# Corporate governance practices in Irish companies

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## ABSTRACT

This research analyses corporate governance practices as disclosed in the annual reports of Irish companies. In particular the paper investigates:

- Independence of boards;
- Separation of the role of chairman and chief executive;
- Presence of board sub-committees;
- Women on boards.

The study is based on a sample of 84 Irish quoted and commercial semi-state companies. Significant improvements were found in corporate governance practices compared with similar earlier studies. Most Irish companies comply with the Cadbury Committee recommendations. Nonetheless there is some evidence of non-compliance. There is evidence that women continue to be under-represented on boards of Irish companies.

# 1. INTRODUCTION

This paper examines a broad range of corporate governance practices in Irish public and commercial semi-state companies based on data published in annual reports. The purpose of the research is to evaluate the level of compliance by Irish companies with the Cadbury code of best practice.

Corporate governance is about the way businesses are run to ensure that companies perform in responsible and responsive ways to the interests of its stakeholders (Clarke,1993; Pimm, 1993).

A series of international corporate failures and financial scandals in the late 1980s, including BCCI, Polly Peck and Maxwell Communications, has heightened concerns about the standard of financial reporting and accountability.

## Cadbury code of best practice

The most influential guidance on corporate governance comes from the Cadbury report. In May 1991 a committee on the "*Financial Aspects of Corporate Governance*" (the Cadbury Committee) was set up by the Financial Reporting Council, the London Stock Exchange and the accountancy profession, under the chairmanship of Sir Adrian Cadbury. The overall objective of the Cadbury Committee was to improve standards of corporate governance by setting out clearly the respective responsibilities of directors and boards of directors to shareholders, management, regulators, auditors, and other stakeholders.

The Cadbury report was published in 1992. The report contains a code of best practice listing 19 recommendations. Although much of the work in developing the code of best practice took place in the UK, it is also applicable to Irish public companies. At the heart of the Cadbury Committee's recommendations is a voluntary code of best practice. The code only applies to public limited companies but, as it represents best practice, many semi-state companies have attempted to comply with the code.

Compliance by Irish public companies with these corporate governance guidelines is central to this research. Compliance in the following areas is analysed:

- Independence of boards
  - ♦ biographical information disclosed;
  - ♦ number of executive versus non-executive directors;
  - ♦ remuneration, ownership of shares and share options in the company;
- Separation of role of chairman and chief executive;
- Presence of board sub-committees such as audit, nomination and remuneration committees and their composition;
- Women on boards.

This paper is organised as follows. Issues for research are examined in section 2. Data and methodology are described in section 3 and section 4 presents the results. Section 5 summarises the findings and discusses possible implications of the research. Limitations of the research and some suggestions for future research are also considered.

## 2. ISSUES FOR RESEARCH

There has been extensive research internationally on many aspects of corporate governance. Irish research, however, on corporate governance is minimal. O'Higgins (1992) conducted 26 in-depth interviews covering selection and characteristics of non-executive directors. MacCanna (1994) analysed inter-locking directorships on Irish boards. O'Higgins (1992) and MacCanna (1994) also provided some data on women on boards. The Irish Association of Investment Managers (IAIM) completed a survey on corporate governance which was mainly concerned with compliance by Irish public companies with IAIM's statement of best practice on corporate governance (IAIM, 1995).

### Independence of boards

Independence of boards of directors has become an area of particular interest in the search for better corporate governance and is central to the Cadbury report. Of particular importance, and highlighted by the Cadbury Committee, is the number and calibre of non-executive directors whose role on board sub-committees such as audit, remuneration and nomination committees is becoming vital.

Non-executive directors

There is anecdotal evidence of non-executive appointments made through the "old boy" network (MacCanna, 1994). This puts a question mark over their independence. The Cadbury report argues that an effective board of directors is an essential aspect of corporate governance. The role and effectiveness of non-executive directors should be strengthened by formalising their position. The Cadbury report recommends a minimum of three non-executive directors. These non-executive directors should:

- exercise independent judgement;
- be free from other relationships interfering with the exercise of independent judgement;
- be appointed for a specific term and reappointment should not be automatic; and
- be selected through a formal process.

