidates from non-traditional sources of talent such as the non-commercial sector for NED positions. We concluded that the growing number of databases of NED candidates, from both executive search firms and non-profit organisations in the private sector, should provide the information companies seek, making a government database unnecessary. Our conclusion was also based on our assessment of an earlier public sector effort, the ProNED initiative.

ProNED was established in 1982 by a number of public and quasi-public sponsors including the Bank of England, the Confederation of British Industry (CBI), the Stock Exchange, and ICFC. ProNED's mission was to improve corporate governance in two ways: through research on the links between corporate governance and corporate performance; and through advice to companies on NED appointments.

In conjunction with the second of these roles, ProNED developed a database register of potential NED candidates and made the register available to the commercial sector on a fee basis. Gradually, ProNED's public sector sponsors became uncomfortable with its increasing involvement in commercial activities. ProNED was ultimately bought out and its activities absorbed by Egon Zehnder International, a private sector global search firm.

Although a public sector database of potential NED candidates does not appear to be necessary, companies may have something to learn in their NED recruitment processes from the public sector appointments process. As the Higgs Review highlights, there is a much greater diversity in high level public sector appointments than in company boardrooms.

The First Report of the Committee on Standards in Public Life published in May 1995 (the Nolan Committee), encouraged a number of changes in the public appointments process. Now the process follows a Code of Practice developed and monitored by Dame Rennie Fritchie, the Commissioner for Public Appointments. The Code is based on the overriding principle of candidate selection on the basis of merit.

In the past, individuals interested in serving on a public body could register their details on a database maintained by the Cabinet Office. Recently the database was discontinued and the majority of public sector appointments are now advertised in accordance with the Code of Practice for Public Appointments. In lieu of a database of candidates, the Cabinet Office maintains a website providing information on local, regional and national vacancies in the public sector for interested applicants ([www.publicappts-vacs.gov.uk](http://www.publicappts-vacs.gov.uk)).

Since her appointment as Commissioner in 1999, Dame Rennie Fritchie has been working to ensure that all ministerial public appointments are made following a fair, open and transparent process. She has also been trying to attract a wider range of candidates for public bodies, with equal opportunity for women, minorities and people with disabilities. She encourages senior human resources practitioners to help identify talented individuals in their firms as potential NEDs, or to serve as NEDs themselves (*People Management* article, 14 June 2001).

Some members of our group felt that private companies may have something to learn from the board appointment processes of the National Health Service (NHS). The NHS has established an Appointments Commission responsible for handling appointments, re-appointments and terminations of appointments to NHS Trust boards. Following the Office of the Commissioner for Public Appointments (OCPA) Code of Practice and using extensive media advertising of positions to attract candidates, the NHS Commission has managed over 2,000 NED appointments and in total over 4,000 chairman and NED appointments on a four year cycle, making the Commission perhaps the largest NED recruitment agency in the UK.

## VIII. Broadening the Sources of Non-Executive Director Talent

Our group believes that there are several sources of talent in both the commercial and non-commercial sectors that traditional NED recruitment processes have tended to overlook. We believe that there are hundreds of qualified candidates for NED positions that can be identified from these sources.

### A. The Commercial Sector

The “marzipan” layer of company management is a large, and largely unexploited, source of NED talent. As the Higgs Review observed:

*“Currently, few executive directors or talented individuals just below board level sit as non-executive directors in other companies ... There are many benefits of doing so. The company that employs the individual on a full-time basis will benefit from the individual gaining a broader perspective and developing skills and attributes relevant to any future role as a director. Conversely, the board of the company receiving the individual benefits from executive experience elsewhere. This encourages the sharing and dissemination of best practice.” (Higgs,10.27)*

Chief executives of large companies can actively nurture NED talent by appointing qualified individuals from their “marzipan” management ranks to serve on their divisional, regional or subsidiary boards. Chief executives can also actively encourage such individuals to accept NED positions on the boards of non-competitor companies.

Unfortunately, as the responsibilities and liabilities imposed on NEDs increase, so do the time commitments of NED positions. Chief executives are therefore likely to become more reluctant to allow their most promising managers to assume them.

Despite ongoing issues of work/life balance that discourage many women from careers in the corporate sector, there are more women in the “marzipan” layer of corporate management than in its top ranks. And at management levels just below the top, women are more strongly represented in areas such as human resources, change management and customer care.

In the past such areas have not been traditional sources of NED candidates, despite the fact that companies regularly claim that people are their key asset. We agree with the Higgs Review that the issues dealt with in such areas are important ones for the board and that management roles in such areas encourage skills and attributes that are highly relevant to the boardroom (Higgs,10.25).

Only 20 of the FTSE 250 currently have the human resource (HR) function on the board. When the Higgs Review was published, Geoff Armstrong, Director General of the Chartered Institute for Personnel & Development (CIPD) said:

*“There is a vast pool of talent within the HR profession. Such individuals would bring a new dimension to the non-executive role and ensure that an organisation's key driver of value — namely its people — is taken seriously at board level. They would bring a fresh and much-needed perspective to the decision-making process.”*

The CIPD believes that human resources practitioners could also bring critical expertise to the remuneration committee. According to Armstrong, *“Pay and reward is their stock-in-trade — it would make a lot of sense. Equally, selection, induction, training and performance management are areas of expertise which could be applied with value to both executive and non-executive directors”*.

