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<th>Training of company directors is now best practice</th>
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Gone are the days when being a director was considered to be a cushy job carrying prestige, power and perks with few responsibilities. Nowadays, directors take on considerable legal and non-legal responsibilities on appointment. Training is essential for new directors, and is a valuable refresher for more experienced directors. Many executives have a wealth of experience in management, but it does not follow that they know how to direct. There are few formal processes to ensure that directors are trained to competence for their direction-giving role. In *The Fish Rots from the Head*, Bob Garrett observes that the structure of most boards is not conducive to debate, learning, adaptation and continuous improvement. He goes on to say that most boards are structured in a legally-orientated, administrative and developmentally-blocking manner.

**Training and the Combined Code**

One of the most notable recent developments in corporate governance is the requirement for regular training for company directors. Sir Derek Higgs in his 2003 report *Review of the Role and Effectiveness of Non-Executive Directors* commented that “…an entrenched boardroom culture tends to regard non-executive directors as being equipped for the role without any need for any future personal development”. Sir Derek went on to say that there should be a “step change in training and development provision”.

Further emphasising the importance of training, a sister report – the Smith Report *Audit Committees Combined Code Guidance* – commented that ongoing training can take many forms including attendance at formal courses and conferences, internal company talks and seminars, and briefings by external advisors.

The Higgs and Smith reports contributed to an updating of the Stock Exchange’s *Principles of Good Governance Code of Best Practice* in 2003. The Combined Code applies to public companies only. Plcs must state in their annual reports whether they have complied with the provisions of the Code. One of the provisions (Recommendation A1.5) is:

“All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge”.

**The Combined Code requirements in practice**

This begs the question: to what extent do Irish plcs take steps to ensure observance of Recommendation A1.5 of the Code of Best Practice? Some plcs refer to this requirement in varied ways in their annual reports. AIB’s 2004 annual report (p.59) states:
“There is an induction process for new Directors. Its content varies as between Executive and Non-Executive Directors. In respect of the latter, the induction is designed to familiarise Non-Executive Directors with the Group and its operations, and comprises the provision of relevant briefing material, including details of the Company’s strategic and operational plans, and a programme of meetings with the Heads of Divisions and the senior management of businesses and support functions. During the year, offers were made to major shareholders of the opportunity to meet newly-appointed Non-Executive Directors. Directors also attend external courses and seminars to update their knowledge”

CRH states (2004 annual report, p.26):

“New Directors are provided with extensive briefing materials on the Group and its operations. Directors meet with key executives and, in the course of twice-yearly visits by the Board to overseas locations, see businesses at first hand and meet with local management.”

While the Combined Code does not apply to private companies, it is indicative of best practice and, as such, should be adopted on a voluntary basis (to the extent appropriate) by private companies who set as their standards adopting best practice.

State boards

The requirements of the Code of Practice for the Governance of State Bodies (available at www.irlgov.ie/finance/Publications/otherpubs/code.htm) are somewhat different, as far as education and training of non-executive directors is concerned. Appendix A, Section 2 Briefing for new directors, states (inter alia):

“On appointment of new Directors, the Secretary of the body should provide them with the following information: procedures for obtaining information on relevant new laws and regulations…”

Approaches to Training

Training can take place at three different levels: Training of individual directors, training of the board as an effective working group and continual training and development within the organisation as a whole.

Whereas large plcs (such as AIB and CRH quoted above) have the resources to provide such education and training, provision of such services to directors of smaller companies may not be practical. The Institute of Directors Centre for Corporate Governance at University College Dublin aims to educate company directors of all types of company (public, private and semi-state, family businesses, charities, NGOs) to be aware of their responsibilities and liabilities, and by helping them to appreciate the need to constantly update their knowledge of corporate governance. Through its courses, the Centre provides directors with knowledge to encourage innovation and competitiveness, to discharge their fiduciary obligations and to ensure ethical behaviour. These courses are valuable for current directors, for persons contemplating becoming directors, and for advisors on corporate governance matters. Three different types of courses are offered:

- Short half day courses covering a range of topics
- In-house courses for individual company boards, courses customized to companies requirements
• One-year, part-time Diploma in Corporate Governance

A number of our Diploma in Corporate Governance graduates have gone on to obtain the gold standard qualification of Charter Director from the Institute of Directors in London (see www.corporategovernance.ie).

It is up to company boards to provide resources to ensure that directors receive the training necessary to carry out their onerous duties. “Companies should acknowledge that to run an effective board they need to provide resources for developing and refreshing the knowledge and skills of their board, including the non-executive directors” (Higgs Report, p.49)

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