There is circumstantial evidence and strong public opinion that many company boards have not been as effective as they need to be. Weak, ineffective boards, with poor oversight and lacking focus, with ill-informed and incompetent directors, have cost shareholders millions in recent years.

The Higgs Report published in 2003, and now incorporated in the Combined Code (i.e. representing corporate governance best practice), has put board evaluation to the top of company agendas. Boards can thus increase their effectiveness, thereby raising the performance of their organisation. Performance appraisal is now a normal and routine feature of corporate life, and Mr Higgs has quite rightly recommended that a similar process be extended to corporate boards. Some of Ireland’s listed companies are already carrying out board evaluations. The Higgs Report states that high standards of corporate governance are as important for smaller companies and organisations as they are for large plcs. Thus, such processes will over time become a feature for many boards, ranging from voluntary organisations, to NGOs, to family businesses, etc.

The effectiveness of boards depends on how well boards work together. Appropriate structures and processes can significantly enhance an open, constructive boardroom culture. The Combined Code recommends that boards should undertake a formal and rigorous annual evaluation of (i) its own performance, (ii) of its committees and (iii) of individual directors. Evaluation of individual directors should aim to show whether each director continues to contribute effectively and is committed to the role (including attendance at board meetings, and availability for other duties).

It is the chairman’s responsibility to select an appropriate process for this purpose. An outside facilitator may be useful in this respect. The evaluation process should be used constructively to improve board effectiveness, maximise strengths, and minimise weaknesses. The results of assessment of the board as a whole should be shared with the board, while the results of evaluating individuals should be confidential between the chairman and the individual. The Higgs Report provides detailed guidance on the questions to be considered as part of the board performance review (the Higgs Report can be accessed at www.corporategovernance.ie/links.html).

Given the increasing amount of technical knowledge necessary, and complex responsibilities of boards and directors in areas such as risk management, Mr Higgs recommends that boards regularly appraise their skills, knowledge and expertise and provide resources to develop and refresh the knowledge and skills of directors. Such a service is provided by the Institute of Directors Centre for Corporate Governance at University College Dublin.

* Niamh Brennan is Michael MacCormac Professor of Management at University College Dublin and is Academic Director of the Institute of Directors Centre for Corporate Governance at University College Dublin. The Centre runs training courses for directors (including a course on board evaluation – see details at www.corporategovernance.ie). She is a member of the board of Ulster Bank and of the Interim Health Services Board.