Lawyers and consultants working in advisory roles to business are another source of NED talent, as are those who have retired from accountancy firms and are no longer restricted from holding NED positions. Professional service firms should be encouraged to let their senior people accept NED appointments. (Currently only 14% of FTSE 100 NEDs have accountancy qualifications and less than 3% have law qualifications.) Since women are better represented in professional services than in top management positions in the corporate sector, an increase in NED appointments from such firms is likely to mean an increase in women serving in NED positions.

## **B. The Non-Commercial Sector**

The non-commercial sector is another promising source of NED talent for UK companies. Individuals with successful leadership careers in the non-commercial sector are likely to have attributes, skills and experience relevant to NED positions in the commercial sector. Indeed, according to a recent survey by ACEVO, 18% of the chief executives in the non-commercial sector have served or are serving as NEDs in the commercial sector.

A number of the largest charities have significant international operations and employ large numbers of people. Experience at the top of such organisations, for example as chief executive or finance director, could bring valuable experience and new perspectives of considerable relevance to NED positions in the commercial sector. The largest charities have budgets similar in scale and complexity to the budgets of companies at the bottom of the FTSE 100. We have attached figures on the scale of operation of some major UK charities and public sector organisations (see Appendices 2 and 3).

Successful leadership in the non-commercial and charity sector fosters many capabilities that can be of benefit to company boardrooms including:

- **Professional skills:** When surveyed by ACEVO, the majority of chief executives in the non-commercial sector listed professional skills, such as legal or accountancy skills, as one of the reasons they might be attractive candidates for NED positions.
- **People skills:** The leaders of non-commercial activities must deal effectively with employees, suppliers, customers, patrons, boards of trustees, policy makers, media representatives and members of the interested public.

- **Strategic leadership skills:** Leaders of non-commercial organisations are responsible for establishing and implementing their strategies and for achieving buy-in from diverse constituencies.
- **Sensitivity to political, environmental and social issues:** Leaders of non-commercial activities may have the reputation and skills to help companies highlight and realise their commitment to social, environmental and ethical goals.
- **Financial skills:** Non-commercial activities often have sizeable and complex budgets, the management of which requires sophisticated understanding of financial markets and accounting.
- **Regulatory skills:** An individual with extensive public sector experience may have skills of particular interest to the boards of companies in regulated industries like telecommunications, pharmaceuticals and financial services.
- **Technical or scientific knowledge:** Individuals from academic or research organisations may be attractive NED candidates for companies that provide high-technology goods or services.
- **Global experience:** Leaders of non-commercial organisations that operate across a range of countries may have substantial international experience.

=

Widening the search for NED talent to the non-commercial sector is also likely to foster greater representation of women in NED positions. One half of the chief executives of ACEVO listed charities are women. Women hold a much larger fraction of top leadership positions in non-commercial organisations than in plc companies. As Sir Adrian Cadbury observes in his recent book on corporate governance:

*“The responsibilities which many women carry in voluntary organisations and public life will have given them a different type of experience from executives; as a result, they can bring a particular kind of value added to a board. Now that boards are having to broaden their agendas and to spend more time on the external aspects of their activities, they will gain from having directors with a wider spectrum of viewpoints than in the past, in line with the wider interests which they are now being called upon to take.”* (Cadbury, 2002, p. 61)

### C. The International Dimension

Finally, our group believes that companies should seek NED talent from around the world. In the UK as elsewhere, despite the increasing globalisation of business, board members tend to be domestic citizens rather than foreign nationals. Such board composition represents a potential mismatch between the international issues a board must face and the knowledge and information that domestic board members bring to the table.



Companies operating in the UK could benefit from having at least one foreign NED. We find promising recent evidence of increasing representation of foreign nationals on the board of UK companies although British citizens continue to account for the majority of NED appointments. We are cognizant of the practical obstacles that language, travel distance, and company meeting requirements may pose to the appointment of foreign nationals to NED positions on UK boards.

On 2 May 2003, Aviva plc announced the appointment of two new independent NEDs, both women and both of non-UK origin. Chairman Pehr Gyllenhammar announced the appointment of the new NEDs as “an important step in making the Aviva Board truly international”, noting that “our new directors will bring new knowledge, experience and diversity to our Board”.

=

### **IX. A List of 100 Names from the Non-Commercial Sector?**

The Higgs Review recommended that a list of around 100 individuals from the non-commercial sector with the relevant skills and experience that make an effective NED be developed. On the basis of our findings, our group did not try to develop such a list. We concluded that broadening the pools of talent from which companies recruit NEDs is not constrained by a lack of qualified candidates, including candidates from the non-commercial sector. With more companies committed to searching broadly and rigorously for NED talent, there is scope for hundreds of new qualified individuals, including those from the non-commercial sector, in company boardrooms. But the identification of NED talent cannot take place in a vacuum without reference to a particular company and its needs, which will always be unique and subject to change.

We believe it would have been a disservice to both companies and talented individuals to propose a list of NED candidates from the non-commercial sector without a rigorous and transparent search and without reference to the particular situations and challenges of companies seeking to identify such candidates.

Every board needs to assess its requirements, given the challenges facing the company and the composition of existing board members. Only after such a careful assessment can a company take the necessary steps to identify the right individuals for NED positions. To present a list of names in isolation of such an exercise is to reaffirm the traditional approach of identifying candidates by “who you know” rather than “what you need”.