Research suggests that the proportion of non-executive directors on boards of large quoted UK companies has increased significantly over time. Conyon (1994) completed a postal survey of 400 large UK firms in the *Times 1000* companies between 1988 and 1993. The average proportion of non-executive directors increased from 38% in 1988 to 44% in 1993. Peel and O'Donnell (1995) examined 132 UK listed industrial companies in 1992 and found boards comprised an average of 7.6 directors, of which 2.8 were non-executive. Only ten companies (7.6%) had no outside directors. A majority (54%) complied with the Cadbury Committee's recommendation that all boards should contain a minimum of three outside directors. Bostock (1995) examined corporate governance practices in the top 100 UK companies in 1992/1993. Average board size was between 12 and 13 directors, with an almost even divide between executive and non-executive directors: 637 executive directors compared with 636 non-executive directors.

Surveys by Touche Ross (1993) and Deloitte and Touche (1996) of the *Financial Times* top 100 companies (carried out after the Cadbury report was published) both found 46% of directors were non-executive. Only four companies in Touche Ross's (1993) survey had less than three non-executive directors.

This analysis shows that, in general, UK quoted companies comply with the Cadbury report in terms of outside (independent) board representation. Board structures in Irish companies are examined in this research, including average board size, together with its composition of executive and non-executive directors.

Biographical information

The skills and experience of directors are important to the quality and performance of company boards. The Stock Exchange (para. 12.43(i)) requires the identity of non-executive directors to be disclosed in annual reports, together with a short biographical note on each. This study analyses the biographical notes disclosed.

Remuneration and participation in equity and share options

Independence of non-executive directors is vital to shareholders who rely on the board to look after their best interests. Their level of remuneration, and participation in equity and share option schemes, could compromise this independence. The Cadbury Committee noted that "*An essential quality which non-executive directors bring to board deliberations is that of independence of judgement*".

Fees paid to non-executive directors should be at such a level that directors do not depend on remuneration from any one company for a sizeable proportion of their income, which might compromise their independence (Bank of England, 1985). The Bank of England (1985) survey of non-executive fees found a sizeable proportion (15%) received fees in excess of £10,000.

The Cadbury Committee also stated (para 4.13) with reference to independence "... *we regard it as good practice for non-executives not to participate in share option schemes...*". Although the Cadbury Committee did not recommend that outside directors should not purchase shares in the companies employing them, Peel and O'Donnell (1995) argue that the same rationale as applies to share options also pertains to shares.

Peel and O'Donnell (1995) examined ownership of equity and participation in share option schemes of non-executive directors. Of 115 companies operating a share option scheme, 22 (19%) disclosed that at least one outside director was a member of the scheme. Thus, most companies in the sample were applying the Cadbury Committee's preference that outside directors do not hold share options. In contrast, Peel and O'Donnell (1995) found that most companies (95%) with outside directors disclosed that one or more non-executive directors beneficially held ordinary shares in the company.

Independence of non-executive directors is vital to the confidence of shareholders who rely on the board to look after their best interests. Fees paid to Irish non-executive directors are analysed in this research. Ownership by non-executive directors of equity and rights to share options which could compromise their independence are also examined.

**Separation of role of chairman and chief executive**

The role of chairman and chief executive can be separate or combined. Separation of the role of chairman and chief executive is important in avoiding concentrating too much power in the hands of one individual. The Cadbury Committee, along with many other authorities, recommended that these two posts be separated.

Where the chief executive officer is chairman of the board of directors, the impartiality of the board is compromised (Donaldson and Davies, 1991). Rechner and Dalton (1991) found that firms with independent governance (separate chairmen and chief executive officers) consistently outperformed 'CEO duality' firms.

Bostock (1995) found 71% of the top 100 UK companies split the role of chairman and chief executive, leaving only 29% combining these roles. Of these 29 companies only two lacked a strong and independent element on the board.

Peel and O'Donnell (1995) found that 95 companies (72%) had an executive chairman, whereas only 19 (14%) had a joint chairman/chief executive.

In Conyon's (1994) postal survey of 400 firms in the *Times 1000* companies, 77% of the sample separated the role of chief executive officer and chairman in 1993 compared with 57% in 1988.

The position of chairman and chief executive in Irish public and commercial semi-state companies is examined. Of particular interest are companies that combine these two roles.

**Board sub-committees**

The Cadbury Committee recommends that board sub-committees such as audit committees, nomination committees and remuneration committees be established.

<u>Audit committees</u>

One of the most important recommendations of the Cadbury report is the establishment of audit committees to be used as a link between companies and their external auditors. Audit committees have a critical role to play in ensuring the integrity of company financial reports and in raising corporate governance standards.

Bostock (1995) found that 94% of companies reported (in their annual reports) having audit committees. This contrasts with earlier surveys showing fewer companies with audit committees. The Bank of England (1988) surveyed the top 250 of the *Times l000* companies and found 56% had audit committees, although only 12% declared the existence of such a committee in their annual reports.

