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## **Everything for Sale: How Non-executive Directors Make a Difference**

**Julie Froud , Adam Leaver, Gindo Tampubolon and Karel Williams [1]**

### **Abstract**

Outside directors have always served on the boards of public companies. But, with the rise of proceduralised governance over the past 20 years, the outside directors have been redefined as non executive directors (NEDs) charged with safeguarding the shareholder interest. As part of a broader attempt to revive elite studies, this paper asks whether non executive directors are a motivated elite which makes a difference to behaviour and performance outcomes. The mixed methods answer to that question combines two elements. First, network analysis is used to analyse the new patterns of exchange of personnel in giant British companies. This now takes the form of a general recycling of (current and former) senior managers between FTSE 100 and 250 companies so that the typical NED would now be a retired former FTSE 100 senior executive. Second, case study is used to explore how NEDs affect outcomes. A case study of Pilkington in the buildings materials sector suggests that changing board composition has made a great difference to the way that directors respond to external bids to acquire the company. In the mid 1980s, the Pilkington board joined in successful public resistance to a takeover bid by BTR; whereas in 2006 a NED-dominated board efficiently extracted the highest price when it sold the company on to Nippon Sheet Glass. The conclusion is that NEDs help ensure that everything is for sale.

### **Keywords:**

corporate governance, non executive directors, elites

## Everything for Sale: How Non-executive Directors Make a Difference

*'a motive tends to be one which is to the actor and to the other members of a situation, an unquestioned answer to questions concerning social or lingual conduct'*

*(Mills 1940, 907.)*

*'I do not think the board should be selling at this price. It is not a premium to where the shares were trading a few weeks ago. Sir Nigel Rudd [non-executive chairman] knows what he is doing'*

*(anonymous shareholder on how the Pilkington board should and would refuse a low bid from Nippon Sheet Glass, Financial Times 8 November 2005)*

In 1940 the *American Sociological Review* published an article by the young C. Wright Mills who tried to rescue the concept of motive from psychology and claim it for sociology. Mills argued that motives were not individual springs to action but 'typical vocabularies (that) have ascertainable functions in delimited societal situations' (Mills, 1940, p.904). He saw a motive as the social actor's 'unquestioning answer to questions of social conduct'. Consider, in 2005, an anonymous fund manager's view of the Pilkington board's response to Nipon Sheet Glass's (NSG's) first low offer in a takeover bid. The fund manager, presumably unknowingly, used motive in the precise Millsian sense, when he observed that Sir Nigel Rudd, non executive chair of Pilkingtons 'knows what he is doing'. As our second quotation indicates, the fund manager was confident that Sir Nigel was motivated to rebuff NSG's first low offer while indicating that the Pilkington Board was open to a higher one with a bid premium.

This Millsian usage is conceptually important because motive is the precondition of coherent elite group action, but it is empirically problematic because the effects of motive are hard to demonstrate. The classic literature on business elites, for instance, Useem (1984) and Scott (1997) rarely engages in empirical studies which convincingly show how elite social motives make a difference. If we are to resume elite studies and restore them to their central place in radical social science, we have to demonstrate motive. This article takes up the call made in the introduction to deploy appropriate methods, which in our case combine network analysis with historical case study of outcomes.

As Savage and Williams (2008) have argued we should now be interested in groups who do not occupy the traditional 'power elite' positions as chief executives at the apex of giant firms. We have elsewhere emphasised the growing importance of financial intermediaries (Folkman et al., 2007) and in this article we turn to consider outside directors in giant companies (i.e. those directors who do not have an executive position in the companies on whose boards they serve). The motives of this group have been discussed inconclusively in an older political economy literature on interlocking directors and in a new corporate governance literature on non executive directors (NEDs). New terms like NED both describe and constitute our world taken for granted; they are also about material outcomes and how motivated social actors could, should and do change the world. In the current literature on corporate governance, outside directors are always described as non-executive directors using a term which has only passed into general use and acquired its current meaning with the UK Cadbury Report in 1992. Within this framing, NEDs are supposed to represent shareholders and solve the kind of agency problems analysed by mainstream finance authors like Jensen (1993) and Fama (1980). This replaces earlier discussions in older political economy literature (e.g. Scott 1979, Useem (1984) about interlocking directorates and elite networks.[2] Here, interlock directors represented the interests of finance capital, embodied in the dominance of banks and insurance companies, as originally analysed by Hilferding (1910) and Lenin (1917). Both literatures make strong assumptions and assertions about what outside directors

should and could do to make capitalism work in different ways; but significantly both accounts of motive failed to convince ‘so what’ sceptics (see, for example, Pettigrew 1992) that outside directors had any significant effects. This echoes the maverick British businessman Tiny Rowland who famously observed that boardrooms contained potted plants and NEDs and, in his experience, the potted plants were more useful [3].

The unresolved question is whether outside directors are a motivated elite that makes a difference. Put another way, the question is whether the exchange of senior management and board level personnel between giant companies has any definite effect and, if so, how we might observe and demonstrate it. This article takes up these issues in three sections.

The first section introduces the framing of these issues in governance discourse and political economy and explains how and why their evidence and arguments about motive are inconclusive. The second section considers whether and how current patterns of exchange of personnel in giant British companies are different from those analysed in the classic political economy literature by Scott and others; empirics and network analysis on a sample of several hundred NEDs suggests that interchange now takes the form of a general recycling of (current and former) senior managers between FTSE 100 and 250 companies so that the typical NED would now be a retired former FTSE 100 senior executive.

The third section explores how NEDs affect outcomes, by reporting a case study of Pilkington in the buildings materials sector, where changing board composition has made a great difference to the way that directors respond to external bids to acquire the company. In the mid 1980s, the board joined in successful public resistance to a takeover bid by BTR; whereas in 2006 a NED-dominated board efficiently extracted the highest price when it sold the company on to Nippon Sheet Glass.

We show that exchange and interlock are now about cultural homogenization around the corporate norm that everything is for sale (at the right price) when assets and companies are routinely bundled and re-bundled. Here, the outsiders now defined as NEDs do not serve the new epochal interests of finance capital in any direct way, but enforce the changing conjunctural priorities of financialization. In an economy of permanent restructuring, the demand before the credit crunch of 2007 was always for delivering (short term) value to shareholders through buying and selling companies and divisions (see also Folkman *et al.* 2007) The idea of the conjuncture is important because it recognises that conditions such as liquidity and interest rates can change every 5 or 7 years in ways which will make it possible and/or necessary to generate returns to investors in different ways in successive conjunctures (Erturk *et al.* 2008). Our broader cultural frame connects with Useem’s (1984) classical concept of ‘business scan’ if scan is taken to mean not only horizons but also practices and norms of appropriate behaviour.

### **Outside Directors: From Interlocks in Political Economy to NEDs in Governance**

In giant British companies since the early 1990s, the outside director has been constructed as a NED through corporate governance discourse, formalised in the Combined Code (1998, 2003, 2006) which emphasises the director’s responsibility in representing shareholder interests in the boardroom. At the same time, mainstream finance provides an historical backdrop with its generic problems about ensuring manager/ agents serve the interests of shareholder/ principals. Outside directors, now known as NEDs, were previously identified as interlocking directors in political economy studies of managerial elites, many of which focused on bank and insurance company representatives sitting on industrial company boards, and drew on theories of finance capital. This section considers how both literatures made unproven assumptions and assertions about the role of outsiders and neither literature

convinced sceptics who accepted that outside actors and networks existed but doubted whether the outsiders had the desired effect or made much difference.

