BSI Standards Publication

Code of practice for delivering effective governance of organizations

bsi.

...making excellence a habit.™

Publishing and copyright information

The BSI copyright notice displayed in this document indicates when the document was last issued.

© The British Standards Institution 2013

Published by BSI Standards Limited 2013

ISBN 978 0 580 71608 9

ICS 03.100.01

The following BSI references relate to the work on this document:
Committee reference G/1
Draft for comment 12/30228065 DC

Publication history

First published August 2013

Amendments issued since publication

Date	Text affected

Contents

Summary of pages

This document comprises a front cover, an inside front cover, pages i to ii, pages 1 to 38, an inside back cover and a back cover.

Foreword

Publishing information

This British Standard is published by BSI Standards Limited, under licence from The British Standards Institution, and came into effect on 31 August 2013. It was prepared by BSI Panel G/1/-/1, *Drafting BS on governance*, under the authority of Technical Committee G/1, *Governance*. A list of organizations represented on this committee can be obtained on request to its secretary.

Information about this document

This code of practice has been drafted with input from a wide range of organizations and representative bodies from many different sectors.

This code of practice is intended to be read with sector-specific guidance (see "Further reading" in the Bibliography for examples).

All websites referred to in this British Standard were last viewed on 28 August 2013.

Use of this document

As a code of practice, this British Standard takes the form of guidance and recommendations. It should not be quoted as if it were a specification and particular care should be taken to ensure that claims of compliance are not misleading.

A code of practice goes further than a guide in that it supports claims of compliance. That is, if the recommendations (indicated by "should") are followed, users can claim compliance with the standard. However, while compliance with the recommendations is indicative that a good governance system in place, it does not guarantee effective governance behaviour.

Any user claiming compliance with this British Standard is expected to be able to justify any course of action that deviates from its recommendations.

Presentational conventions

The provisions in this standard are presented in roman (i.e. upright) type. Its recommendations are expressed in sentences in which the principal auxiliary verb is "should".

Commentary, explanation and general informative material is presented in smaller italic type, and does not constitute a normative element.

Contractual and legal considerations

This publication does not purport to include all the necessary provisions of a contract. Users are responsible for its correct application.

Compliance with a British Standard cannot confer immunity from legal obligations.

0 Introduction

0.1 Purpose of this code of practice

The purpose of this code of practice is to clarify the fundamental requirements for delivering effective governance of organizational performance.

It is increasingly obvious that society's expectations of organizational behaviours and performance, and thus "governance", are rising. This rise in expectations is partly in response to a steady flow of major incidents and perceived abuses of authority. However, the approach within this code of practice is based on the evidence that good governance positions organizations, and our society, for success. Therefore, the scope of this code goes beyond the avoidance or mitigation of problems.

There is a growing amount of sector level guidance on governance, but relatively little in the way of summary level definition of the fundamentals of good governance. This code of practice seeks to address that deficiency. In doing so it offers more detail on the important principles that lie behind much sector-specific guidance (for example, by distinguishing different accountabilities to different stakeholders) and offers a baseline for all organizations, including those for which sector-specific standards might not exist.

This code is therefore intended to be used by those concerned with the governance of organizations as a basic checklist to ensure that all the elements of a good governance system are in place. However, it is essential that organizations also take into account all relevant additional or more specific sector recommendations and requirements, such as those set out in the "Further reading" section of the Bibliography (e.g. the Listing Rules [1] require listed companies in the UK to report on how they have applied the UK Corporate Governance Code 2012 [2]).

When an organization can demonstrate that it is implementing all the code's recommendations, it can be said to have a system for delivering effective governance. Having such a system does not guarantee effective governance or the achievement of objectives, but it does at least encourage and support positive organizational values and behaviours.

0.2 Defining "governance"

A key element of any British standard is the set of terms and definitions, which is intended to help harmonize the use of language in a particular subject or discipline.

This is particularly challenging in terms of governance, which is rapidly evolving, operates in all sectors and encompasses entire organizations of all descriptions.

Given the breadth of the scope of governance, the vocabulary used in this code has been designed to be as widely applicable and enduring as possible.