Bostock (1995) found the composition of audit committees to be as recommended by the Cadbury report (minimum of three non-executive directors). A total of 361 non-executive and 11 executive directors were on 88 audit committees - an average of four non-executive members per audit committee.

Formation of an audit committee is a key recommendation of the Cadbury report. This research investigates compliance with this recommendation, the composition of audit committees and, of particular importance, the number of non-executive directors thereon.

Nomination committees

Establishment of nomination committees is not a recommendation of the Cadbury report. However, the presence of such a committee helps to bring a more objective approach to selection of executive and non-executive board members (Bostock, 1995). This can be seen as strengthening independence of the board and restricting the freedom of chief executives to choose board members.

Bostock (1995) found 21% of companies surveyed reported the existence of a separate nomination committee, with no reference to such a committee in 53% of cases. This compares with a recent study by Main (1994) who interviewed top executives of 24 large British companies. He found that only six (25%) out of 24 companies had a nomination committee through which non-executives are selected.

The structure of these nomination committees should be such that they contain a majority of non-executive directors. Bostock (1995) found, of the 21 nomination committees, only 18 gave their composition. These 18 committees were made up of 68 non-executive directors and 22 executives directors. Interestingly, of the 22 executives, 14 were executive chairmen, while five were chief executives, showing that executive chairmen and chief executives still have a big say in appointments to boards.

The existence and composition of nomination committees in Irish companies is examined in this research.

Remuneration committees

Establishment of remuneration committees is required by the Cadbury code of best practice for all companies listed on the Irish Stock Exchange, with effect for financial years ending on or after 31 December 1995. The Cadbury code of best practice states "*executive directors' pay should be subject to the recommendations of a remuneration* *committee made up wholly or mainly of non-executive directors*". Members of remuneration committees should be listed in annual reports.

In January 1995 the Confederation of British Industry appointed a committee under Sir Richard Greenbury to identify good practice and prepare a code for determining directors' remuneration. The Greenbury report was published in July 1995. Much of the Greenbury code of best practice has since been incorporated into the Stock Exchange listing rules. Compliance with Greenbury recommendations on directors' remuneration is not examined in this paper as these were only applicable for accounting periods beginning on or after 31 December 1995 and had been implemented by only two or three listed companies at the time of this research.

Bostock (1995) found 95% of companies surveyed had remuneration committees. These findings are similar to Conyon (1994) who found 94% of quoted companies operated a remuneration committee in 1993. In a much earlier study, Main and Johnson (1993) found, for a sample of 220 quoted companies in 1989/90, that only 31% of firms operated remuneration committees.

Bostock (1995) found only 46 executives, compared with 418 non-executive directors, sat on 93 remuneration committees - an average of 4.5 non-executives per remuneration committee. This is somewhat higher than Conyon (1994) who found an average of three non-executive directors on remuneration committees. This variation could be due either to the variation in methodology used or sample taken. However, both studies show a large and increasingly independent presence on remuneration committees. Bostock (1995) found 28 (29%) remuneration committees had the company chairman as a member.

The presence of remuneration committees, their composition between executive and non-executive members and their independence, including whether the chairman of the board is a member of this committee, is examined in this study.

**Women on boards**

O'Higgins (1992) suggests two advantages of having women on boards:

- Women are not part of the 'old boy' network which allows them to be more independent;
- Women may have a better understanding of consumers, recognition of the needs of customers and of opportunities for companies in meeting those needs.

In a survey of 72 Irish companies in 1992, O'Higgins (1992) found only 10 (2%) out of 482 directors were women. Out of 1,751 directors of the top 249 financial and non-financial companies in Ireland in 1993, MacCanna (1994) found only 86 (4.29%) were women.

These results are similar to other surveys completed in the UK. The Ashridge Management Research Group (Holton, 1995) examined appointment of women to boards of the *Times 1000* top 200 companies. Findings revealed that 49 (25%) companies had women at board level. The Group found that, though more women than before were reaching top levels of major UK companies, they comprised a disappointingly small proportion of the total population of directors. Only 4% of the estimated total number of directorships were held by women. An important difference was found between executive and non-executive women directors. Women are far less likely to be executive directors in these companies than are their male counterparts. Women represent less than 1% of executive directors. This research indicates that whether it is the number of appointments or the type of directorship held, few women make it to the boards of UK listed companies.

