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Qualifications and Evaluations of Directors and Boards

As part of a continuing study, on April 5 the European Commission issued a consultation green paper on corporate governance. It is a very thoughtful study. It covers many of the same issues that have been the subject of the corporate governance debate in the United States. Of special interest, and relevance to us, is the discussion of the composition of the board and the qualifications of the directors:

1. The composition of the board has to suit the company's business. The non-executive members of the board should be selected on the basis of merit, professional qualifications, experience, personal qualities, independence, and diversity.
2. The single most important factor in the selection of a director is an accurate assessment of the candidate's skills and expertise.
3. Gender diversity is important and should be an imperative.
4. A director must devote sufficient time to his/her duties and should limit the number of boards he/she serves on to assure he/she can fully meet his/her commitment to each.
5. The board should evaluate its performance annually. The evaluation should assess its membership, organization, and operation as a group, and the competence and effectiveness of each member and of the board committees. The evaluation is best conducted by an external consultant who would bring an objective perspective and be able to share best practices and experiences of other companies.

In addition, and also of special interest is the recognition by the European Commission that boards are subject to undue pressure from shareholders to achieve short-term performance. The green paper recognizes that the proper purpose of corporate governance is "to curb harmful short-termism and excessive risk taking" and that shareholders should "be encouraged to take an interest in sustainable returns and longer-term performance. . . ."

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