The first step in creating this code was to define "governance" in a manner applicable to all organizations and explain how it differs from "management", which is covered by other British standards (see "Further reading" in the Bibliography). It was recognized that the words "governance" and "management" are sometimes treated as interchangeable, but that such usage does not aid the functional clarity necessary for the delivery of effective governance.

The most widely used definition of governance in the corporate sector is: "the system by which companies are directed and controlled" (Cadbury Committee 1992 [3]).

A well-known variant from the not-for-profit sector is: "the systems and processes concerned with ensuring the overall direction, effectiveness, supervision and accountability of an organisation" (Cornforth 2003 [4]).

At an international level, another widely known definition describes corporate governance as involving "a set of relationships between a company's management, its board, its shareholders and other stakeholders" and providing "the structure through which the objectives of the company are set and the means of attaining those objectives and monitoring performance are determined" (OECD 2004 [5]).

For the purposes of this code, a brief definition that places governance into a context of accountability has been adopted:

> *system by which the whole organization is directed, controlled and held accountable to achieve its core purpose over the long term.*

Management can be defined as the act of bringing people together to accomplish desired goals and objectives, using available resources in an efficient, effective and risk-aware manner. Thus governance is linked to management, but is distinct from it because it deals with:

a)   the accountability of a *whole* organization to *all* its stakeholders; and

b)   *ensuring* that the organization as a *whole* fulfils its *full* purpose.

NOTE   A simple way of describing the difference between management and governance is to say that management is about "getting the work done", whereas governance is about ensuring "that the right purpose is pursued in the right way and that the organization continuously develops overall".

This code therefore identifies what governance, as distinct from management, needs to provide for all organizations, appreciating that for many organizations there are additional sector-specific governance requirements with which they need to comply.

0.3   Applicability

This code of practice applies to the governance of all organizations. It is therefore applicable even to organizations in which the various ownership, governing and executive roles referred to in Clauses **4** and **5** can be performed by, or shared between, the same individuals (see Annex C for examples).

EXAMPLE

In a small organization, there may be only a sole trader who owns, governs and manages their business. Complex, formal arrangements are not necessary, but applying the principles of good governance is still important for sustainable success.

In a large organization, ownership may be dispersed between many shareholders, with governance being the ultimate responsibility of the board and management being delivered by executives via teams of employees. Whilst the accountabilities and roles are different, each has a role to play in supporting the success of the whole.

0.4   **Who should read this code of practice?**

This code is written from the standpoint that those who are accountable for the organization are ultimately responsible for everything undertaken in that organization's name. The people who fulfil this role comprise the organization's governing body (see Clause **2**: "Terms and definitions" for more detail), and it is clearly in their individual and collective interests to ensure that effective governance is in place so that they can indeed be accountable to all their stakeholders for everything undertaken by the organization.

Each individual governing body member is charged with ensuring that the organization is well governed, and governing bodies usually give their chairs special powers in this regard. However, the ultimate accountability for ensuring effective governance rests with the governing body as a whole, operating by whatever decision-making rules it adopts, and cannot be delegated to the chair or any other officer or committee it appoints. Similarly, depending on the size and scale of the organization, the governing body is likely to delegate the actual implementation of some aspects of governance to the executive (e.g. those accountable for management), who may in turn delegate to other team members. This, though, does not alter the governing body's accountability.

The rationale for this code being written from the standpoint of the governing body is therefore twofold: firstly, the governing body is ultimately accountable for governance and, secondly, given the wide range of options for delegation, to do otherwise would be to add a level of complexity which would become difficult to depict and understand (see examples in Annex C).

There are many ways in which governance can be implemented in an organization, from one person doing everything to many layers all having a part to play. Crucially, however, whoever is allocated a governance role reports to the person who appointed them and, throughout however many layers of delegation might have been undertaken, the ultimate accountability for governance remains with the governing body.

Governing bodies need the understanding, support and scrutiny of their stakeholders and the more everyone supports and appreciates the importance of good governance, the more achievable it becomes.