The Ashridge Group survey (Holton, 1995) also found women were under represented on board sub-committees. Only about half of the women non-executive directors were members of either audit or remuneration committees. The exclusion of women from the boardroom and associated committees raises many fundamental questions.

Conyon and Mallin (1996) completed a similar study using data from the top 350 UK companies. Only 73 (21%) had at least one woman on the main board. Most of these were non-executive rather than executive directors. Indeed, the ratio of companies with at least one woman executive director to companies with at least one woman non-executive director is about 19%.

Previous research in Ireland and the UK presents evidence of serious under representation of women in boardroom positions (O'Higgins, 1992; MacCanna, 1994; Holton, 1995; Conyon and Mallin, 1996). This research will examine participation of women on boards to evaluate whether companies in Ireland have responded to public pressure for greater participation by women at board level.

## 3. RESEARCH METHODOLOGY

### Population and sample

The population consists of all public limited companies listed on the Irish Stock Exchange. The Irish stock market annual 1995 (O'Neill, 1995) lists 89 public limited companies quoted on the Irish Stock Exchange. In addition, 16 commercial semi-state companies are included in the survey.

Data on corporate governance practices were obtained from annual reports published in 1995/96. All companies were send a written request for their annual report, with one follow up reminder. Twenty one cases (Appendix 2) had to be excluded as their annual report could not be obtained. Population and sample details are summarised in table 1. The sample consists of 84 listed and semi-state companies (Appendix 1).

**Table 1: Population and sample**

| | Listed | Semi-state companies | Total |
|---|---|---|---|
| Population | 89* | 16 | 105 |
| Annual reports not available (Appendix 2) | (21) | 0 | (21) |
| Sample (Appendix 1) | 68 | 16 | 84 |

* Source: Irish Stock Market Annual 1995 (O'Neill, 1995)

### Extraction of data on corporate governance practices

Annual reports were examined for the following;

- Number of directors on boards

- Number of non-executive and executive directors
- Board sub-committees
- Participation of non-executive directors in equity and in share option schemes
- Women on boards

## 4. RESULTS

### Independence of boards

Table 2 shows that 832 directors were members of 84 company boards, of which 479 (46%) were non-executive directors. Six companies (7%) failed to distinguish between executive and non-executive directors. The average Irish company board comprised 9.9 directors, of which 5.7 were non-executive directors. Non-executive directors comprised 57% of total directors. Semi-state company boards are larger and contain a greater proportion of non-executive directors than quoted companies. This analysis shows that, in general, Irish companies were complying with the spirit of the Cadbury report in terms of outside board representation.

**Table 2: Number of directors on boards**

| | Number of directors | | | Average/board | | |
|---|---|---|---|---|---|---|
| | **Listed** | **Semi-state** | **Total** | **Listed** | **Semi-state** | **Total** |
| Non-executive directors | 371 ( 56%) | 108 ( 64%) | 479 ( 57%) | 5.5 | 6.8 | 5.7 |
| Executive directors | 277 ( 42%) | 30 ( 18%) | 307 ( 37%) | 4.1 | 1.9 | 3.7 |
| No distinction made | 16 ( 2%) | 30 ( 18%) | 46 ( 6%) | 0.2 | 1.9 | 0.5 |
| | 664 (100%) | 168 (100%) | 832 (100%) | 9.8 | 10.6 | 9.9 |

The Cadbury report recommended that companies should have a minimum of three non-executive directors. Table 3 shows that 70 (83%) companies complied with this recommendation. There were seven companies with more than ten non-executive directors. Three of these companies were formerly co-operatives and two are semi-state companies which probably accounts for the large number of non-executive directors on their boards.

| Table 3: Number of non-executive directors per board | | | |
|---|---|---|---|
| **Companies with** | **Listed** | **Semi-state** | **Total** |
| One non-executive director | 4 | - | 4 |
| Two non-executive directors | 4 | - | 4 |
| Three non-executive directors | 13 | 1 | 14 |
| Four non-executive directors | 8 | 1 | 9 |
| Between five and ten non-executive directors | 31 | 9 | 40 |
| More than ten non-executive directors | 5 | 2 | 7 |
| Not disclosed | 3 | 3 | 6 |
| | 68 | 16 | 84 |

The Stock Exchange requires disclosure of a short biographical note on non-executive directors. Table 4 shows that most companies (71%) disclose some biographical information about all directors or non-executive directors. However, a substantial minority (31%) disclose no biographical information, of which 13 are listed companies. No biographical information was disclosed about directors by 11 (69%) semi-state companies - presumably because the Stock Exchange regulation to disclose such information does not apply to them.