### **X. Constraints on Creating More Diverse Corporate Boards**

Our group identified several possible constraints on the ability of companies to build high-quality boards with the balance of skills and experience they seek. The first constraint is simply board size. On average there are six NEDs on FTSE 100 companies, four NEDs on FTSE 250 companies and only 2.3 NEDs on other plcs. Two thirds of NED positions are in companies outside the FTSE 350, and these companies have three or fewer NEDs on their boards. Smaller boards may not be able to cover the range of skills, experience and diversity they desire in their available NED positions. If, as is often the case, the primary criteria for NED selection are previous board and top management/leadership experience with another plc firm, then

smaller companies may not have positions available to add complementary talent from non-traditional sources.

Board size constraints may explain why women account for a larger fraction of NED positions in larger companies than in smaller ones. Women hold 11% of NED positions of FTSE 100 firms compared to about 8% for FTSE 250 firms, and less than 4% (3.9%) in other listed companies.

A second constraint on the selection of new NED talent is the existing board membership. The composition of a company board is work in progress and changes only gradually as the terms of existing board members end. Shortening the terms of NED appointment or limiting their number would increase the flexibility companies have to adjust NED membership. But if terms are too short or term limits too restrictive, companies could find that they are sacrificing crucial talent and experience.

The growing responsibilities and liabilities facing NEDs could become a constraint on the ability of companies to find and attract individuals from non-traditional sources with the time and the willingness to accept NED positions. Many qualified individuals might become increasingly reluctant to accept NED appointments as they become more onerous, time-consuming and risky.

In addition, in response to the increasing complexity and risk of board responsibilities, some companies might choose narrower rather than broader specifications of the skills and experiences they seek for NED appointments. Such a trend would reinforce the traditional emphasis in NED selection on previous board or top management experience in the commercial sector.

Finally, the perception of a possible conflict between NED compensation and NED independence may be a possible constraint on the selection of NED candidates from non-traditional talent pools. Currently, average annual NED remuneration is about £44,500 for FTSE 100 firms, £34,800 for FTSE 250 firms, and £23,221 for other listed companies. These are relatively small amounts compared to the annual compensation levels of chief executives, top-level management and other business professionals. But NED compensation levels may be quite large compared to the annual incomes of NED candidates drawn from non-traditional sources such as the non-commercial sector and academia. Institutional investors and other company stakeholders might wonder whether a NED can be truly independent if NED compensation represents a substantial fraction of his or her total annual income.

=

## **XI. The Need for Ongoing Training and Assessment**

### **A. Training and Evaluation Priorities**

As NED responsibilities and liabilities increase, companies should invest more in NED training and evaluation. Companies that score high marks on surveys of good corporate governance usually devote considerable time to training their NEDs.

We agree with the Higgs Review that companies should organise thorough induction programmes for their NEDs. We also recommend ongoing professional development of NEDs, with specialised training for those who serve on audit and remuneration committees. NEDs serving on nomination committees might also benefit from training on how to recruit and evaluate candidates in ways that promote diversity and equal opportunities for diverse candidates. In the words of the Higgs Review:

*“On appointment, non-executive directors will already have relevant skills, knowledge, experience and abilities. Nonetheless a non-executive director’s credibility and effectiveness in the boardroom will depend not just on their existing capability but on their ability to extend and refresh their knowledge and skills.”* (Higgs, 11.6)

The evidence we reviewed indicated that the majority of UK companies may not be providing adequate training for both their executive and non-executive directors.

*“43% of companies reported that they provide formal training on appointment [of NEDs] and 33% have a training/development programme that operates on an ongoing basis. 44% of companies are planning on introducing formal training and development processes in the future.”*

*It is more common for performance evaluation processes to be in place for executives although there are no such processes for 37% of companies. 42% of companies are planning on implementing a performance measurement process for either executives or non-executives in the future.”* (Deloitte & Touche Survey of Board Structure and Non-Executives, May 2003, p 6)

Ongoing NED training should also be linked to regular processes to evaluate board performance. Governance experts urge companies to conduct regular board evaluations, and a recent survey showed that a majority of NEDs believe that individual as well as overall board evaluations are a good idea. Yet in both the US and the UK, very few companies have mechanisms in place to define or measure the performance of their overall boards and their individual board members.

It is both common sense and a documented conclusion of research in behavioural psychology and organisational learning that people and organisations do not learn without evaluation and feedback. Yet most UK companies are not providing these essentials of learning to their boards. According to the Deloitte & Touche survey:

*“Performance evaluation for non-executives is not currently common practice with only 12% of companies reporting that they have a performance management process in place for non-executives.”* (Deloitte & Touche Survey, p 6; see also Higgs, 11.19)

The Higgs Review proposed that the performance of the board as a whole, of its committees and of its members, be evaluated at least once a year as part of the revised Combined Code. We agree with this best-practice recommendation.

Finally, it is important to recognise that a commitment to developing more diverse boards reinforces the importance of NED training and evaluation. For example, individuals from non-commercial backgrounds interested in NED positions might

benefit from courses on the responsibilities and liabilities of such positions and on the particular complexities of financial accounting for plc companies. Formal NED induction programmes may be of particular relevance for NEDs selected from such backgrounds or from other countries. And board evaluation and training programmes designed to foster trust, cohesion and communication and to counter stereotyping should help companies more fully realise the benefits of board diversity.