This code of practice is therefore intended to be read by all those involved in governance, at all levels in an organization. This includes all types of stakeholders, governing body members and officers, and senior executives who report directly to governing bodies, as well as other managers and supervisory personnel and their teams, governance advisers and regulators.

0.5   **How to read this code of practice**

The recommendations of this code are based on the need to establish a governance system that integrates the fundamental principles in Clause **4**. Together, these principles cover the governance life cycle, from determining the organization's accountability to providing direction and installing and monitoring controls that cover all the organization's operations.

The effective implementation of this code of practice requires an understanding of the relationship between all its recommendations. Therefore, this code is intended to be read as a whole before any of its recommendation are implemented.

In addition, many terms used in the text are subject to multiple possible interpretations, but have very specific meanings within this code. Therefore, users will find it essential to understand the terms and definitions set out in Clause **2**. Such understanding will also assist those who seek to implement this code to communicate effectively with their internal and external stakeholders about its use.

For ease of navigation and understanding of the recommendations and guidance, Table 1 outlines the structure of this code of practice, which addresses the four key components of the adopted definition of governance: system, accountability, direction and control.

Table 1   **Structure of this standard**

Clause/Annex	Description	Why read this?
Clauses **1** and **2**	Set out the scope of this code and the terms and definitions used within it	For background and terms and definitions. Helps understand the language used in the code and why it is important.
Clause **3**	Introduces the concept of system	Introduces the idea of the components of effective governance being integrated into a single system. Introduces a diagram to aid understanding.
Clause **4**	Introduces the principles, based on the definition of governance adopted within this code	Introduces the ideas which underpin the thinking behind governance. Sets the foundations for what needs to be considered for the whole life cycle.
Clause **5**	Sets out the implementation steps by which the principles can be put into practice	Contains the body of recommendations regarding delivery of effective governance of organizations. The recommendations are generic, but examples are provided to help with their application, including applicability to small and large organizations. Diagrams are provided to represent the processes involved.
Annex A	Guidance on governance policies	Provides an indication of what is typically found in effective governance policy.
Annex B	Examples of stakeholder profiles	Provides help in understanding the various stakeholders.
Annex C	Examples of handling multiple roles	Provides an idea of how governance roles can be performed in different organizations.
Annex D	Self-assessment checklist	A health check for organizations; useful as a tool to self-assess against the code.
Annex E	Mapping to UK Corporate Governance Code 2012 [2]	Shows how BS 13500 relates to the UK Corporate Governance Code 2012 [2].
Bibliography		Provides a list of related standards and codes.

1 Scope

This British Standard gives recommendations and guidance for the effective delivery of governance. It is applicable to all organizations, whether large or small, public or private, listed or unlisted, not-for-profit or for-profit, and is intended to promote an integrated system for effective governance that encompasses accountability, direction and control.

2 Terms and definitions

For the purposes of this British Standard the following terms and definitions apply.

2.1 accountability
state of being answerable for decisions and activities

2.2 control
act of assuring the desired purpose is being fulfilled in the desired manner

2.3 culture
ideas, values and customs that underlie behaviour

2.4 direction
act of identifying and communicating the desired purpose and behaviour of the organization

NOTE   Purpose is likely to be expressed in a "vision'", or otherwise named statement of the organization's ideal impact or state, and a series of shorter-term "strategic outcomes" that define shorter term objectives.

2.5 executive
person, group or formal committee of persons to whom the governing body delegates authority for the day-to-day operation of the whole or parts of the organization

2.6 founding documentation
set or collection of documents that establishes the organization's existence and accountability in law

> **EXAMPLE: founding documentation**
>
> For a small organization, the founding documentation might be no more than a deed of incorporation.
>
> For a larger organization, there could be many founding documents and, depending on the type of organization, these could include a memorandum and articles of association, by-laws, royal charter, deed of incorporation or instrument and articles of government.

2.7 governance
system by which the organization is directed, controlled and held accountable to achieve its core purpose over the long term

NOTE 1   The term "corporate governance" is typically used for the governance of private and publicly-listed companies or to denote governance of the whole organization.

