State Boards in Ireland 2012
Challenges for the future
For this report on State boards, the Institute of Directors conducted in-depth research with 45 of its members who sit on a range of State boards in Ireland. With over 70% of these directors having experience of the State board sector for over four years, there was a considerable knowledge base from which to draw our responses. The respondents represent all of the State board director categories – Chairpersons, Non-Executive Directors and Executive Directors – and represent both male and female directors. It also included a sample of Chief Executives of State bodies. The research survey was both quantitative and qualitative so there was substantial commentary on the areas under examination.

The directors were questioned under six categories and this summary report captures the key findings within each of these categories.

Research was conducted between 20th February and 9th March 2012 with a sample of 45 IoD members in director / senior management positions in State bodies.

Base Percentages: 69% Male, 31% Female, 41% Non-Executive Directors, 23% Chief Executives, 18% Chairpersons, 18% Executive Directors.
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Executive Summary

This research was undertaken by the Institute of Directors in Ireland (IoD) to assess the views of both non-executive and executive board members, as well as chief executives of State bodies. It forms part of the IoD’s commitment to improving corporate governance standards in Ireland and highlighting the important role of the boards of State organisations.

Respondents were asked for their views in relation to key areas such as the appointment process to State boards, skills and diversity around the boardroom table, induction and access to training, as well as board performance, strategy and areas of public interest. I would like to offer my sincere thanks to all those who took part for taking the time to do so.

The findings show that while the boards of Irish State bodies are well advanced in terms of formal director training and in a number of key corporate governance areas, insufficient consideration is being given to the skills needs of these boards when appointments are being made.

Respondents see a real need for a proper skills matrix to be drawn up for each board, with involvement from the chairperson and the board. The IoD has been consistently vocal on this in terms of its importance for the appointment process.

Directors suggest that such a skills matrix would allow the board to identify any gaps which exist and these gaps should then be filled when vacancies arise. Ministers and their departments should undertake to be involved in, and take full account of, such skills matrices, so that the vacancies on boards can be used to bring beneficial, relevant skills and expertise to the board.

The IoD believes that when individuals are appointed to State boards, it should always be on the basis that they possess the requisite skills required, and not for any other reason.

The results also indicate that there are issues with regard to transparency in the process of appointment to State boards and, while the report has found that the level of political involvement in State boards is at an appropriate level, there is widespread support for more defined independence from the political system in relation to board appointments.

The results should indicate to the Government a desire for real change in relation to its policy on the appointment process to State boards. Respondents to this research have seen firsthand the deficits in the current appointment process and are calling for it to be removed from the political system – a proposal put forth by the Institute of Directors over a year ago and supported by its members.

With regard to board induction and formal director training, the results are very positive. The vast majority of directors claim to have received an adequate induction on their appointment to the board and have also undergone formal director training.

It is also encouraging that, operationally, State boards are performing strongly and are well advanced in some areas of corporate governance. Performance in relation to strategy development, risk management and conflicts of interest is handled well by the chairpersons of these boards, ensuring that key issues which might result in group-think, are being addressed.

Overall, State boards are performing well in a number of key areas, but are let down by a flawed appointment process and an apparent lack of relevant skills. These board positions are some of the most important and influential in the country and it is imperative that the Government takes action to address these issues.

Maura Quinn
Chief Executive
Institute of Directors in Ireland
In this section, we probed the process by which the directors surveyed had been appointed to their positions on State boards, we examined their views on how effective the process was and whether they had seen any evidence of improvement in the recruitment and appointment process in recent times, following procedural changes introduced in 2011 by the Fine Gael / Labour Government.

Almost three in four respondents to our survey do not believe that the process of appointment to State boards is fair and transparent. While many believe that it is too early to judge the introduction of a wider advertising system for State board positions, others have been disillusioned already: “I believe it is total window-dressing” said one; “it is a good idea but I see no impact from it yet”; “so far, it has made no difference”.

Even though it is Government policy that State board vacancies should be advertised, many respondents indicated that it is too early to judge the success of the introduction of a wider advertising system for State board positions, others have been disillusioned already with the majority indicating that the advertising process has made no difference, or has had an adverse impact on the process of board appointments.

Respondents are also concerned that any new system will cause delays in appointments or additional red tape. However, they are hopeful that an open, transparent process of appointment will become positive in time, subject to the issues of transparency, timeliness and bureaucracy being resolved.