## **B. Sources of Training for Non-Executive Directors**

As noted above, less than half of NEDs currently receive formal training upon or after appointment and an even smaller fraction participates in formal evaluation processes. But the situation is changing, with more companies seeking ways to orient and develop their board talent.

Companies that commit to active training and evaluation for their boards will find a large and growing number of providers of such services. Human resource professionals within the companies themselves can play an important role in tracking and improving the NED training and evaluation programmes they use and can be an important source of information about available programmes.

Providers of such programmes include the IoD, the CBI, business schools, human resource, training and development consultancies, and executive search firms. These providers differ in the kinds and the quality of the services they offer. Essentially, there are four different genres of training:

1. Introductory seminars and courses offered to potential NED candidates. These are generally offered by the IoD, the CBI, business schools and consultancies, or some combination. These can be useful to individuals interested in NED positions, but there is no guarantee that this career goal will be achieved by attending such courses.
2. Induction training, which is usually firm-specific. As the Deloitte & Touche Survey cautions, however, less than half of the FTSE 350 companies currently provide formal orientation to new NEDs.
3. General training on board effectiveness and specific training in such areas as financial accounting offered via open enrolment courses by business schools and consultancies, either independently or in conjunction with each other and with entities such as the IoD and the CBI.
4. Customised NED training and evaluation programmes for a specific company, created by business schools or consultancies in consultation with senior company management, usually represented by senior human resources staff working in conjunction with a board-level champion.

As firms adopt more rigorous selection processes for NEDs, they are likely to need more help from learning providers on both general and customised training. Below we offer some recommendations on how to create development programmes that are consistent with the needs of individual NEDs and the businesses they serve.

## **XII. Recommendations**

### **A. Rigorous and Transparent Non-Executive Director Selection Processes**

We recommend that the selection process for each NED appointment rest on a careful assessment of the needs and challenges of a particular company and on a broad, transparent and rigorous search that reflects this assessment. Sharing information with shareholders, employees and other customers demonstrating that a company is committed to such a selection process is likely to foster greater trust in its NED appointments.

As companies formalise their NED selection processes, we encourage them to broaden their searches to include sources of talent that they have tended to overlook in the past. These sources of talent include: the “marzipan” layer of management in plc companies; professional services firms; unlisted companies and private equity firms; the non-commercial sector; and the commercial and non-commercial sectors in foreign countries.

=

### **B. More and Better Evaluation and Training for Board Members**

As NED responsibilities and liabilities increase, companies should invest more in programmes to train and evaluate the members of their boards. Training should encompass both a thorough induction programme for new board members and training and development opportunities for ongoing board members. Training should also be linked to regular processes to evaluate board performance. We agree that as boards become more diverse, formal training and evaluation for board members will become even more important to foster trust, cohesion and communication among board members.

Although board training is currently available in a variety of ways, several members of our group were concerned about possible gaps between what providers currently offer and what companies need. As board responsibilities and liabilities expand and as companies are encouraged to invest more in training and evaluation, it is important that such gaps be addressed and that companies be able to find the kind of training programmes they desire. Otherwise, there is a danger that considerably more money may be spent on board training programmes in the future without producing the desired results.

In light of these concerns, our group recommends that an organisation such as the Financial Reporting Council or the London Stock Exchange convene a group of providers and companies to establish guidelines to ensure that practical board training programmes for directors provide what is needed. Such a group could also collect and provide information about available programmes for companies seeking board training services. London Business School would welcome the opportunity to participate in such a training initiative.

### C. Research and Measurement to Encourage Greater Board Diversity

To strengthen commitment to greater diversity in board membership among plc companies, we recommend the development of a high-visibility initiative that provides regular and reliable measures of board composition for individual companies, that monitors both progress on achieving rigorous and transparent processes for NED appointments and progress on building more diverse boards. Such an initiative should provide reliable measures of board composition for individual companies, should disseminate best-practice examples of how individual companies build more meritocratic and diverse boards, and should foster research on the business benefits of greater board diversity. Such an initiative is likely to have more influence on business decisions if it receives a substantial share of its funding from the business community and if it is independent of government. But the government could jump-start such an initiative by inviting proposals from interested academic and not-for-profit institutions, and by calling for matching funding from the business community.

The experience of Catalyst ([www.catalystwomen.org](http://www.catalystwomen.org)), a non-profit research and advisory organisation working to advance women in business in the US and Canada, indicates how an initiative along these lines could foster corporate interest and change. Catalyst receives considerable financial support from the corporate community and includes many high-profile American companies among its members. Since 1993, Catalyst has published an annual census of female board directors of Fortune companies. This census and periodic Catalyst surveys on the business benefits of greater female participation in top management and board positions have encouraged companies to appoint more women to their boards of directors. 90% of Fortune 500 companies now have at least one woman serving on their boards.

Sheila Wellington, Catalyst President, believes that the census has been an important factor in changing corporate behaviour. In her words “*In business, what gets measured, gets done*”. The concept of measurement linked to accountability as a driver for change in how companies recruit, retain and reward talent is one that has also been embraced by Denise Kingsmill, Chair of the UK Accounting for People Task Force, in her recent report.