Since 2003, best practice includes the recommendation that NEDs should make up at least half the board of British public companies and there are also increasingly stringent requirements about how outsider NEDs have to pass tests of independence which exclude those with previous employment or other connection with the company, for instance as a supplier or consultant (Combined Code 2003). Almost all FTSE 100 giant companies and FTSE 250 mid-sized public companies now conform to these combined requirements through separating the offices of chief executive and chairman, and by institutionalising proceduralised governance through audit and remuneration committees chaired by outsiders (*Financial Times* 18 June, 2007). This represents a significant break in board composition, practice and terminology. As early as 1973, the Watkinson Report for the Confederation of British Industry (CBI) argued for more 'non-executive directors on the boards of public companies; at this time, only 35% of companies in the *Times 1000* in 1975-76 had more than two NEDs and a quarter had none at all (Tricker 1978, p.77). An influential 1978 study significantly used the term NED in the subtitle of a report titled 'the independent director' and highlighted the lack of clarity about their role and responsibilities when many NEDs were 'insufficiently involved in financial matters' (Tricker, 1978, pp. 51-2).

The break came in the 1990s after a series of corporate scandals, including the Maxwell fraud, which were attributed to passive boards, and more NEDs, operating within proceduralised governance systems of audit and remuneration was seen as the solution. The seminal Cadbury Report of 1992 led to the UK's first corporate governance code which recommended that boards should have a minimum of three NEDs (the majority of whom should be 'independent' of management). Their role was to provide independent views on corporate strategy, performance, resources, appointments and standards of conduct, though there were continuing concerns about whether there were sufficient suitably-qualified individuals available to play what was deemed to be an important though still under-specified role (Solomon and Solomon 2004, pp.69-70).

Subsequent reports and codes continued to assert the primary importance of NEDs in the governance of public companies (Hampel 1998; Combined Code 1998), but it was corporate scandal in the USA, and in particular the collapse of Enron, which prompted a fresh look at NEDs. The Higgs Review commissioned by the Department for Trade and Industry (DTI) in 2002 was tasked with not only providing a picture of the current population of NEDs in the UK but also assessing their effectiveness and producing recommendations for improving their quality, diversity and independence[4]. The 2003 Higgs Report was met with considerable hostility by UK business groups (Solomon and Solomon 2004, pp.73-4, Maclean *et al.* 2006, p.81), though its recommendations were hardly radical, since the report uncovered considerable problems in the recruitment and use of non-executives against a back ground of public concern about the risk of corporate failure. The main recommendation was that independent NEDs should make up at least half of company boards and that a senior NED on each board should have direct responsibility for communicating with shareholders.

If proceduralised governance with NEDs at the centre was a British invention, American mainstream finance theory (Jensen 1993, Fama 1980) encouraged the expectation that corporate performance benefits could follow, well beyond the prevention of Maxwell type fraud. Finance theory emphasised how the separation of ownership and control in public companies had created generic agency problems because the shareholder-principal faced costs and other difficulties in monitoring the manager-agent. In acting as the representative of the shareholder interest in the boardroom (including in the task of setting executive pay and incentive contracts), a diligent NED should help to reduce the extent of agency costs through better aligning manager and shareholder interests. The implication was that NEDs could restrain management pursuit of the quiet life, wasteful expenditure on executive perks like

private jets, as well as empire building or following discretionary objectives through mergers or the refusal to return cash to shareholders.

However, there is no clear evidence that corporate performance improved when companies acquired more NEDs with clearer responsibilities. Empirical studies in the UK and USA have produced mixed and confusing results when trying to examine the general relationship between governance measures and performance outcomes. Recent reviews and meta analyses of this empirical work emphasise the difficulties about sampling, specification of variables and relating changes in corporate performance to any one particular set of organisational changes. (See, for instance, Dalton and Dalton, 2005; Roberts *et al.* 2005, Larcker *et al.* 2005). In our view, it is inherently unlikely that organisational changes such as the number of NEDs or the separation of chairman and chief executive would strongly influence a complex outcome like performance which has many other drivers. Predictably, when Dalton and Dalton reviewed 69 studies on the effects of separating the chair and CEO roles, they came to an agnostic verdict and finally concluded negatively that ‘in sum, structural independence does not equal performance advantage’ (p.93). The sense of disappointment is reinforced by the general findings on other aspects of corporate governance reform (see, for example, Tosi *et al.* 2000 or Barkema and Gomez-Mejia 1998) which suggest very weak links between executive pay and corporate performance. Indeed, in the UK proceduralised governance systems, of remuneration committees staffed by NEDs may have contributed to a general ratcheting up of executive pay levels (Ezzamel and Watson 1998; Erturk *et al.* 2005).

If NEDs and corporate governance have by the mid-2000s acquired an aura of empirical disappointment, some 20 years before in the 1980s a similar kind of disillusion had enveloped the political economy of corporate networks and board interlocks. This analysis had two primary foci: first, the socio-economic background of company directors and, second, the extent to which individual directors sit on the board of more than one company. There is much of enduring value in this now-unfashionable literature; in particular, in Useem’s classic work *The Inner Circle*, which has influenced our own work. As well as inferences from networks, his analysis is also based on US and UK interviews with executive directors and NEDs. Partly in consequence, Useem rejects the dominant economic control interpretation of interlocks as way of exercising influence over other corporations (Useem 1984, pp.41-3). Useem instead suggests that ‘the central driver is the efforts of giant companies to achieve an optimal ‘business scan’ of contemporary practices and the general business environment’ (1984, p.45). Within this frame, Useem also found that ambitious executives were advised to find non-executive positions in other firms to improve their understanding of the business environment, as well as to access networks populated by other multiple directors, thus providing a short cut to contemporary business knowledge and sensibilities. Windolf (2002) similarly describes directors networked through membership of a least two corporate boards as ‘big linkers’ (p.100) and explores various reasons for such links.

The mainstream approach to interlock in the 1970s and 1980s is exemplified by Scott, and emphasised the significance of shared elite social backgrounds and the representation of a ‘constellation of interests’ which operated through board interlocks. Whitley’s sociological work, based on a sample of 40 industrial and 27 financial UK companies in the early 1970s, covers educational background and membership of exclusive London clubs. The key finding is that ‘very large industrial and financial firms do recruit their Board members from a narrow segment in the population. These directors undergo a remarkably similar educational experience and, to some extent, have similar social circles’ (Whitley, 1974, p.80). Scott provides the classic historical study of the informal British variant on finance capital as he argued that ‘British banks stood at the centre of loose and overlapping groups of enterprises created through primary interlocks’ (Scott 1997, p.121), with the result that at the heart of the British economy was an inter-corporate network in which ‘City’ enterprises were closely aligned with ‘non-financial enterprises’. Scott’s key concept was of ‘control through a constellation of interests’, characteristic of ‘the Anglo-American economies, where a specific

structure of banking and credit has encouraged the building of large financial intermediaries' (Scott, 1997, p. 51).