| Table 4: Biographical information about directors | | | | |
|---|---|---|---|---|
| **Biographical information** | **Listed** | **Semi-state** | **Total** | **%** |
| None | 13 | 11 | 24 | 29% |
| For non-executive directors only | 9 | - | 9 | 10% |
| For all directors | 46 | 5 | 51 | 61% |
| | 68 | 16 | 84 | 100% |

Table 5 analyses the type of biological information disclosed. The majority of companies disclose some information about other directorships or business experience, and less frequently about the age and qualifications of directors. The Electricity Supply Board is unique in Ireland in disclosing attendance by directors at board meetings.

| **Table 5: Nature of biographical information** | | | | |
|---|---|---|---|---|
| **Biographical information disclosed** | **Listed** | **Semi-state** | **Total** | **%** |
| Age | 31 | 0 | 31 | 37% |
| Qualifications | 26 | 0 | 26 | 31% |
| Other directorships/business experience | 54 | 5 | 59 | 70% |
| Date of appointment | 44 | 3 | 47 | 56% |
| Attendance at board meetings | 1 | 0 | 1 | 1% |

It is important for independence that non-executive directors should not be dependent on their non-executive remuneration for a sizeable part of their income. In this context, non-executive directors' fees were analysed in table 6. This analysis was not possible in the case of 22 (26%) companies which did not distinguish adequately between executive and non-executive remuneration.

Fees to non-executive directors can include fees for attendance at board meetings, fees for attending sub-committee meetings, benefits and pension contributions. In 9 (11%) cases, average remuneration per non-executive director exceeded £20,000.

| **Table 6: Fees paid to non-executive directors** | | | | |
|---|---|---|---|---|
| **Average fee/non-executive director** | **Listed** | **Semi-state** | **Total** | **%** |
| No distinction between | | | | |
| - executive and non-executive directors | 3 | 3 | 6 | 7% |
| - executive and non-executive remuneration | 11 | 5 | 16 | 19% |
| | 14 | 8 | 22 | 26% |
| Up to £5,000 | 11 | 6 | 17 | 20% |
| IR£5,001-10,000 | 11 | 2 | 11 | 13% |
| IR£10,001-15,000 | 14 | - | 14 | 16% |
| IR£15,001-20,000 | 9 | - | 9 | 10% |
| IR£20,001-25,000 | 2 | - | 4 | 5% |
| IR£25,001-30,000 | 3 | - | 2 | 2% |
| IR£30,001-35,000 | 1 | - | 3 | 4% |
| More than IR£35,001 | 3 | - | 3 | 4% |
| | 68 | 16 | 84 | 100% |

Table 7 analyses outside directors' share option interests. Of the companies surveyed 52 (62%) operated a share option scheme. Of these, 29 (55%) disclosed that at least one non-executive director was a member of the company's share option scheme.

In contrast, however, table 7 shows that in 72% of companies at least one non-executive director beneficially held ordinary shares. Peel and O'Donnell (1995) argue that this could compromise their independent judgement.

**Table 7: Ownership of equity and share options by non-executive directors**

| | Listed | Semi-state | Total | % |
|---|---|---|---|---|
| No share option scheme | 16 | 16 | 32 | 38% |
| Share option scheme | 52 | 0 | 52 | 62% |
| | 68 | 16 | 84 | 100% |
| Non-executive directors with share options | 29 | - | 29 | 55% |
| Non-executive directors with beneficial interests in equity shares | 61 | 0 | 61 | 73% |

## Separation of role of chairman and chief executive

Table 8 shows that 73 (87%) companies had a separate chairman and chief executive in compliance with the Cadbury Committee's recommendation. Nine companies had dual chairman/chief executives - Arcon International Resources, Bula Resources, Glencar Exploration, Impshire Thoroughbreds, Smurfits, Kingspan, Lyons Irish Holdings, New Ireland and Woodchester.

**Table 8: Separation of role of chairman and chief executive**

| | Listed | Semi-state | Total | % |
|---|---|---|---|---|
| Separate chairman and chief executive | 58 | 15 | 73 | 87% |
| Dual role chairman and chief executive | 9 | - | 9 | 11% |
| No details available | 1 | 1 | 2 | 2% |
| | 68 | 16 | 84 | 100% |

## Board sub-committees

Many Irish listed companies have separate board sub-committees. The structure and composition of these committees are summarised in tables 9 to 11.