With adequate resources, media attention and corporate sponsorship, an annual census of UK boards reporting measures of board diversity along several dimensions, including the gender, nationality, ethnicity, age and prior experience of NEDs, could encourage UK companies to search more broadly for board talent and to build more diverse boards. Such a census could build on the work of the Cranfield Centre for Developing Business Leaders, at Cranfield University, to launch the Female FTSE Index, a census of female NEDs at FTSE 100 companies, and on the research and survey work of Opportunity Now to foster the advancement of women in business in the UK.

=  
=  
=  
==

## Bibliography

Information on the Higgs Review and the Tyson Report can be accessed at [http://www.dti.gov.uk/cld/non\\_exec\\_review](http://www.dti.gov.uk/cld/non_exec_review) and <http://www.london.edu>

The Combined Code, as well as the Cadbury, Greenbury and Hampel Reports, can be accessed at [http://www.ecgi.org/codes/country\\_pages/codes\\_uk.htm](http://www.ecgi.org/codes/country_pages/codes_uk.htm)

Stephen Bubb, Chief Executive, Association of Chief Executives of Voluntary Organisations (ACEVO), "And Why Not? Tapping the Talent of Non-for-Profit Chief Executives," *Discussion paper for NEDs Task Force*, May 2003

Sir Adrian Cadbury, *Corporate Governance and Chairmanship: A Personal View*, 2002

Elizabeth Coffey, Clare Huffington, Peninah Thomson, *The Changing Culture of Leadership: Women Leaders' Voices*, The Change Partnership Ltd, 1999

Jay A. Conger and Edward Lawler III, "Building a High-Performing Board: How to Choose the Right members," *London Business School Business Strategy Review*, 2001 Volume 12

Deloitte & Touche *Survey of Board Structure and Non-Executives*, May 2003

Kathleen M. Eisenhardt, Jean L. Kahwajy and L. J. Bourgeois, "Conflict and strategic choice: How top management teams disagree," *California Management Review*, 39, pp. 42-62, 1997

J. Goodstein, K. Gautam and W. Boeker, "The effect of board size and diversity on strategic change," *Strategic Management Journal*, 15, pp. 241-250, 1994

Derek Higgs, *The Review of the Role and effectiveness of non-executive directors*, January 2003

Denise Kingsmill, *Accounting for People: A consultation paper issued by the Task Force on Human Capital Management*, May 2003

Rob Lake, "Governance for Corporate Responsibility: The Role of Non-Executive Directors in Environmental, Social and Ethical Issues," *A Discussion Paper*, May 2003

F. J. Milliken and L. L. Martins, "Searching for Common Threads: Understanding the multiple effects of diversity in organisational groups," *Academy of Management Review*, 21, pp. 402-433, 1996

Frances O'Grady, Deputy Secretary General, TUC, "Stimulating corporate demand for a wider pool of non-executive directors," *Discussion paper for NEDs Task Force*, May 2003

Dr Val Singh and Professor Susan Vinnicombe, *The 2002 Female FTSE Index and The 2002 Female FTSE Report: Women Directors Moving Forward*, November 2002

## APPENDIX 1:

### TIPS FOR INTERESTED NON-EXECUTIVE DIRECTOR CANDIDATES (Source: Julia Budd, The Zygos Partnership)

**Have a clear idea of your skills**, what you would contribute and where that might be most relevant. PLC boards are not the only option and are not necessarily the best learning ground. There are also family and private equity backed businesses, public sector and QUANGO boards, charities, mutuals, NHS Trusts and school boards.

**Concentrate on performing outstandingly well in your “day job”**. Most boards and their search consultants are looking for people who excel in their own field and this is particularly true if moving outside the more traditional targets. Search consultants will be trying to identify “the top three women in advertising”, “the leading Chief Executives in the not for profit sector”. It is therefore vital to focus on excelling in your mainstream role and being recognised as such. This will increase your attractiveness elsewhere.

**Identify the search consultants** who specialise in the type of boards in which you would like to play a role, be it public sector or public company, and start to build relationships with them. The top search firms whose focus is on the FTSE 100 and FTSE 250 are less likely to be helpful if your interest and attraction is to the small cap sector or to family businesses.

**Get on the radar**. This is not only through doing an outstanding job but through speeches, conferences, writing articles, industry groups, broadcasting etc.=

=

**Build your networks, intermediaries**: investment banks, brokers, auditors, chairmen, women’s networks, all can be valuable routes to finding a non-executive director role. Build a relationship with a mentor, particularly one who is themselves plugged into an appropriate commercial network.

**Improve your finance skills**. Finance is the language of the board and however good you are in your field, you will struggle without it. Make efforts through courses and training to improve your finance skills and also to understand the major focus of the board, its governance and the key issues addressed by the board. Many candidates from less traditional backgrounds have been shocked to discover that although recruited for a particular set of skills (be it brand marketing or human resources), such skills are seldom properly utilised around the board table.

**Pick a good chairman**. He or she will ensure the board functions well and that all non-executive directors play their role. You will learn far more in this situation than from a poor chairman who runs a dysfunctional board.

**Do your due diligence carefully**. Do not be afraid to ask for further conversations to meet others, such as the auditors or the brokers and to ask difficult questions. If the culture of the board is not to ask difficult questions then you are better off steering clear.

**Do not jump at the first non-executive director role that is offered**. “People judge you by the company you keep”, so it is worth seeing the non-executive director option in the light of the way you want to position your entire career.