But these arguments elicited a 'so what' response from management researchers like Pettigrew (1992) who questioned how interlocks actually changed firm behaviour and whether shared social backgrounds had any significance on their actions. Such problems have long been acknowledged: for example Whitley (1974: 80) concludes by posing the unanswered research question of how 'the culture of the financial-industrial elite' 'will mediate structural exigencies of developed capitalism'. Researchers identified some general behavioural differences between groups of interlocked and non-interlocked firms (see, for example, Mizruchi's 1996 analysis of political contributions in the USA). But the 'so what' question is still relevant because behaviours like political contributions do not address the fundamental issue of business performance. Pettigrew (1992) suggests that ethnographic investigations provide a second way of resolving these issues and Hill's (1995) interview-based investigation of how boards work and how directors see their role provides a good example of the value of such an approach. However, there are huge access problems because the conduct and reasoning of NEDs on boards, in committees and in meetings with large institutional investors is mainly private. In effect, the chairman remains the only NED with a public speaking part and academic access to the discussions of the full board or its committees remains restricted.

The history of research into interlocks in the 1970s and 1980s prefigures that of research into governance in the 1990s and 2000s, but there is the same imbalance between assertions or assumptions and empirics about how capitalism works.

### **Patterns of Exchange: From Banking Interlocks to the Recycling of FTSE Executives as NEDs**

This section addresses the question of what is new and different about the current pattern of exchange of personnel at board level. We firstly use sociograms which visually show the pattern of interchange of all NEDs within and beyond the FTSE 100 in 2005. Secondly we report a sample study of the backgrounds and careers of some 150 NEDs in FTSE 100 companies in 2005.[6] This randomly selected sample accounts for some 25 per cent of the total population of NED directors and provides a solid basis for inference about background and career patterns in the whole group. Let us begin with a preliminary review of the finance-dominated pattern of exchange some 30 or 40 years ago.

Between the 1960s and the 1980s, academic researchers established empirically that the pattern of exchange in Britain was finance dominated. Personnel from leading banks and insurance companies often sat as outside directors on the boards of industrial companies. In 1966, just under half of the directors of top 120 British companies were classed as 'finance capitalists' by Barratt Brown (1968 p.45). The significance of a financial company background for outside directors was confirmed by Scott and Griff's 1976 study (see Table 1). This shows the background in terms of primary interests of those directors of top 250 firms who were considered as 'multiple directors' (Scott 1997, pp.208-9) and who would now be classified as NEDs. Of this outsider group, around 37% were current or retired senior members of the top 50 financial firms which together accounted for almost as many multiple directors as the top 200 non-financials. Financial companies were disproportionately generous with their executives: on average each top 50 financial firm contributed 1.9 of their 'insiders' to other boards, while for non-financials, the average was only 0.6 (Scott 1997, p.209).

*Table 1 Scott and Griff's 1976 Analysis of the Primary Interests of Multiple Directors of the top 250 British Enterprises*

<i>Primary interest of directors</i>	<i>Number of directors</i>	<i>% of directors</i>
Top 50 financials	97	34.4
Retired from top 50 financials	7	2.5
Top 200 non-financials	112	39.7
Retired from top 200 non-financials	17	6.0
Other financial	14	5.0
Other industrial	13	4.6
Other	22	7.8
Total	282	100.0

Source: *Scott and Griff 1985, table 12.5, reprinted in Scott (1997) table 53, p.209*

Does finance still dominate director exchange? Our sample data for 2005 permits us to see whether NEDs in the FTSE 100 have a financial background. The answer depends on how finance is defined. The classic studies from the 1960s to the 1980s defined finance narrowly as banking and insurance because these were then the leading sectors which sustained giant companies in finance. However, after a period of marked innovation in wholesale and retail markets, we define finance more broadly to include fund management, private equity and investment banking as well as retail financial services. On this broad definition, our sample of 150 NEDs included 13 (9%) currently employed in finance. Less than half come from traditional retail financial services in banking and insurance; by 2005 a NED in our sample is just as likely to be employed by a private equity fund as by a bank. A total group of 29 NEDs in the sample (19%) had a previous spell of at least five years in a senior position in a financial sector organization, 18 of which had experience at a mid-to senior level in the banking industry (retail or investment). Overall, 33 of the 150 NEDs (22%) were currently or previously employed in financial services suggesting that, in simple headcount and percentage terms, a finance background is rather less important in the 2000s than 40 or 20 years ago.

The decline in the percentage of outside directors from the financial sector over the past 30 years is all the more striking if we recall that over the same period financial services has dramatically increased its share of activity within the group of giant firms. As Froud *et al.* (2006) demonstrate, the number of financial services companies within the FTSE 100 does not increase between 1983 and 2002, while the share of financial services in FTSE 100 employment has increased from 11 to 18% but remains modest overall. But, as table 2 shows, the 24 financial services companies of 2002 account for a larger share of FTSE 100 capital employed and, a much greater share of FTSE 100 profits. Between 1983 and 2002, the finance company share in FTSE 100 capital employed increased sharply from 24 to 38% and the finance company share of pre-tax profit profits more than doubled from 18 to 42%.



**Table.2. The Significance of Finance (SIC class 6) in the FTSE 100 in 1983 and 2002**

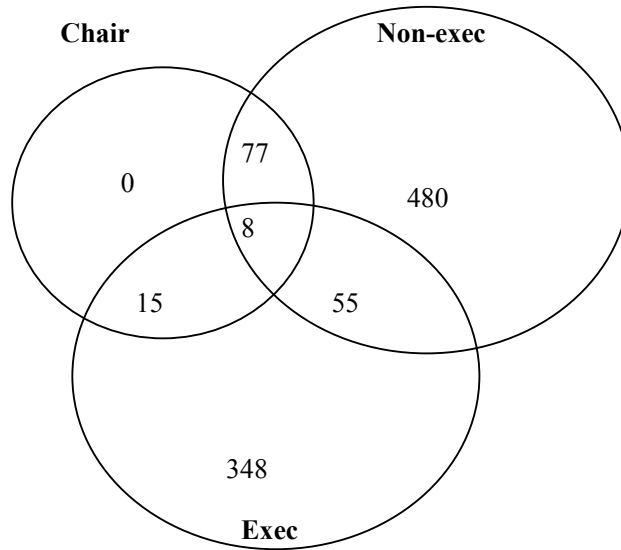
<i>No. of companies in financial services SIC class</i>		<i>Financial services: % share of the FTSE 100 in terms of</i>			
		<i>Employment</i>	<i>Pre-tax income</i>	<i>Capital employed</i>	<i>Market value</i>
1983	24	11.0	17.7	23.5	18.6
2002	24	18.0	41.7	37.7	27.4

Source: based on Froud et al (2006) p.18 (originally derived from Datastream)

The power of finance and the old distinction between financial and industrial companies has been reworked. Finance is no longer a controlling interest, though it has become a profit centre in its own right and is now established as the main source of profit for the British giant firm sector. Nevertheless, there is a clear break: finance has moved from being an over-represented source of outside directors in the 1970s and 1980s to being an under-represented source of NEDs today. Given that personnel exchange between finance and industry is in decline, this raises a more general question about whether British giant firms in the 2000s are now much less densely networked and bound together through exchange of outside director personnel. The decline of tight networks is a major theme in historical studies of other advanced capitalist countries, especially Carroll's (2004) insightful work on Canada. This appears to be confirmed by evidence on British NEDs produced for the Higgs Review in 2002, which drew attention to the very limited pool from which existing NEDs had been drawn when most non-executives were white, male, late middle-aged members of the business classes (Higgs 2003, p.42). But the evidence obtained on listed company directors from Hemscott for Higgs suggested that the interlocks which had preoccupied an earlier generation of academic researchers were now completely marginal. For example, only 6% of executive directors in all listed UK companies also held a non-executive position in another company and only 8% of NEDs were also executive board members elsewhere. Overall, 80% of NEDs sat only on one board so that bridging and linking between companies via their boards was a minority activity (Hemscott 2003). The data suggests that UK plc appeared to be in the middle of an experiment in running national capitalism without board interlocks.