Audit committees

Table 9 shows that 65 (77%) companies reported having an audit committee. These audit committees included executive and non-executive directors, together with other professional individuals from within the company. There was an average of 3.2 members per audit committee. There were 148 (72%) non-executive members on 65 audit committees (which gave their membership) - an average of 2.3 non-executive members per audit committee. These committees are almost exclusively non-executive, with only 20 (10%) executive directors in total.

**Table 9: Audit committees**

| | Listed | Semi-state | Total | % |
|---|---|---|---|---|
| Audit committee | 55 | 10 | 65 | 77% |
| No audit committee reported | 13 | 6 | 19 | 23% |
| | 68 | 16 | 84 | 100% |
| Mean number on audit committee | 3.3 | 3.3 | 3.2 | |
| Composition of audit committee | | | | |
| Executive directors | 20 | - | 20 | 10% |
| Non-executive directors | 148 | - | 148 | 72% |
| Other professional members | 30 | - | 30 | 15% |
| No distinction made between executive and non-executive directors | - | 7* | 7 | 3% |
| | 198 | 7 | 205 | 100% |
| Women directors on audit committee | | | | |
| At least one women director | 9 | 1 | 10 | 15% |
| No women directors | 46 | 9 | 55 | 85% |
| | 55 | 10 | 65 | 100% |

* Only 2 of the ten semi-state companies with audit committees disclosed the membership of the committee

## Nomination committees

Table 10 shows that 15 (18%) companies reported having nomination committees. Of these, four did not indicate whether committee members were executive or non-executive directors. The remaining 11 committees comprised eight (15%) executive directors and 36 (68%) non-executive directors.

**Table 10: Nomination committees**

| | Listed | Semi-state | Total | % |
|---|---|---|---|---|
| Nomination committee | 14 | 1 | 15 | 18% |
| No nomination committee | 54 | 15 | 69 | 82% |
| | 68 | 16 | 84 | 100% |
| Mean number on nomination committee | 4.3 | 6 | 4.4 | |
| | | | | |
| Composition of nomination committee | | | | |
| Executive directors | 8 | * | 8 | 15% |
| Non-executive directors | 36 | | 36 | 68% |
| Other professional members | 9 | | 9 | 17% |
| | 53 | | 53 | 100% |
| | | | | |
| Women directors on nomination committees | | | | |
| At least one woman director | 2 | * | 2 | 14% |
| No women directors | 12 | | 12 | 86% |
| | 14 | | 14 | 100% |

* The one semi-state company with a nomination committee did not disclose its membership

**Table 11: Remuneration committees**

| Remuneration committee | Listed | Semi-state | Total | % |
|---|---|---|---|---|
| Company with remuneration committee | 52 | 6 | 58 | 69% |
| Company with no remuneration committee | 16 | 10 | 26 | 31% |
| | 68 | 16 | 84 | 100% |
| | | | | |
| Mean number on remuneration committee | 3.5 | 3.6 | 3.5 | |
| | | | | |
| Composition of remuneration committee | | | | |
| Executive directors | 25 | 3 | 28 | 17% |
| Non-executive directors | 104 | 15 | 119 | 71% |
| Other professional members | 20 | - | 20 | 12% |
| | 149 | 18 | 167 | 100% |
| | | | | |
| Chairman on remuneration committee | | | | |
| Chairman on remuneration committee | 33 | 4 | 37 | 64% |
| No chairman on remuneration committee | 9 | 12 | 21 | 36% |
| | 42 | 16 | 58 | 100% |
| | | | | |
| Women directors on remuneration committee | | | | |
| At least one woman director | 5 | 1 | 6 | 10% |
| No woman directors | 37 | 15 | 52 | 90% |
| | 42 | 16 | 58 | 100% |

Remuneration committees

Table 11 shows that 58 (69%) companies had remuneration committees comprising 119 (71%) non-executives and only 28 (17%) executives - an average of 2 non-executives per remuneration committee. The survey also found that 37 (64%) remuneration committees included the company chairman as a member.

## Women on boards

Table 12 shows that 25 companies (30%) have women on their boards. There were 36 women directors (4.3% of all directors) - eight (22%) executive and 14 (39%) non-executive directors (seven companies did not distinguish between executive and non-executive directors). Of the 25 companies with women directors, 16 had one, eight had two and one, Aer Lingus, had four women directors in the twenty one month reporting period.

This survey also analysed appointment of women directors to board sub-committees. Tables 9, 10 and 11 show that 10 (15%) companies with audit committees had at least one women director on the committee; two (24%) companies had women directors on the nomination committee; and six (10%) companies had female directors on remuneration committees.