*NOTE 2   Governance is distinguished from management as in **0.2**.*

*NOTE 3   The system by which the organization is held accountable includes the accountability (**2.1**) of the executive (**2.5**) to the governing body (**2.8**), as well as the accountability of the governing body and the executive to the organization's stakeholders (see Annex B).*

2.8   governing body
individual or group of people ultimately responsible and accountable for the long-term *direction* (**2.4**) and *control* (**2.2**) of the organization

> **EXAMPLE: governing body**
>
> In a one-person organization there is no formal governing body. However, the owner governs the business.
>
> In a larger organization with more than one legally appointed director, all directors are accountable for governance and the governing body may be called, for example, the board, board of directors, board of trustees or board of governors.

2.9   governance performance
effectiveness of the governing body as a whole, its individual members and its delegates, in creating and operating the system by which the organization is directed, controlled and held accountable

2.10   governance policy
formal expression of the governing body's intentions, risk limitations and approach to *accountability* (**2.1**), *direction* (**2.4**) and *control* (**2.2**), which may be further developed by its *executive* (**2.5**)

> **EXAMPLE: governance policy**
>
> For communication and accountability purposes, governance policies are formally expressed in writing. The level of detail to which governance policy is developed may vary depending on the formality, size and maturity of the business.
>
> In a larger organization, governance policy may be set out in a governing body document or documents, which may be called, for example, a board mandate, board policy manual or scheme of delegation.
>
> The governance policy sets out the governing body's intentions, risk limitations and approach to direction, control and accountability in the form of stated expectations of itself and its delegates. This normally includes providing specific direction to the executive in a manner that enables the executive to develop more detailed level policies regarding governance and management activities.
>
> In a smaller organization, the same individuals may be responsible for performance in relation to governance policy and for providing data to assure that performance. In such instances, the governing body needs to consider the conflicts of interest that can arise and take steps to mitigate them as far as possible. In a larger organization, the responsibilities of those doing the work are more likely to be separated from those assuring/checking that the work is being done.

2.11   **governance system**

set of interacting and interdependent components forming an integrated whole, which enables the *accountability* (**2.1**), *direction* (**2.4**) and *control* (**2.2**) of the *organization* (**2.12**) in the long-term interests of those *stakeholders* (**2.18**) who are actually, or equivalent to, the organization's shareholders

NOTE   Governance system components include people, structures, policies, processes, technologies and information.

2.12   **organization**

person or group of people that has its own functions with responsibilities, authorities and relationships to achieve its objectives

[SOURCE: ISO/IEC Directives, Part 1:2012, Annex SL, **3.01**]

NOTE   The concept of organization includes, but is not limited to, sole-trader, company, corporation, firm, enterprise, authority, partnership, charity or institution, or part or combination thereof, whether incorporated or not, public or private.

2.13   **organizational context**

external and internal environment in which the *organization* (**2.12**) seeks to achieve its objectives

> **EXAMPLE: organizational context for a small business**
>
> The external context for a small business is likely to include the presence of competitive businesses in the same geographic area or sector, the political and regulatory environment, the availability of capital, access to a suitably skilled and experienced workforce, availability of relevant facilities, technology and equipment, and the sensitivity of the local physical environment.
>
> The internal context for the same business is likely to include the owners' level of ambition and risk appetite, and the organization's current human, financial, physical and intellectual assets.

2.14   **principles**

fundamental truths, propositions or assumptions that serve as foundations for a set of beliefs or behaviours or for a chain of reasoning

2.15   **responsibility**

duty or obligation to perform or complete a task

2.16   **risk**

effect of uncertainty on objectives

[SOURCE: BS ISO 31000:2009]

NOTE 1   An effect is a deviation from the expected – positive and/or negative.