**Be sure there is balance of benefits**. You should bring something to the party and get something from the party. If not the former, you will not be valued. If not the latter, you will not learn.=



## APPENDIX 2: Comparative Data on Non-Commercial Organisations (Source: DTI)

### Top UK bodies with charitable status:

- The income and employee numbers of the top charities are not dissimilar to those of a number of companies in the FTSE 100: the ten FTSE 100 companies with the smallest revenue ranged in revenue from £46m to £603m and employees for those companies ranged from 935 to 8,453<sup>1</sup>.
- At the end of December 2002, there were over 162,000 “main” charities on the Charity Commission’s register, with a total income of £29b.
- Just over 6% of charities receive nearly 90% of the total annual income.
- The largest 421 charities (0.26% of those on the register) attract 44% of the total income.
- A fifth of the largest charities are led by women.

### Top 20 UK bodies with charitable status, according to income:=-

Charity	Income £ million	Expenditure £ million	Funds £million	Number of employees	Presence
British Council	430	421	135	7,379	218 towns in 109 countries
Wellcome Trust	332	544	11,266	1,083	Supports 4,000 researchers worldwide
Arts Council of England	248	251	37	181	UK (9 regional offices)
Nuffield Nursing Homes Trust	244	228	217	7,752	43 hospital sites
Cancer Research UK	225	213	208	3,000 research scientists	680 charity shops
Charities Aid Foundation	223	17	285	Around 300	2 UK offices 9 global offices
National Trust	201	202	685	4,423	248,000 hectares in UK 600 miles of coastline 200 buildings and gardens

<sup>1</sup> Data is compiled using Hydra which is based on Mergent information and annual reports

<b>Charity</b>	<b>Income £ million</b>	<b>Expenditure £ million</b>	<b>Funds £million</b>	<b>Number of employees</b>	<b>Presence</b>
Oxfam	187	196	52	23,000 volunteers 1,552 staff in the UK 2,000 overseas	800 shops
Shell Foundation	174	2	172		
Anchor Trust	170	165	106	10,000	
St John Ambulance	166	48	120	47,000 members	46 offices in UK
British Red Cross Society	158	164	90	55,000 volunteers 3000 staff	21 Area branches 430 shops
Construction Industry Training Board	133	121	51	1,112	
Church Commissioners for England	129	170	4,031	151	Owens a substantial amount of property
Royal National Lifeboat Institution	128	104	504	4,500 crew members	230 lifeboat stations 1,500 fundraising branches
Barnardo's	124	136	153	5,548	+300 shops
Assessment and Qualifications Alliance	114	116	71	1,523	
British Library	110	124	449	2,348	Serves users from 180 countries
Royal MENCAP Society	110	110	31	3,865	
Save the Children	107	105	51	3,486	145 shops in UK. Projects in 70 countries
British Heart Foundation	103	103	116	1,471 staff +6,000 volunteers	420 shops

**NOTES:**

**Source: Charity Commission 2003**

**Division of expenditure between countries:**

Oxfam

- 33% of funds to Asia, Middle East and Europe
- 46% of funds to Africa
- 21% of funds to Latin America

=

International Red Cross/Red Crescent

- £141m to Africa
- £68m to Europe and North America
- £62m to Asia

Save the Children

- £4m to Latin America
- £52m to Africa
- £13m to UK/Europe
- £4m to Middle East
- £18m to Asia

## APPENDIX 3:

### Data on Public and Other Government Bodies (Source: DTI)

#### FINANCIAL INFORMATION AND STAFF NUMBERS

Body	Expenditure (Total Gross) £ million	Staff Numbers	Facts
<p>Environment Agency</p> <p>Board Information: Chair: 1M Members: 3F, 9M</p>	705	10,595	<p>EA is the leading public body for protecting and improving the environment in England and Wales. It tackles flooding and pollution incidents, and ensures that industry keeps its impacts on air, land and water quality to a minimum. EA cleans up rivers, coastal waters and contaminated land and looks after fish and wildlife habitats.</p> <p>Over the last five years, it has taken on 50 new duties, with no additional funding in real terms. EA recently launched a website to help small businesses understand their obligations under environmental legislation.</p>
<p>National Health Service Logistics Board</p> <p>Board Information: Chair: 1M Members: 1F, 6M</p>	567	1,498	<p>Main supply route for consumable products in the NHS. 75% of NHS Trust supplies activity is channelled via this route, using a full e-commerce system from order to payment.</p>
<p>National Health Service Trusts</p> <p>Board Information: Chair: 86F, 163M Members: 577F, 567M</p>	31,186	850,888	<p>Following the NHS modernisation plans, NHS Trusts are the newly reformed bodies, which offer improved services to patients and new ways of working. They now deliver customer care through walk-in and day-care centres. At the same time, new working practises and new technology are being established.</p> <p>There are around 320 Trusts in England.</p>

<b>Body</b>	<b>Expenditure (Total Gross) £ million</b>	<b>Staff Numbers</b>	<b>Facts</b>
Primary Care Trusts (PCTs)  Board Information:  Chair: 132F, 166M Members: 628F, 660M	2,259	75,400	Centralised healthcare has now been replaced with PCTs. PCTs embody a hand-in-hand partnership with local authorities, in working flexibly to deliver services required by local circumstances. PCTs now hold substantially devolved and delegated responsibility for the provision of services to GPs, nurses and other health professionals.  By 2004, PCTs will have responsibility for a minimum of 75% of the NHS budget.
United Kingdom Atomic Energy Authority  Board Information:  Chair: 1M Members: 1F unpaid, 1F, 7M	373	2,614	UKAEA is responsible for managing the decommissioning of the nuclear reactors and other radioactive facilities, used for the UK's nuclear research and development programme, in a safe and environmentally sensitive manner. Its objective is to essentially restore the sites for conventional use.  UKAEA is also responsible for the UK's input to the European Fusion research programme maximising the income from the land and buildings at their sites.
Health and Safety Executive  Board Information: HSE has a Commission that takes care of board duties.  Chair: 1M Members: 4M, 4F	242	3,888	HSE focuses on ensuring that risks to people's health and safety from work activities are properly controlled. HSE also has links with a wide range of international safety bodies. This provides a good forum for best practice and information exchange.