The Higgs evidence covers all listed companies, and the picture might be different if we narrow the focus onto giant firms within the FTSE 100 which were traditionally considered to be the privileged locus of networking and insider/outsider exchange. Figure 1 shows the extent to which board members of FTSE 100 companies have more than one appointment. For example, if we take all 620 NEDs in the FTSE 100 in 2005, 77 are also chair of another board, 55 hold executive positions in other companies and 8 manage to combine all three roles; however, a majority (480 directors or 77%) hold no other board position in UK listed companies. Likewise, most executive directors do not have seats on the boards of other companies. Figure 1 also shows, by way of contrast, that all of the FTSE 100 chairs in 2005 also held another position, most usually as a non-executive.

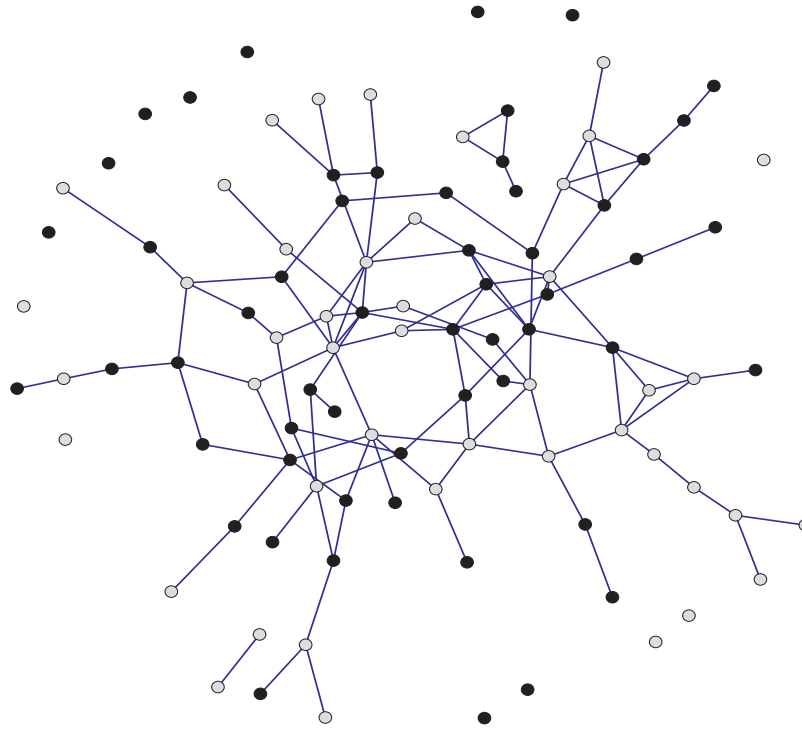
**Figure 1. The extent of interlock amongst FTSE 100 board members in 2005, including executive and non-executive members**



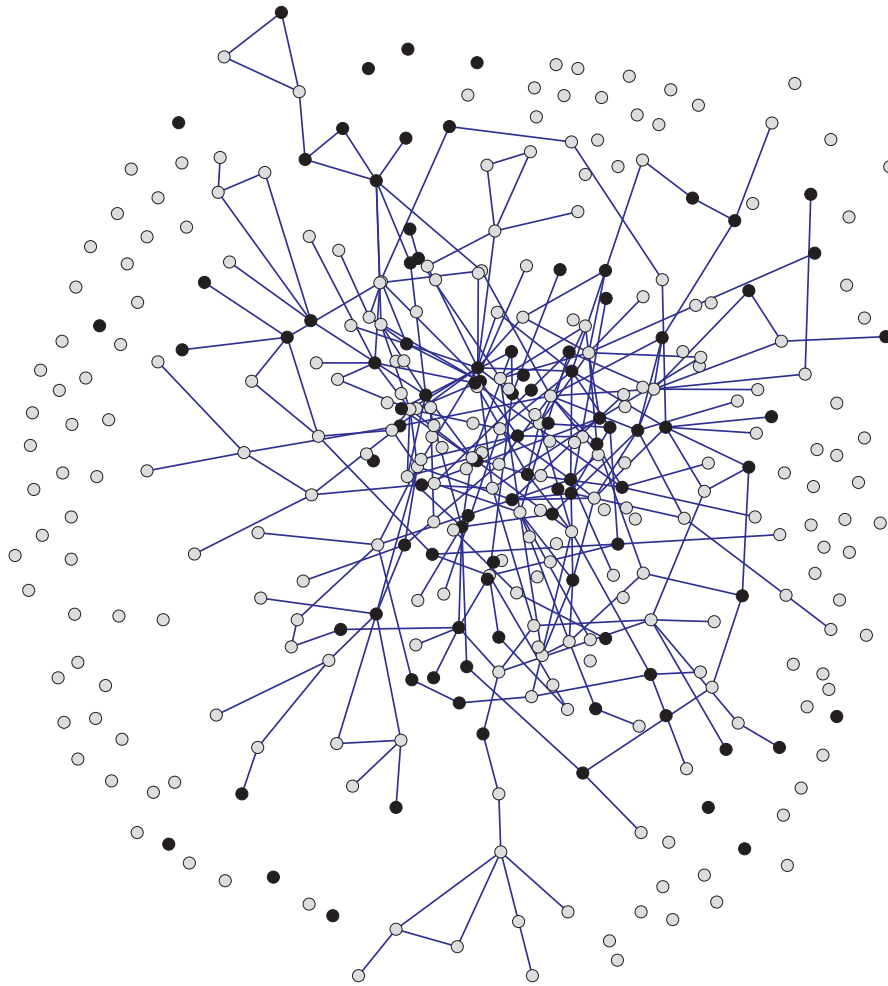
Source: CRESC Elites database, derived from Hemscott

Although chairs stand out as pluralists, the overall story of Figure 1 seems to be that the extent of interchange of personnel has become rather limited by 2005. However, Figure 1 presents a rather static and limited view which underplays the extent to which there has been exchange between boards. The analysis that follows is based on three sociograms reporting patterns of exchange within the FTSE 100, between the FTSE 100 and 250, and between FTSE 100 firms and charities, quangos and not-for-profit organisations. In the sociograms in figures 2 to 4, nodes represent companies and links show personnel in common. The overall picture that emerges is far more interesting than that which would be drawn from figure 1: large numbers of active FTSE senior managers are now being exchanged before retirement through NED posts; just as important, the sample survey of careers then shows how governance has opened new NED career options for such executives after retirement; equally, the world of the FTSE 100 is not hermetically sealed because it connects through exchange of personnel with mid caps and not-for-profit organisations. The conclusion is that the snapshot pattern for all NEDs in 2005 is one of significant exchange of outsiders within a relatively dense network of FTSE 100 giant firms and, interestingly, there is also outreach from this network of FTSE 100 firms into the FTSE 250.