Despite the introduction of a process of application to State board directorships via the Public Appointments Service and by way of advertising on Government department websites, this accounts for only 11% of appointments of those interviewed. The majority of the directors surveyed were appointed to their State boards position by way of ‘request to serve’ by the relevant Minister.

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“Advertising is one thing; however, the process of selection and appointment must be transparent”

“Unconvinced yet that the decision to advertise is genuinely about improving transparency”
There seems to be a wide variation in how prospective State board appointees are made aware of positions. With 27% still by ‘word of mouth’, this suggests that the closed shop circle may still exist to some extent. And with 20% of respondents stating that their knowledge comes from direct contact with the Minister or his/her department, these concerns are compounded. 16% of respondents said that they heard of the position via the Public Appointments Service, 11% from the department website, and 9% from the IoD’s Boardroom Centre. Other appointments are made by way of employee or union nomination or election, or where the board position is ex officio, such as that of CEO.

Respondents provided a selection of views and ideas on how the process of appointments to State boards could be improved. There was widespread support for independence in the process, and removal from the political system.

**Q** Should there be more defined independence from the political system for boards of State organisations?

- **72%** AGREE OR STRONGLY AGREE
- **21%** NEITHER AGREE NOR DISAGREE
- **7%** DISAGREE OR STRONGLY DISAGREE
Respondents would also like to see the skill set of the appointees to State boards become more central to the process, and that chairpersons of the boards should be involved in the selection process or at least in the identification of skills requirements which would then be inputted to the interview or selection process. It seems that there is a distance to go in how the functioning or performance of boards can be improved by the changes to the appointment process.

The directors in our survey were also asked their views on the introduction of the requirement that candidates for the role of chairperson should appear before an Oireachtas Committee for scrutiny.

While some hold no view on the matter, many respondents believe that it is too early to tell how the new system will work and there is a lot of concern that the process may deter good candidates from coming forward.

Those who believe that the new process for chairpersonship will deter good candidates, feel this is due to the perception that it will become a ‘beauty parade’ and could be used by politicians for grandstanding. A useful idea espoused by one respondent was that the Oireachtas Committee interviews would be carried out ‘in camera’, with a report then produced on a no-name basis except for the successful candidate.

So, while the transparency which is offered by the interview process is appealing, it seems that more consideration needs to be put into the process so that the State can benefit from the involvement of excellent people willing to put themselves forward for chairperson posts which require considerable time, but in many cases are not well remunerated.
Respondents to the survey were asked about diversity on their boards, including, but not limited to, gender diversity. Appointing women to State boards has been a live issue for some time, and one of the potential proposals to address the low percentage of women on State boards is the introduction of a gender target. The current Programme for Government includes a proposal to introduce a 40% target for women on State boards. Respondents were also asked a series of questions relating to the mix of skills, knowledge and experience on the boards on which they sit.

One respondent commented: “Without it (gender targets), I think it will take too long for sufficient female representation to rise. Other regions, like Scandinavia, have had to employ this kick-start strategy”. Another said, “it would help the board balance and also provide a welcome positive signal for top management positions”.

Those who were not supportive of a quota for women generally felt that meritocracy should always be the only factor in appointments to a board; while some said that they would support targets but not quotas. There was also considerable commentary about the need for skills requirements to remain at the core, regardless of gender or other quotas.

A number of our respondents commented on the fact that a large majority of worker directors who are appointed or elected to boards by their colleagues or their unions, tend to be male and perhaps they should be encouraged to be more gender diverse.

The issues of age and ethnicity were also raised by directors, with many saying that more regard should be paid to board composition in these diversity terms too.
40% of respondents said that, at the time of their recruitment to the board, the skills requirements of the board were not discussed with them. This would indicate that, unfortunately, insufficient attention is paid to the skills which are required on any particular board and that the process does not seem to have this element at its core. There is parity between those who believe that their board has the right mix of skills, knowledge and experience to deliver the agreed strategy over the next three to five years, and those who do not believe so. One director reflected the opinion of many, commenting “While there are some outstanding members on the board, with appropriate background and skills, they are very much in the minority. It is very much a haphazard and pot luck exercise...” Another, when asked whether the skill set was appropriate, said “More by accident than design”. Many of those who are appointed to State boards directly by the Minister are knowledgeable, capable and appropriate to the positions, but this is not always the case and there is a desire and demand that it should always be the case.