*NOTE 2   For more on risk see Clause **4**.*

2.17   **risk tolerance**

organization's (**2.12**) or *stakeholder's* (**2.18**) readiness to bear the *risk* (**2.16**) after risk treatment in order to achieve its objectives

[SOURCE: ISO Guide 73:2009]

2.18   **stakeholders**

person, group or *organization* (**2.12**) that can affect, be affected by, or perceive themselves to be affected by a decision or activity

[SOURCE: ISO/IEC Directives, Part 1:2012, Annex SL, **3.02**]

*NOTE   The governing body (**2.8**) is directly accountable for the long-term direction (**2.4**) and control (**2.2**) of the whole organization to certain stakeholders whose relationship with the organization is actually, or equivalent to, that of shareholders. This relationship generally arises by virtue of either:*

a)   *a legal duty of accountability (**2.1**) required by the organization's founding documentation (**2.6**); or*

b)   *a moral duty of accountability acknowledged by the governing body (**2.8**).*

> **EXAMPLE: stakeholders to whom the governing body is formally accountable**
>
> For an organization with shareholders or legal members, the founding documents state that they are entitled to vote at the annual meeting. Legally, these are the people to whom the governing body is directly accountable for the long-term direction and control of the organization.

2.19   **transparency**

visibility of governance decisions and activities that are undertaken on behalf of, and which often impact, *stakeholders* (**2.18**), and the communication of these in a clear, accurate, timely, honest, open and complete manner

[SOURCE: BS ISO 26000:2010, modified]

NOTE   In sensitive situations the level of transparency might need to be revised as to what is appropriate.

3   Establishing an effective governance system

3.1 Governance exists to ensure that organizations fulfil their purposes successfully on behalf of those to whom they are accountable. Delivering effective governance should therefore involve:

a)   clarifying the organization's purpose and values in consultation with those on whose behalf it exists;

b)   identifying the risks involved in fulfilling the organization's purpose in alignment with its values; and

c)   directing and controlling the organization in a manner that enables proper reporting.

Because governance is about the whole organization, those ultimately accountable for it should ensure that they encompass everything that the organization is and does. Accomplishing this requires an effective governance system.

3.2 The governing body should ensure that all aspects of governance are integrated into a single, holistic, open, forward-looking, effective, efficient and empowering system that starts and ends with accountability, and:

a)   encompasses accountability, direction and control;

b)   is consistently implemented throughout the organization; and

c)   includes everyone within the organization and its engagement with third parties.

3.3 The governing body should ensure that its governance system is fully and accurately documented in founding documentation and policies that integrate accountability, direction and control.

3.4 The governance system should be held in a central repository where documentation is provided to and from the accountability, direction and control components.

NOTE   Keeping information in one place ensures that there is integration between the components and less risk of duplication and wasted effort. The following documentation is referred to in this code and thus expected to be available.

a)   *Founding documentation of the organization (legal documents which establish the organization).*

b)   *Applicable regulatory documents (specific sector guidelines).*

c)   *Governing policies that establish role clarity and expectations of those involved, including what is to be escalated and how.*

d)   *The organization's controls and results of monitoring.*

EXAMPLE: governance system

The following examples show how the governance system integrates the work from accountability, direction and control, and is used throughout the governance process.