**Figure.2. Sociogram to show the extent to which FTSE 100 firms have executives from other FTSE 100 companies as their Non-Executive Directors (NEDs), November 2005**



**Figure 3. Deepening or increasing the influence of FTSE 100 executives outside the FTSE 100 (1): NEDs on FTSE 250 boards, November 2005**

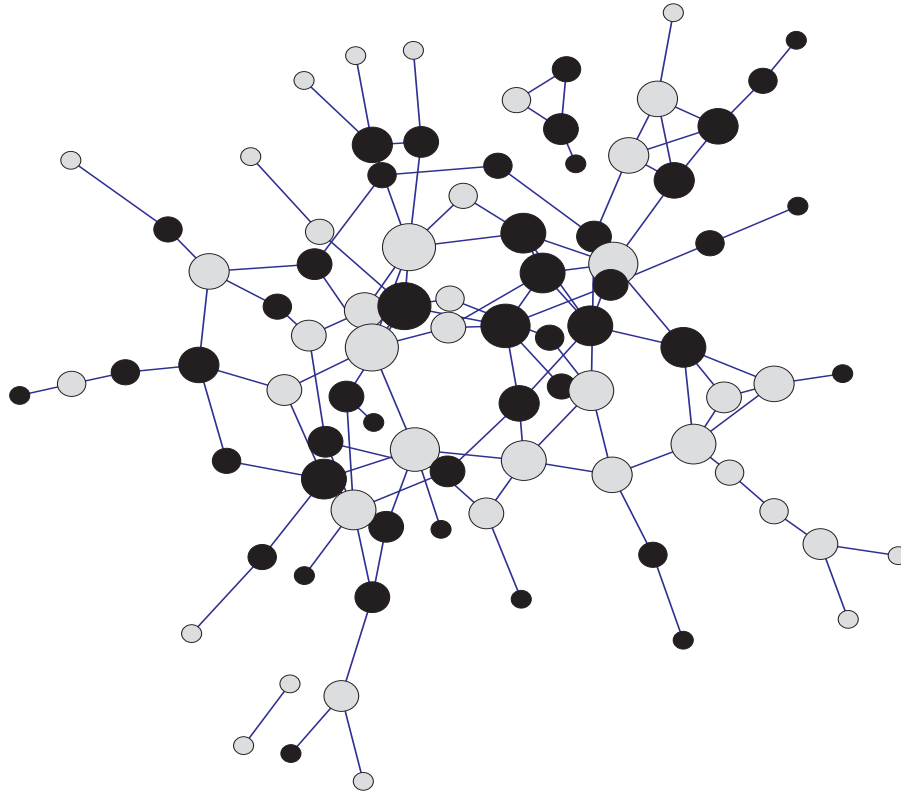


*Notes:*

1. Each node in the sociogram is a FTSE 250 company
2. Lines between nodes show where a FTSE 250 company has the same NED as another FTSE 250 company.
3. The black nodes are those FTSE 250 companies that have as one of their NEDs someone who is also an executive member of a FTSE100 board. The sociogram shows that 30% of FTSE250 firms install FTSE100 executives as NEDs.

Source: *CRESC elite database*

**Figure.4. Widening or increasing influence outside the FTSE 100 (2):  
FTSE 100 executives in NED positions outside public companies,  
November 2005**



*Notes:*

1. Each node in the sociogram is a FTSE100 company
2. Lines between nodes represent shared NEDs (as in Figure 1)
3. Black nodes are those FTSE 100 companies with other FTSE 100 executives serving as NEDs on their board (as in Figure 1)
4. A larger size node (black or grey) indicates that one or more executives of the FTSE 100 company also holds a patronage position (e.g. chair or other non-executive) in a charity and/or a governor position in a quango. This was determined by cross-checking the list of executives of FTSE100 firms against executives, chairs, patrons and governors of the largest 500 charities and 400+ quangos. The extent of such links is indicated by increasing the size of the node, so that a company with two executives on the board of a charity or quango will have a larger node than another company with only one executive in such a role.

Source: *CRESC elite database.*

Figure 2 shows significant exchange between giant companies in the FTSE 100 in two ways. First, 60% of FTSE 100 companies have an executive from another FTSE 100 company sitting on their board as a NED; second, over 40 of the members of the FTSE 100 share at least one NED with another company in the index. Interestingly, the new sphere of exchange is not limited to networking within the FTSE 100. Figure.3 also highlights a different kind of exchange *de haut en bas* where FTSE 100 executives from giant firms are recruited as NEDs in FTSE 250 mid-cap companies: in 2005, 30% of FTSE 250 companies have an executive from the FTSE 100 sitting on their board, implying a kind of colonisation by senior executives from giant firms. Equally, exchange of one kind appears to create or reinforce exchange of another so that FTSE 100 executives are more involved in charities and quangos if their home company has dense internal FTSE networks via its NEDs, as figure 4 shows.

These exchange relations also have a temporal dimension absent in figure 1, which can however be explored through the sample survey of 150 NED careers. In addition to those who are contemporaneously executives in one FTSE 100 company and NEDs in another, there are also recently retired executives from one FTSE100 company who are NEDs in another. The sample survey of NED careers broadly confirmed the judgement of the senior partner in a pay and remuneration practice who recently told us that, for retired giant company senior execs, 'the NED job is what you do between 50 and 70'. Overall, Table 3 shows that 45% of 150 FTSE 100 NEDs were not in full time employment. Of the retired NEDs, around 80% had backgrounds as corporate executives and no less than 59% specifically had worked in FTSE 100 companies; if accounting, law, consultancy and other professions would seem to generate skill sets relevant to the NED role, surprisingly few (20%) NEDs come from such professional backgrounds. For retired business executives with 20 years to fill, multiple and serial non-executive directorships represent a new kind of post-retirement career portfolio which has opened up since the early 1990s. In our sample of 68 retired NEDs, nearly 80% were holding more than one NED post and exemplify *NED pluralism* in table 3, while 65% had also previously served as a NED at another company which exemplifies *NED succession* in table 9.3. For those who have not retired, executive responsibilities presumably limit the ability to hold multiple non-executive positions and less than half of full time executives qualify as pluralists by holding more than one NED post. However, serving FTSE executives with one non-executive position could simply be represented as on the first stage of a new portfolio career which combines and recombines executive and non-executive roles in a variety of ways over time as part of a general recycling of senior personnel.