“My board is dominated by political appointees, but some are very knowledgeable and effective. Others are very passive and rarely make a difference at meetings”

“While the Chairman can clearly identify gaps, he has little influence on what is still a very political process”

“It is very difficult to influence change in this area given the appointment process”

Our respondents see a real need for a proper skill set / needs analysis to be drawn up with involvement from the Chairperson and board in question, and that this skill set would be central to the process of appointing new members to the board when there are vacancies.

A commitment to listening and to taking positive action on skills gaps analyses is also called for by Ministers and their departments.
This section examines the level of formal director training undertaken by respondents and whether training opportunities are available for their boards to refresh their knowledge and skills. Regular training is essential for directors to keep up-to-date with changes to legal and regulatory frameworks and corporate governance requirements.

The vast majority of directors surveyed indicated that they had received an adequate induction on their appointment to the board (approx 70% had received such, excluding CEOs who are not relevant to the induction process). But 30% having not received an adequate induction is a disappointing figure, considering the emphasis that should be placed on best practice in corporate governance at State board level. Such governance dictates a high level of induction training so that new board members can function effectively with all relevant information and advice.

After induction training, and in the normal course of a directorship, all board members are advised, under best practice governance guidelines, to undergo formal director training on a regular basis. The results are very positive, with 76% of respondents indicating that they had undergone formal training. However, it is worrying that such a considerable number of directors received neither an adequate induction to their board, nor any formal director training. These figures, at this stage of corporate governance development in Ireland, should be considerably less.

The range of director training which has been undertaken by the majority who do so, varies from training courses designed for the whole board, to courses with the Institute of Directors, UCD or other professional education bodies. The survey suggests that a good representation of State board directors are undertaking courses such as the IoD Chartered Director Programme or the UCD Diploma in Corporate Governance and this is very encouraging.
Respondents were asked whether there are comprehensive training programmes available for all board members to refresh their knowledge and skills, and the answers indicate that there is still some work to be done in this area. In some cases, it is open to directors to sign up for external courses, in other cases, one day training is provided by the board for all members, while in other cases training was provided to “those who felt they needed it”. Some answered that training was “in planning” or “about to be addressed”. This variety of answers would suggest that a requirement for on-going training by directors of State boards should be set out in governance standards and the type of training, as well as its duration and frequency, should be specified. It seems the current approach, while being positively disposed to training, is haphazard at best.

When asked if there were any areas where their board required additional training or professional development over and above the basics, 64% said that there are areas of specific need for their board. A majority said that this training need was on corporate governance, responsibilities of a board and legal responsibilities of directors. Issues such as board dynamics, risk management and delegated responsibilities of a board were also mentioned. It seems that some board members are frustrated by their colleagues’ lack of awareness of their responsibilities, or indeed lack of interest in their board position.

“The general role and responsibilities of directors is not understood well enough. An example of this is directors not taking part in meetings and just turning up without preparing or even reading their papers”

“Some members contribute scarcely anything. I suspect they feel the board is there just to hear the CEO report, rather than to scrutinize carefully and raise issues for the public good”

“Continuing Professional Development (CPD) is essential for all, even where the required skill set is on the board. We all need to refresh / remain current”
The IoD survey probed the performance of the boards on which our respondents sit. We looked at subjects which should be of high importance to the operation of any board, namely strategy development, risk management, conflicts of interest, independence of views and raising issues of concern at board level. In general, the performance of State boards on these issues is very encouraging. This section also examines the level of political involvement with the board and whether respondents feel that it is at an appropriate level.

Q Are there procedures in place to monitor and manage potential conflicts of interest?

93% YES

Q Do you think your organisation’s risk management approach is adequate?

91% YES

Q Is there sufficient opportunity for you to challenge board decisions and voice your views and opinions?

98% YES

Q Is there a process for board members to raise issues of concern confidentially?

87% YES

Q Is your organisation’s strategy fully discussed and agreed at board level?

98% YES

Q Is there a clear division of responsibilities between the Chairperson / board and the Chief Executive / management team?