**Table 12: Women on boards**

| Companies with women directors on boards | **Listed** | **Semi-state** | **Total** | **%** |
|---|---|---|---|---|
| Women directors | 16 | 9 | 25 | 30% |
| No women directors | 52 | 7 | 59 | 70% |
| | 68 | 16 | 84 | 100% |
| **Companies with** | | | | |
| One woman director | 12 | 4 | 16 | 64% |
| Two women directors | 4 | 4 | 8 | 32% |
| Four women directors | - | 1 | 1 | 0% |
| | 16 | 9 | 25 | 100% |
| Number of women directors | | | | |
| Non-executive | 13 | 13 | 26 | 72% |
| Executive | 7 | - | 7 | 19% |
| No distinction made | 0 | 3 | 3 | 9% |
| | 20 | 16 | 36 | 100% |
| Percentage of total | | | | |
| Women directors/total directors | 3% | 9.5% | | 4.3% |
| Women non-executive directors/total non-executive directors | 3% | 3.7% | | 3.6% |
| Women executive directors/total executive directors | 2.5% | 3.3% | | 2.4% |

## 5. SUMMARY AND CONCLUSIONS

The purpose of this research has been to provide some new evidence on corporate governance practices in Irish public companies and semi-state companies. This research has attempted to evaluate the level of compliance by Irish public companies and semi-state companies with the Cadbury code of best practice using data in annual reports. Thus the information available is limited to that published by companies in their annual reports.

**Independence of boards**

The survey of board membership of 84 Irish public and semi-state companies revealed average board membership of 9.9 directors. Boards in the UK are considerably larger. Bostock (1995) and Conyon (1994) found average board sizes of between 12 and 13 members. Peel and O'Donnell (1995), surveying a different sample (industrial companies), found that the average board comprised 7.6 directors.

Nearly all (83%) of Irish companies complied with the Cadbury Committee's recommendation that all boards contain a minimum of three outside directors. It should be noted that six companies (7%) did not distinguish between executive and non-executive directors in their annual reports. In this survey the average number of non-executive directors was 5.7 compared with 2.8 in Peel and O'Donnell (1995).

A substantial proportion of companies (29%) do not provide any biographical information about directors. The Cadbury code recommends that boards should include high calibre directors but if no biographical information is provided it is difficult for shareholders to judge the calibre of directors.

The analysis of fees paid to non-executive directors shows that amounts involved are generally modest. However, nine (11%) companies paid more than £20,000 on average to their non-executive directors.

Of the companies operating a share option scheme, 29 (55%) companies disclosed that at least one non-executive director was a member of the company's share option scheme. This compares unfavourably with Peel and O‘Donnell (1995) who found that of 115 companies who operated a share option scheme, 22 (19%) disclosed that at least one outside director was a member of the company's share option scheme.

The Cadbury Committee does not prohibit outside directors from purchasing shares in the companies employing them. This survey shows that most (72%) companies disclosed that at least one non-executive director beneficially held ordinary shares in the company. Similarly, Peel and O’Donnell (1995) found that most (95%) companies had at least one outside director holding ordinary shares in the company.

**Separation of role of chairman and chief executive**

Of the companies surveyed 73 (87%) had a separate chairman and chief executive in compliance with the Cadbury Committee's recommendation, while only nine (11%) companies combined these roles. This compares with Peel and O’Donnell’s (1995) findings of 95 companies (72%) with executive chairmen and only 19 (14%) with joint chairman/chief executive. Bostock (1995) similarly found 71% split the role of chairman and chief executive and only 29% combining the role of chairman and chief executive. Thus Irish companies compare well with their UK counterparts in separating the roles of chairman and chief executive.

**Board sub-committees**

Only 77% of Irish public and semi-state companies reported having an audit committee compared with 94% in Bostock’s (1995) survey. In total there were 148 (72%) non-executive members on 65 audit committees (which gave their membership) - an average of 2.2 non-executive members per audit committee.

Only 18% of companies report the presence of a nomination committee. This compares with Bostock (1995) who found that 21% of companies surveyed had nomination committees. The 15 (18%) nomination committees were made up of 7 (19%) executive and 20 (55%) non-executive directors.

This research shows that 58 (69%) companies had a remuneration committee. Remuneration committees are more common in the UK. In Bostock’s (1995) study

95% had a remuneration committee. There were 28 (17%) executive directors compared with 116 (70%) non-executives directors on these committees. In Bostock (1995) there were 418 non-executives on 92 remuneration committees.