**Table 3. Background and Activities of a Sample of FTSE100 NEDs, 2005**  
*[figures in parenthesis are percentages]*

<i>t</i>		<b>FTSE 100 NEDs sample N=150.</b>	<b>Of which: NEDs currently in full-time executive employment, N=82</b>	<b>And: NEDs in retirement, N=68</b>
A. Is/was the NED ever employed in an executive role in:	(a) a FTSE 100 firm	75 [50.0]	37 [45.1]	38 [58.5]
	(b) another British public company	86 [57.3]	45 [54.9]	41 [63.1]
	(c) foreign Firms	82 [54.7]	46 [56.1]	36 [55.4]
B. Is the NED:	(a) also currently NED at another plc (NED pluralism)	93 [62.0]	40 [48.8]	53 [79.1]
	(b) previously NED at another plc (NED succession)	73 [48.7]	31 [37.8]	42 [62.7]
C. For those who are currently Chairs of FTSE 100 companies, have they previously been:	(a) Chair of another public company	48 [32.0]	20 [24.4]	28 [41.8]
	(b) NED in another public company	37 [24.7]	20 [24.4]	17 [25.4]

This recycling of FTSE executives as NEDs before and after retirement manifestly interconnects FTSE companies which would otherwise be much more like self-contained executive silos, because there is still only limited recruitment of senior executive management from outside the company in many FTSE 100 companies. Direct external recruitment is increasing and our analysis of FTSE 100 CEOs showed that 25% had been externally recruited in 2005; but the internal career is still more important as the route to the top: 41% of FTSE 100 CEOs in 2005 had had served for at least 10 years within the company before internal promotion to the top job.

In the light of this data, can we now meet the challenge which defeated earlier generations of researchers, and show that these patterns of exchange influence corporate behaviour and performance?

### **So What?: *Everything for Sale* in Building Materials and the Pilkington Case**

The sociograms describe the current, recently established pattern of recycling FTSE executives as NEDs the difficulty is to demonstrate that has definite effects and in some significant way changes outcomes. *A priori* we would hypothesise that the pattern of exchange outlined in the previous section would have cultural effects in the homogenization of business culture and the limiting of attachment to anyone firm. But the extent of these cultural effects and their second order behavioural consequences cannot be determined *a priori* or read off the sociograms and this takes us back to the impasse in the earlier literature about whether interlocks implied control or influence with significant outcomes. Our novel approach in this section is to add a case study of a sector and a company so that we can infer

the vocabularies of NED motivation by focusing on observable behaviour and outcomes at key decision points, such as hostile takeover, which distinguishes the British capitalist game from those of continental European countries. We focus on hostile takeover in the buildings materials sector, where all the major British PLCs have recently sold out to foreign buyers, and then on one company, Pilkington, whose board joined a spirited defence against takeover by BTR in 1986 but made a calculated sell off to NSG in 2006.

The British economy is one of permanent restructuring and churning of ownership. By 2003, only 23 of the original 1982 FTSE 100 companies survived after two decades of acquisitions, demergers and other kinds of ownership change. One indicator of commitment to restructuring is that over the period 1980 to 2003, FTSE 100 firms collectively spent nearly 80 pence on buying other firms for every pound spent on productive assets (Froud *et al.* 2006). If hostile takeover by other FTSE 100 companies was historically the major driver of this process, more recently private equity funds and foreign public companies have been active buyers of blocks of assets and whole British companies, especially those in the FTSE 250. In Continental Europe, loud voices and political actions resist cross border hostile approaches as in the case of the French (official) reaction to the attempt by Mittal to buy Arcelor, or the Spanish reaction to the E.ON bid for Endesa. But the identity of the purchaser is barely an issue in the UK where, as Will Hutton observed after \$60 billion of recent or proposed foreign takeovers of British companies (*Observer*, 12 February 2006), there was no public debate, controversy or resistance. Interestingly, in the UK, there was some hostility to the sale of public companies to private equity (Folkman *et al.* 2008), but apparently a general lack of concern about sale to overseas buyers.

The passivity of both the UK government and the business community in response to foreign takeover reflects a normalisation of the City precept that assets and companies are and should be for sale (provided the price is right). This is the editorial line in the City's newspaper, the *Financial Times* which in early 2006 argued that a wave of foreign acquisitions of UK major companies 'should be a cause for celebration, not gloom' because shareholders were being offered generous deals and it reflected well on Britain 'as an attractive place to do business' (11 March 2006). In the post-Thatcherite world, the firm as a bundle of saleable assets is, like labour market flexibility, an operating principle which, it is assumed, makes markets work better and improves competitiveness. But the normalisation of this precept depends on several material preconditions. Discursively, politicians across all parties have reformatted the economy so that national success is no longer indicated by production, employment and trade balance but by consumption, labour market flexibility and financial market priorities (such as asset price stability or low inflation); the post-Thatcher consensus depends on all this because the national economy remains a failure by pre-1979 productionist standards (Elliott and Atkinson 2007). Restructuring also depends on eager institutional shareholders who, in the 1990s bull market, bought the index and were willing to sell a share if offered a premium of 20-30% over yesterday's close. More recently, some investors have been actively encouraging restructuring by taking public views on the next value-creating strategic move; for instance in 2006, a national newspaper carried the suggestion by a leading institutional investor (Brandes, an American 'value investor') that ITV, the main UK national independent TV broadcast company, should split itself into two parts, production and broadcasting (*The Observer* 5 February 2006).

But this world of 'everything for sale' has a third key precondition because it requires motivated company directors who understand unquestioningly how to behave when auctioning the company. This typically means efficiently holding out for the highest price for shareholders when faced with friendly overtures or hostile takeover, and then endorsing acquisition without questions about industrial logic, the effects on other stakeholders or any reference to the mass of empirical research on how mergers usually destroy value. Our argument is that the exchange of personnel in the NED role secures this outcome. We can



demonstrate this by considering first the absence of resistance in NED-dominated boards in the buildings material sector and then the change of behaviour at Pilkington.

It is striking that NED-dominated boards did not resist foreign takeover of all the British building materials firms which once accounted for 10% of the FTSE 100. Table 4 lists the major deals since 1997 which took out Redland, Tarmac, Blue Circle, RMC, BPB, Pilkington and, most recently, Hanson. In several cases, these were not distress sales: British Plaster Board, Pilkington and Hanson were productively credible and financially viable on a stand alone basis. But in all these cases the directors made a recommendation and sold out without protest after efficiently extracting a higher price for shareholders and thus serving their role of representing the interests of shareholders on the board, albeit interpreted in a very narrow way. The only stand out against this process of restructuring has been Don Young, the vigorously renegade former director of Redland, whose web site and book questions the logic of what is going on from a traditional productionist view point (Young and Scott, 2004). Interestingly, Redland was the first and earliest of the foreign acquisitions and Don Young was an old school executive director with a long career in industrial relations/human resources who sat on the Redland Board by virtue of his role as head of organisation and human resources.

**Table 4 Restructuring and Ownership Change in the British Building Materials Sector**

<b>Company</b>	<b>Acquired by</b>	<b>Date</b>	<b>Value of transaction</b>
Redland	Larfarge (France)	1997	£1.8bn
Tarmac	Anglo American (UK)	1999	£1.2bn
Blue Circle	Larfarge (France)	2001	£3.1bn
RMC	Cemex (Mexico)	2005	\$5.8bn
British Plaster Board (BPB)	St Gobain (France)	2005	£3.9bn
Aggregate Industries	Holcim (Switzerland)	2005	£1.8bn
Pilkington	Nippon Sheet Glass (NPG) (Japan)	2006	£2.2bn
Hanson	Heidelberg Cement (Germany)	2007	£9.5bn

While the general absence of resistance to foreign takeover in NED-dominated boards is revealing, the observation is hardly decisive when hostile takeover was well established long before the idea of the NED was formalised in the Cadbury report of 1992. Hence the special interest of the Pilkington case, where we can see how the successful hostile bid from NSG through a series of offers from November 2005 to February 2006 played very differently from the unsuccessful offer by British conglomerate BTR in 1986. Pilkington was always a special case in the British context because of the involvement of the founding family, its provincial base in St Helens and the technical excellence symbolised by the company's invention of the float glass process in the 1950s, which was subsequently licensed world wide.