When implementing accountability, the governing body demonstrates sufficient openness for accountability by ensuring that decisions and activities are documented and communicated in a clear, accurate, timely, honest, complete and open manner. These documents are then provided (output) to the system.
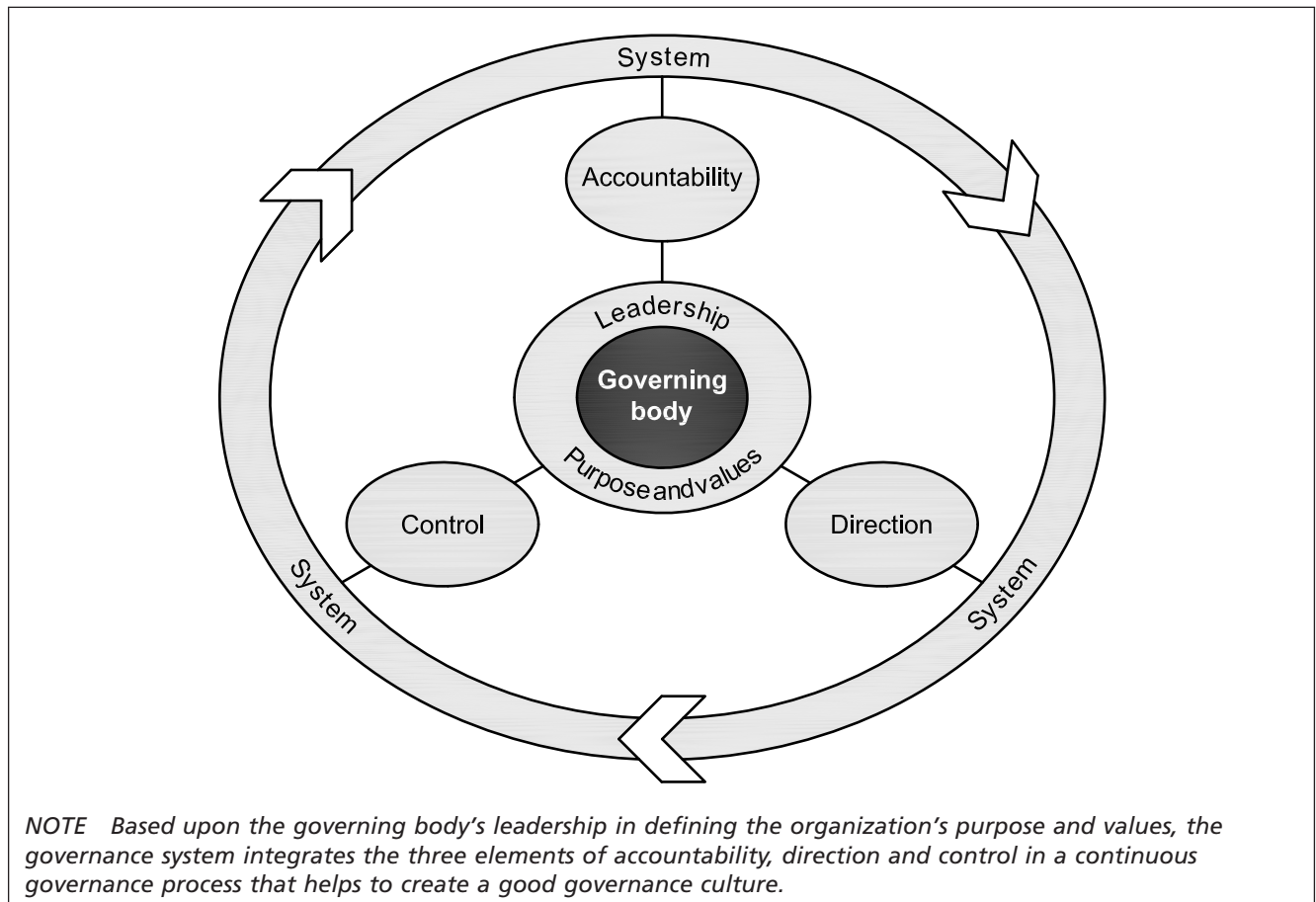
Similarly, in the direction component, the governing body ensures the integrity of the organization's founding documentation. When any changes are implemented, this documentation is filed back into the system.

In implementing the control component of its system, the governing body keeps records of the reports it receives and the results of its assessment of them.

These are examples of how the system is used to both provide information as an input to a governance process and hold information which it has received from a process as the output, e.g. updated founding documentation or updated policies.

Figure 1 shows the integration of the components of accountability, direction and control into an effective governance system.

Figure 1   **Integrated components of an effective governance system**

NOTE   Based upon the governing body's leadership in defining the organization's purpose and values, the governance system integrates the three elements of accountability, direction and control in a continuous governance process that helps to create a good governance culture.

4   Principles that underpin an effective governance system

4.1   General

To be effective, the governance system should encompass the principles of accountability, direction and control set out in **4.2** to **4.4**, and be implemented by the governing body and all its delegates in accordance with Clause **5**.

*NOTE   Many of the recommendations in Clause **5** could be categorized under more than one principle, but are described where they principally or initially occur. A checklist of these key steps can be found in Annex D.*

4.2   Governance accountability

4.2.1 The governing body should ensure that the organization is accountable to its shareholders or equivalent for the fulfilment of its overall long-term purpose and values, and to all its stakeholders for the organization's impact upon them.