91% YES

These responses give considerable comfort that the chairpersons of State boards are ensuring that key issues which might result in group-think or blinkered thinking, are being addressed.
Q Does the board evaluate its own performance either internally / externally on a regular basis?

22% NO

There is, however, room for improvement in some areas of board operation – board evaluation for example, which should be carried out by external independent professionals on a regular basis, is not undertaken, even internally, in 22% of the boards surveyed. While respondents in many cases said that such evaluations were “planned”, it seems some shy away: “Performance evaluation was suggested once. But after receiving a negative response from some directors it was never raised again”. This response would be worrying if it was widespread. Performance evaluation of boards is not designed to be a popular exercise, just a necessary one.

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Q The level of political influence on your board is:

82% APPROPRIATE

82% of respondents are satisfied with the level of political influence on their boards and do not feel that there is undue influence from Government. They do believe, however, that Ministers should take more time to interact with their boards. Generally speaking, the involvement of Ministers in the work of the boards within their control seems to be at an appropriate level, not indicating undue interference. However, it seems that some directors feel that there is not enough communication from the Minister regarding the desired vision or long term plans for the organisation. More two-way flow of information on these matters would, it seems, be welcomed. Directors felt that the board informs the Minister and his department on a detailed basis, whereas there is not enough communication in return, from the Minister. “Communication is a two way street” said one; it “might be helped by a more formal process on the department side”.

Section Five: Remuneration

In this section, the directors surveyed were asked about non-executive director remuneration on State boards, as well as CEO remuneration, specifically in relation to the €250,000 salary cap for future CEO appointments to commercial State bodies. The recent proposal by Minister Brendan Howlin inviting existing State board members to waive their fees if they so wished, was also explored.

There is an almost 50/50 split on the issue of the salary cap of €250,000 for CEO appointments to commercial State bodies. Those who supported the cap felt that it was fair in current circumstances, although it is receiving too much attention from media. Those opposed to the cap believe that it will make it more difficult to attract the best people to the positions. “You need to pay the market rate to get the best people to run your business” said one; “The cap is ridiculously low for the large semi-States. It will be completely impossible to get an external candidate” said another. “I suggest that performance-related reward would be the most appropriate way of attracting the best people” commented one director, while another suggested that the board should be involved in “setting appropriate terms as in the private sector”.

Do you support the salary cap of €250,000 for heads of commercial State companies?

- 49% YES
- 51% NO
The remuneration for non-executive directors on State boards, notwithstanding the public service element, is reflective of the level of work involved:

- **29%** Agree
- **54%** Disagree
- **17%** Neither Agree Nor Disagree

With regard to non-executive director remuneration, 29% of respondents agreed that the remuneration is reflective of the work involved in being on a State board. 54% disagreed, saying the fee was not at all reflective.

Would you be willing to waive your fee, as has been proposed by Minister Howlin?

- **77%** No
- **23%** Yes

When we asked those who are paid for their work as a non-executive director, whether they would agree to waive their fee as had been put forward as an option by Minister Brendan Howlin, 77% said they would not be prepared to do so. The consensus view was reflected in this comment “I don’t believe the existing level of remuneration is in any way excessive. I also believe that it is a good feature of all director appointments that there is some consideration paid, to reflect the significance of the responsibility being taken on. Of course it is open to any individual to voluntarily forego payment but this should be a personal choice”.

“I do not think the system of board appointments will be enhanced by requiring directors to work for free”
Section Six: Sale of State Assets

“Wise decisions need to be made so that future value growth is not lost”

We asked respondents to this survey about their views on the potential sale of State assets. In commentary, there was a majority view in favour of the sale of some State assets; however, with a strict caveat that no core assets or infrastructure would be sold. The preference of directors is that there would not be a fire-sale; that we should choose our time for selling: “we do not need a knee jerk reaction for short term gain” said one director. Others are more sanguine on timing; “needs must for bread now, butter later” said one; “we are not in control here whilst we must all work strenuously to regain control and never find ourselves in the same position again”.

Overall, the directors surveyed want there to be some level of strategic thought put into the concept of selling State assets: “wise decisions need to be made so that future value growth is not lost”; another said they were in favour “provided there is a strategic rationale for decisions, beyond ‘we need money’”. Another commented that “history with Eircom would call for extreme caution in relation to strategic assets”, and another mentioned that there are “strong lessons from past sales that we need to learn from”.