This animated the successful resistance by community, politicians, management, board and major shareholders when BTR made a bid for Pilkington in 1986. As the company's web site explained, the BTR offer was publicly fought off as 'the company mobilised employee, community, city and parliamentary opinion to back its long termist approach to running its

business' (pilkington.com, 'about pilkington'). 'BTR is regarded as an insensitive axeman, closing factories down readily' (*Financial Times* 26 November 1986), even though Pilkington also had a record of cutting jobs and had shed some 20,000 workers worldwide over the 1981-86 period. As the press reported at the time, BTR's bid led to 'frank, bordering on direct, exchanges in the House of Commons' (*Financial Times* 16 December 1986), while in St Helens 'the unions were drawn into an alliance with management and there was co-operation between local politicians of all parties' (*The Times* 16 January 1987). Nationally, discussion about the future of Pilkington was articulated in policy debate about 'short termism' in the City's treatment of industry: 'the BTR bid has been widely seen as a glaring example of how British manufacturing industry is increasingly falling prey to 'City slickers' with no long term commitment to industry's well being' (*The Times* 16 January 1987). The Pilkington Board led with a no-surrender position under the chairmanship of family member Anthony Pilkington who argued that the BTR bid was 'entirely lacking in logic for Pilkington's business, its shareholders, employees, customers, and the United Kingdom' (*Wall Street Journal* 21 November 1986). This trouble making persuaded Pilkington's largest shareholder, Standard Life, to support the incumbent management (*Daily Mail* 2 December 2005) despite its weak financial performance.

Some twenty years later, the context of the national debate was very different, as are the specifics of the deal and the role of Pilkington's board in the bid process. Here we can identify three key differences: first, the financial position and prospects of the company; second, the conduct of the board; and, third, the changed composition of the board and the careers of the NEDs.

In 2005/6, Pilkington was a financially viable and productively credible firm facing an opportunist bid from a smaller rival. Considered as a stand alone operation, Pilkington in 2005/6 was in a much stronger defensive position than it had been 20 years previously. When NSG bid in autumn 2005, Pilkington was two thirds of the way through a restructuring plan where it had met every financial target for cost reductions and return; it was a long established world leader in glass technology with presence in a range of world markets. The offer from NSG was opportunist because the Japanese firm was much smaller and its bid was leveraged, (i.e. heavily debt financed) on the back of very low Japanese rates of interest which NSG accessed as a member of the Sumitomo group. In summary, there was no business reason for Pilkington's board to recommend NSG's offer to shareholders except for the bid premium which NSG might offer. But, in 2005/6, the Board raised no questions about industrial logic, financial records or the risks of leverage but focused only on raising the bid price for shareholders.

The Board in 2005/6 said nothing in public except that the initial offer and two subsequent offers were too low: for example, the first offer of 150 pence a share 'materially undervalued' the company according to non-executive chairman Sir Nigel Rudd (*Financial Times*, 19 November 2005). This is now a more-or-less standard response in a well understood game of holding out for a higher bid and was subsequently, for example, used by the board of Hanson in response to an opening offer from Heidelberg Cement. In this new order, Pilkington's PR advisers focused on the investment community and in 2005/6 addressed fund managers, ignoring the public who had been so important in 1986. Thus, financial journalists in November 2005 spread the message that, as the Lex column in the *Financial Times* put it, offers had been refused but 'relations (with NSG) remain cordial and Pilkington is clearly for sale at the right price' (4 November 2005). The Board and its chair in 2005/6 had the confidence of City investors who agreed that 'Sir Nigel Rudd knows what he is doing' (*Financial Times*, 8 November 2005). The board extracted a final price of 165p in return for its recommendation; this represented a 39% premium on the share price of October 28<sup>th</sup>, before NSG's interest was disclosed, and was considered a good outcome for the shareholders (*Financial Times* 11 March 2006).

This striking change in the board's conduct is clearly connected with changes in its composition because the Pilkington board of 2005 was decisively different from that in 1986, when family members and long term employees were in the majority, and only four of the eleven were non-executives, as table.5 shows. At the time of the NSG bid twenty years on, the NEDs were now in a majority (five out of eight, in keeping with best practice corporate governance) and the NEDs had careers where limited attachment to any one firm was demonstrated by movement between firms, distance from operations and closeness to the culture of the corporate deal.

**Table 5 Composition of the Pilkington PLC Board of Directors – 1986 and 2006**  
(a) 1986

Name	Position on board	Year of birth (where available)	Year appointed	Other positions include
Anthony Pilkington	Chairman	1935	1980	Previously chair of Flat Glass Europe division
D. Cail	Deputy Chairman		1975 as ED; 1980 as Deputy Chairman	Joined Pilkington in 1947; chairman of the Ophthalmic division in 1976; joined board in 1975.
G.N. Iley	ED		1976	
Lord Croham	NED	1917	1979	Former head of Home Civil Service; chairman Guinness Peat Group and Anglo-German Foundation for the Study of Industrial Society; President Institute of Fiscal Studies and British Institute of Energy Economics.
D.N. Cledwyn-Davies	ED		1979	Joined Pilkington 1956; previously chairman of Flat Glass division.
H. Kopper	NED	1935	1983	Non-exec chair at Flachglas AG; member of management board Deutsche Bank AG; chairman of H.Albert de Bary NV and Kali-Chemie AG; board member of various other European companies.
D.E. Cook	ED		1984	Previously chairman of Pilkington Brothers South Africa (Pty.) Ltd.
P.H. Grunwell	ED		1984	Previously group chief accountant.
F.R. Hurn	NED	1938	1984	Chief executive Smiths Industries; NED Ocean Transport & Trading plc; council member British Institute of Management; governor of Henley management college.
Sir Peter Thompson	NED	1928	1985	Executive chairman National Freight Consortium; previously on the board of Granville & Co Ltd and Kenning Motor Group plc.
Sir R Nicholson	ED		1986	Previously Chief Scientific Advisor to the Cabinet; senior positions in Electro-Optical and Ophthalmic divisions.