<b>Body</b>	<b>Expenditure (Total Gross) £ million</b>	<b>Staff Numbers</b>	<b>Facts</b>
<p>Northern Ireland Housing Executive</p> <p>Board Information:</p> <p>Chair: 1M Deputy: 1M Members: 2F, 6M</p>	612	2,853	<p>The Executive is Northern Ireland's comprehensive regional housing authority. Their key purpose is to</p> <ul style="list-style-type: none"> <li>• assess housing needs</li> <li>• ensure that housing programmes are targeted at those individuals and areas in greatest need</li> <li>• deliver in accordance with the principles of "best value"</li> <li>• develop strategies to influence the wider housing market</li> <li>• work with others to foster urban and rural renewal.</li> </ul>
<p>Welsh National Health Service Trusts</p> <p>Board Information: 72M, 31F</p>	1,989	57,161	<p>Following the NHS modernisation plans, NHS Trusts are the newly reformed bodies, which offer improved services to patients and new ways of working. They now deliver customer care through walk-in and day-care centres. At the same time, new working practises and new technology are being established.</p> <p>There are 15 Health Trusts in Wales.</p>
<p>Patent Office</p> <p>Board Information: Chair: 1M Members: 2F, 4M</p>	52	1,021	<p>The Patent Office grants patents and registers trademarks and designs, based on high standards of service and validity. It also works to simplify the law on intellectual property and harmonise international rules and procedures.</p>

<b>Body</b>	<b>Expenditure (Total Gross) £ million</b>	<b>Staff Numbers</b>	<b>Facts</b>
<p>English Partnership</p> <p>Board Information: Chair: 1F Deputy: 1M</p> <p>Members: 1F, 6M, 1M 1F Ex-Officio.</p>	150	386	<p>Following a fundamental review, English Partnership's new focus includes:</p> <ul style="list-style-type: none"> <li>• accommodating household growth</li> <li>• maintaining a national brownfield strategy for the re-use of land</li> <li>• managing a land portfolio to deliver sustainable regeneration</li> <li>• practical demonstration and dissemination of best practice in regeneration and development</li> </ul> <p>They work with public and private sector partners on major initiatives.</p>
<p>British Waterways Board</p> <p>Board Information: Chair: 1M Deputy: 1M Members: 4F, 5M</p>	191	1,929	<p>BWVB manages 2,000 miles of canals and has been active in over £2 billion of waterside regeneration.</p>
<p>Defence Science and Technology Laboratory (DSTL).</p> <p>Board Information: Chair: 1M, Deputy: 1M, Executive Director: 6 Non Exec Directors: 2</p>	480	3,095	<p>The MOD emphasises its interest in 'building collaborative relationships with industry, academia and other governments to achieve technological progress'.</p> <p>On behalf of the MOD, DSTL places contracts with Defence Technology Centres (a consortium of independent bodies, such as universities, research centres and leading edge industrial partners).</p> <p>Through its own work and that of the DTCs, DSTL aims to achieve:</p> <ul style="list-style-type: none"> <li>• Early exploitation of technology in defence equipment by providing close links with industry</li> <li>• Spin-in and spin-out of technologies between the defence and civil sectors</li> </ul>

<b>Body</b>	<b>Expenditure (Total Gross) £ million</b>	<b>Staff Numbers</b>	<b>Facts</b>
Housing Corporation  Board Information: Chair: 1F Deputy: 1M Members: 4F,6M, 1M ex-officio.	1,010	593	<p>The Housing Corporation is responsible for investing public money in housing associations and for protecting that investment and ensuring it provides decent homes and services for residents.</p> <p>Its mission is to ‘raise the standard for homes and neighbourhoods’ and their key aims are:</p> <ul style="list-style-type: none"> <li>• to regulate to promote a viable, properly governed and properly managed housing association sector</li> <li>• to invest for the creation and maintenance of safe and sustainable communities</li> <li>• to champion a resident focus in the housing association sector</li> <li>• to be a modern, customer-centred, forward-looking organisation, encouraging change in the sector.</li> </ul>

In addition, major Government departments and Local Government authorities have considerable experience of handling significant levels of expenditure and sizeable staff numbers.