**Women on boards**

This research shows that 25 companies (30%) have women on their boards. Women comprised x% of all directors, compared with less than 5% in boardroom positions for the leading United Kingdom companies (Holton, 1995). There were more women non-executive directors - 15 (16%) non-executive and 8 (8%) executive directors.

In summary, this research shows a significant improvement by Irish companies in corporate governance practices following publication of the Cadbury report. Most companies make reference to the Cadbury report and comply in some form with the 'code of best practice'.

In conclusion, this research would tend to indicate that the 84 companies surveyed are a long way down the road to implementing better corporate governance practices, as recommended by the Cadbury report.

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**Appendix 1: Companies surveyed**

1. Abbey plc
2. Adare Printing Group plc
3. AGF-Irish Life Holdings p.l.c.
4. Allied Irish Bank Group
5. Aminex plc
6. Anglo Irish Bank Corporation plc
7. Aran Energy plc
8. Arcon International Resources plc
9. Ardagh plc
10. Arnotts plc
11. Avonmore Foods plc
12. Bank of Ireland Group
13. Barlo Group plc
14. Boxmore International plc
15. Bula Resources plc
16. Clondalkin Group plc
17. CRH plc
18. Dunloe House Group plc
19. Elan plc
20. Ennex International plc
21. European Leisure plc
22. FBD Holdings plc
23. Fishers International plc
24. Fitzwilton plc
25. Flogas plc
26. Fyffes plc
27. Glencar Explorations plc
28. Golden Vale plc
29. Grafton Group plc
30. Green Property plc
31. Greencore plc
32. Gypsum Industries plc
33. Heiton Holdings plc
34. Hibernian Group plc
35. IAWS Group plc
36. IFG Group plc
37. Impshire Thoroughbreds plc
38. Independent Newspapers plc
39. Irish Continental Group plc
40. Irish Life plc
41. Irish Permanent plc
42. Ivernia West plc
43. IWP International plc
44. James Crean plc
45. Jefferson Smurfit Group plc
46. Jones Group plc
47. Jurys Hotel Group plc
48. Kenmare Resources plc
49. Kerry Group plc
50. Kingspan Group plc
51. Lyons Irish Holdings plc
52. McInerney Properties plc
53. Navan Resources plc
54. New Ireland Holdings plc
55. Norish plc
56. Oglesby & Butler Group plc
57. Readymix plc
58. Robert J. Goff & Co. plc
59. Ryan Hotels plc
60. Seafield plc
61. Silvermines Group plc
62. Tribune Newspapers plc
63. Tullow Oil plc
64. Unidare plc
65. United Drug plc
66. Waterford Foods plc
67. Waterford Wedgwood plc
68. Woodchester Investments plc

**Semi-state companies**

1. ACC Bank plc
2. Aer Lingus plc
3. Aer Rianta cpt
4. An Bord Bainne (Irish Dairy Board)
5. An Post
6. An Post National Lottery Company
7. Bord Gáis Éireann
8. Coillte Teo
9. Electricity Supply Board
10. Irish National Petroleum Corporation
11. ICC Bank plc
12. Nitrigen Eireann Teo
13. Shannon Free Airport Dev't Co. Ltd
14. Telecom Eireann
15. TSB Bank
16. Voluntary Health Insurance Board

**Appendix 2: Companies not included in this research**

| | Company | Comment on exclusion from research |
|---|---|---|
| 1. | Andaman Resources plc | Northern Irish company |
| 2. | Dakota Group plc | Management buyout - no longer quoted |
| 3. | DCC plc | |
| 4. | Dana Exploration plc | |
| 5. | Dragon Oil plc | |
| 6. | Ewart plc | Northern Irish company |
| 7. | Gaelic Resources plc | |
| 8. | Inish Tech plc | |
| 9. | Irish Press plc | Company no longer trading |
| 10. | Kish Resources plc | |
| 11. | Mackie plc | Northern Irish company |
| 12. | Minmet plc | |
| 13. | Northern Ireland Electricity plc | Northern Irish company |
| 14. | Ovoca Gold Exploration plc | |
| 15. | Petroceltic plc | |
| 16. | Power plc | Company in financial difficulties |
| 17. | Powerscreen plc | Northern Irish company |
| 18. | Reflex Group plc | |
| 19. | Tuskar Resources plc | |
| 20. | UTV plc | Northern Irish company |
| 21. | World Fluids plc | |