**Table 5 Composition of the Pilkington PLC Board of Directors – 1986 and 2006  
(b) 2006**

Name	Position on board	Date of birth	Date appointed	Other positions include
Sir Nigel Rudd	Non-executive Chairman	1946	NED since 1994; chair since 1995	Also non-executive chair Boots Group and Pendragon; deputy chair (non-executive) Barclays plc. Formerly CEO Williams Holdings; non-exec chair at East Midlands electricity and NED at Gartmore Value Investments.
Stuart Chambers	ED (Group CEO)	1956	Appointed to board 2001; Group CEO since 2002)	Joined Pilkington in 1996 as group vice-president Marketing & Business Development, building products. Also NED at Associated British Ports.
Norman Lyle	NED	1947	2005	Also NED at Standard Chartered Bank of Hong Kong Ltd. Previously group FD Jardine Mathieson Holdings.
Iain Lough	ED (Group Finance Director)	1947	2002	Joined Pilkington 1993 as group financial controller. Also NED of Wilson Bowden.
Pat Zito	ED	1949	2002	Joined Pilkington 1985 as finance director of Australian operations. Currently President, Automotive OE Europe and North America.
Oliver Stocken	NED	1941	1998	Also non-executive chairman Rutland Trust plc, non-executive deputy chair 3i Group plc and NED at Rank Group, GUS, Stanhope and Standard Chartered.
James Leng	NED	1945	1998	Also non-executive chairman Corus Group and IMI. NED of Alstom SA and Hanson.
Christine Morin-Postel	NED	1946	2003	Also NED at 3i Group, Alcan Inc and Royal Dutch NV.

Source: *Pilkington Annual Report and Accounts, various years*

The key non executive player at Pilkington in 2005/6 was Sir Nigel Rudd as chairman, whose *curriculum vitae* epitomises the culture of the deal. He is formerly chief executive of Williams Holdings, the acquisitive conglomerate that Rudd helped to build into a FTSE 100 company; and since 1990 he has been non-executive chair of Pendragon, the acquisitive dealer chain spun out of Williams, which in 2006 beat Lookers to make a successful bid for the Vardy dealer chain. More recently, since 2003 he has been non-executive chair of Boots which first merged with Alliance and, only a year later in early 2007 was bought by private equity firm, Kohlberg Kravis Roberts (KKR), and became the first UK FTSE 100 company to fall into private equity ownership. He had been non-executive chair of Pilkington since 1995 during which time the company has been the subject of much bid speculation. Barclays, where Nigel Rudd has been non executive deputy chair since 1996 is in many ways a standout in that, since the acquisition of investment banking business de Zoete Wedd (with a significant part subsequently sold to Credit Suisse First Boston), the bank has generally steered clear of acquisitions. Prior to these roles, Nigel Rudd has also previously held board positions at

Kidde and at East Midlands Energy as non-executive chair and at Gartmore Value Investments as NED (*The Times* Power 100).

The four other Pilkington NEDs had arrived since 1998 and two of the four had been appointed since 2003. Their connection with the company was recent and their careers represent the same culture of the deal as Rudd: two were currently also NEDs of 3i, the British venture capital firm, and another was the senior independent NED of Hanson PLC, another firm with a highly acquisitive past. Unsurprisingly, some of these other NEDs were clearly well networked with Nigel Rudd: the longest serving Pilkington NED was finance director of Barclays Bank between 1993 and 1999 where Sir Nigel served as NED after 1996. For figures like Sir Nigel and his NED colleagues, the prospect of selling one corporate bundle of assets and buying another is something that they are both familiar with and practised at. In 1986 the ‘barbarians were at the gate’ and it was a question of saving Pilkington from the values of acquisition and divestment represented by BTR the external predator; in 2005/6 these values were enacted in the career of Sir Nigel Rudd who chaired the board and whose everyday role seems to be to manage the selling of the company at the best price possible.

This vignette of difference between 1986 and 2006 is compelling because after 20 years the NEDs were not only sympathetic to the notion of *everything for sale* but also well-practised in running an auction. The vocabularies of motivation are rehearsed in NED careers where the sequence of executive and non executive roles in different companies provides socialising practice and preparation for the current game of corporate restructuring. This provides a means of understanding how the recycling of FTSE execs and the dominance of NEDs produces different corporate decisions and outcomes. The NED of 2006 represents, not the interests of a particular fraction of finance capital, but rather the imperatives of financialization, where EDs and NEDs are part of a broader business community which provides career opportunities for executives beyond the single firm and may include a variety of post-retirement roles such as in private equity.

## **Conclusion**

Our aim has been to demonstrate how business elite research could be renewed through mixed methods research which here shows the outcomes of the new exchange of elite personnel established by the corporate governance system. Our conclusion is that elites research needs to be renewed in a conjuncture of changing financialization which motivates new actors like NEDs or financial intermediaries.

The sociograms and sample survey of NEDs show how the exchange of elite personnel at board level remains an important aspect of corporate capitalism in the UK. But this now operates within a new financialization frame which is partly defined by proceduralised corporate governance and partly defined by the changing ways of realising shareholder value from one conjuncture to the next. It is important to underline the point that elite exchange is not simply a phenomenon within the largest public companies in the FTSE 100 in the UK; because it can also be observed between the largest firms and the mid-caps in the FTSE 250. Similarly, the exchange involves retired as well as current executives of the FTSE 100 which increases the pool of available motivated players. The exchange of personnel is also a way in which private sector norms may be enacted in other domains like charities, quangos and the public sector through the NED system. As for the case study of Pilkington in the building materials sector, one case is not conclusive but it is suggestive both about effects and about the possibility of new kinds of research into how exchange of personnel and group motivation makes a difference.

Motivation is not the same as behaviour because it leaves scope for discretion and judgement. If in principle everything is for sale, then NEDs have the practical responsibility for auctioning the company and for deciding which offer to accept and which to reject because the bidder's best and final offer is too low. The London Stock Exchange (LSE) is an interesting case because here (with the support of institutional shareholders including activists) the senior executives and the board turned down a series of friendly approaches and hostile offers from Deutsche Börse, Macquarie and NASDAQ. However, the LSE is an exception because we can think of no other company which has seen off so many foreign would-be purchasers. The more usual story is that the UK target company goes to the first corporate buyer who is prepared to offer a significant premium over the undisturbed price and last week's close. And when rumours of bids begin to circulate, it is generally assumed that NEDs in the target company will not be a problem and indeed are motivated to sell at the right price because, like Sir Nigel Rudd, they 'know what they are doing'. Thus, by autumn 2007, the UK financial press regarded brewery company Scottish and Newcastle (S&N) as a bid target after much international consolidation among competitors. With characteristic worldliness, the Lex column of the *Financial Times* discounted the possibility that the S&N board would reject the rumoured joint bid by Carlsberg and Heineken because the Scottish and Newcastle NEDs were motivated and practiced in selling the company:

*...anyone expecting a Braveheart style propensity towards independence should take a look at S&N's board. The non-executive directors are a who's who of recently sold mid-size UK companies with veterans of Scottish Power, Allied Domecq and Hilton among others*

(18 October 2007)

## Notes

[1] The authors would like to thank Zhong Chen and Xingfei Liu for their research assistance on the NEDs and on the Pilkington case.

[2] Rather confusingly, several classic texts (especially Scott 1979) have been reprinted and empirically updated (Scott 1997) but, interestingly, the basic conceptual frame dates from the 1975-85 period and there has, in recent years, been a huge expansion in governance-based research on NEDs while elite network research has been relatively neglected except by those using a Bordieusian frame (e.g Maclean *et al.* 2006).

[3] See Simon Caulkin's *Observer* column, 'Are they just bums on seats?', 20 January 2002.

[4] See also the 2003 report by Tyson for the DTI.

[5] The data on NEDs comes from the Hemscott database, which provides the names and positions of public company board members. Supplementary biographical information on the sample of NEDs, especially on career histories, was obtained through internet-based searches on named individuals.

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