## **Acknowledgements:**

Mr Michael Armitage, Sloan Fellow, London Business School  
Mr Geoff Armstrong, Director General, Chartered Institute for Personnel & Development  
Mr Martin Armstrong, Founding Partner, Armstrong International  
Ms Patti Bellinger, Group Vice President, Diversity and Inclusion, BP plc  
Ms Grace Borrelli, TMP Worldwide Executive Search  
Rt Hon Virginia Bottomley, Odgers Ray & Berndtson Executive Search  
Mr Peter Brown, Chairman, Independent Remuneration Solutions  
Lord Browne, Group Chief Executive, BP plc  
Mr Doug Bugie, Chief Executive, Norman Broadbent Executive Search  
Mr Nick Butler, Group Vice President for Policy Development, BP plc  
Ms Elizabeth Coffey, Mercer Delta Organizational Consulting  
Professor Jay Conger, London Business School  
Ms Annmarie Dixon-Barrow, Chief Executive, Fullemplay, A Minority Matters Recruitment Agency  
Ms Barbara Donoghue, Teaching Fellow, London Business School  
Ms Jennifer Duvalier, The HayGroup  
Mr Stuart Etherington, Chief Executive, National Council for Voluntary Organisations  
Mr Mark Fawcett, Sloan Fellow, London Business School  
Mr Peter M Felix, President, Association of Executive Search Consultants  
Ms Lawton Fitt, Secretary, Royal Academy of Arts  
Mr Niall Fitzgerald, Chairman, Unilever plc  
Professor Julian Franks, London Business School  
Ms Clara Freeman, Opportunity Now/Business in the Community  
Dame Rennie Fritchie, Commissioner for Public Appointments  
Mr Simon Garrett, The HayGroup  
Professor Sumantra Ghoshal, London Business School  
Professor Rob Goffee, London Business School  
Ms Jacey Graham, Head of Diversity Strategy and Planning, Shell International Ltd  
Mr John Greenway, Mercuri Urval Executive Service  
Mr Tom Hawkins, Sloan Fellow, London Business School  
Mr Derek Higgs, Senior Adviser, UBS Warburg  
Professor Dominic Houlder, London Business School  
Ms Anji Hunter, Director of Communications, BP plc  
Mr Ian Jenkins, Mercuri Urval Executive Services  
Mr Bernard Jolles, Chairman, Wilmington Publishing  
Ms Denise Kingsmill, Deputy Chair of the Competition Commission  
Ms Gill Lewis, Partner, Heidrick & Struggles Executive Search  
Professor Andrew Likierman, London Business School  
Ms Leslie Little, Egon Zehnder International Search  
Ms Anne Mackenzie, Sloan Fellow, London Business School  
Ms Anna Mann, Whitehead Mann Executive Search  
Ms Mary Marsh, Chief Executive, NSPCC  
Ms Leslie May, Head of Global Diversity, Shell International Ltd  
Mr Bawn McCrea, Sloan Fellow, London Business School  
Dr Curly Moloney, Moloney Search  
Professor Nigel Nicholson, London Business School  
Mr Ian Odgers, Odgers Ray & Berndtson Executive Search  
Mr John Ormerod, Senior Partner, Deloitte & Touche  
Professor Randall Peterson, London Business School  
Mr John Redwood, Non-Executive Director, Norman Broadbent Executive Search  
Mr Ashok Pillai, The HayGroup; Executive MBA Student, London Business School  
Ms Jenny Riley, Jenny Riley and Associates Executive Search Ltd  
Mr Alastair Ross-Goobey, Chairman of International Corporate Governance Network  
Ms Betty Thayer, executive-appointments.com  
Ms Peninah Thomson, The Change Partnership  
Mr Vanni Treves, Chairman, London Business School  
Lady Elizabeth Vallance, Non-Executive Director, Aviva plc  
Professor Susan Vinnicombe, Cranfield University School of Management  
Ms Sheila Wellington, President, Catalyst

## **The Tyson Task Force on the Recruitment and Development of Non-Executive Directors**

**(June 2003)**

The Chair of the Task Force was **Professor Laura D'Andrea Tyson**, Dean of London Business School.

This report was written by Laura Tyson with input and advice from members of the group. The author thanks **Dr Dina Consolini** (London Business School), **Ms Dina Medland** (Project Consultant), and **Ms Anne Willcocks** (Department of Trade & Industry) for their assistance in compiling this report. Dean Tyson tried to reflect the views of group members but bears final responsibility for the views expressed and the wording used to express them.

### **The other members of the Task Force were:**

**Mr Karan Bilimoria**, Chief Executive, Cobra Beer Ltd  
**Ms Julia Budd**, Founding Partner, The Zygos Partnership  
**Mr Stephen Bubb**, Chief Executive, Association of Chief Executives of Voluntary Organisations  
**Ms Janet Cummins**, Chief Executive, CF Appointments Ltd  
**Dr Pehr Gyllenhammar**, Chairman, Aviva plc  
**Ms Jan Hall**, Partner, Spencer Stuart  
**Baroness Sarah Hogg**, Chairman, 3i Group plc  
**Ms Julie Mellor**, Chair, Equal Opportunities Commission  
**Mr Charles Miller Smith**, Chairman, Scottish Power  
**Ms Frances O'Grady**, Deputy General Secretary, Trades Union Congress  
**Mr David Rough**, Non-Executive Director, Land Securities Group plc  
**Sir Andrew Turnbull**, Cabinet Secretary and Head of the Home Civil Service  
**Dr John Viney**, Founding Partner, The Zygos Partnership

Information on the Higgs Review and the Tyson Report can be accessed at [http://www.dti.gov.uk/cld/non\\_exec\\_review](http://www.dti.gov.uk/cld/non_exec_review) and <http://www.london.edu>