4.2.2 The governing body should also determine what commitments to seek from particular groups of stakeholders (for example, majority shareholders, employees and volunteers).

4.2.3 The governing body should exhibit leadership of the organization on behalf of its shareholders or equivalent, and create a culture of responsible treatment for all its stakeholders.

4.2.4 In order to determine the organization's best long-term interests on behalf of its shareholders or equivalent, the governing body should understand the broad, long-term external and internal context in which the organization is operating.

4.2.5 The organization's purpose should be clear at all times and focused on the creation of value for shareholders or equivalent in terms of specified benefits (whether for shareholders or others), secured in a manner that reflects appropriate values regarding prudence and ethics.

4.2.6 The governing body should recognize that organizational culture, whether deliberately created or not, is a crucial determinant of everyone's behaviour. A good governance system demands good behaviour, but it cannot deliver good behaviour – only people can do that. Written policies can be powerful, but can also be displaced by unwritten rules. Similarly, from the perspective of stakeholders, an organization with a good governance system is more likely to be trustworthy, but only if everyone fulfils their respective accountabilities within it. Therefore, the governing body should deliberately create an effective governance culture.

4.2.7 In order to underpin its accountability, the governing body should ensure the competence and capacity of its members and its delegates to fulfil their governance accountabilities.

4.2.8 Accountability should include recognizing and responding appropriately to governance performance.

4.2.9 Openness creates trust, which is crucial to the flow of information required for accountability. Openness also enhances the quality of decision-making and the relationships that are the core of effective governance. The governing body should therefore ensure sufficient openness to allow for accountability.

4.3 Governance direction

4.3.1 The governing body should ensure that its governance system is underpinned by sound founding documentation.

4.3.2 The governing body should translate the organization's purpose and values, as developed on behalf of its shareholders or equivalent, into clearly established and regularly reviewed expectations that direct itself and those to whom it delegates.

4.3.3 In order to ensure that its expectations are appropriate, the governing body should thoroughly understand the external and internal context within which its decisions need to be made.

4.3.4 The governing body's expectations should be stated in governance policies, and thereafter regularly reviewed and updated as necessary, to ensure that they remain aligned with the organization's founding documentation and its changing context.

4.3.5 The governing body should ensure that its governance policies set appropriate standards for all aspects of organizational performance.

4.3.6 The governing body should ensure that its policies clarify the roles of all involved in governing and operating the organization in terms of their authorities, accountabilities, performance standards and reporting requirements.

NOTE   The governing body may choose to delegate many of the tasks involved in implementing governance and operating the organization to others, but it is still ultimately accountable for their completion to its stakeholders.

The only aspects of governance that cannot be delegated by the governing body are its ultimate accountability to those stakeholders who are its shareholders or equivalent. This accountability is for stating the expectations of the organization on behalf of its shareholders or equivalent, and assuring that those expectations are being met.

Where aspects of governance and operating the organization are delegated, the governing body's role is to ensure oversight and challenge to ensure that what is supposed to be achieved or done is actually being achieved or done.

4.3.7 The governing body should ensure that principles of good delegation are upheld. Delegates should not be held accountable for things over which they have no authority or for expectations that have not been stated. Accountable people can delegate their authority to (and thereby give responsibilities to) others in order to get things done. However, it should be clear that these people remain accountable for their delegate's use of that authority.

4.3.8 The ownership of policies should be clear. Governance policies should belong to the governing body and not be open to change without the governing body's agreement. Managers should be empowered to create lower level policies within governing body policies.

4.4 Governance control

4.4.1 The governing body should clearly establish and regularly review governance controls that are founded on its expectations for the organization as stated in its governance policies.

4.4.2 The governing body's controls should enable it to assure performance against, and respond to deviations from, its expectations such that risks to its stated direction can be managed.

4.4.3 The governing body should ensure that all its policies are monitored and assessed, and respond appropriately to the results.
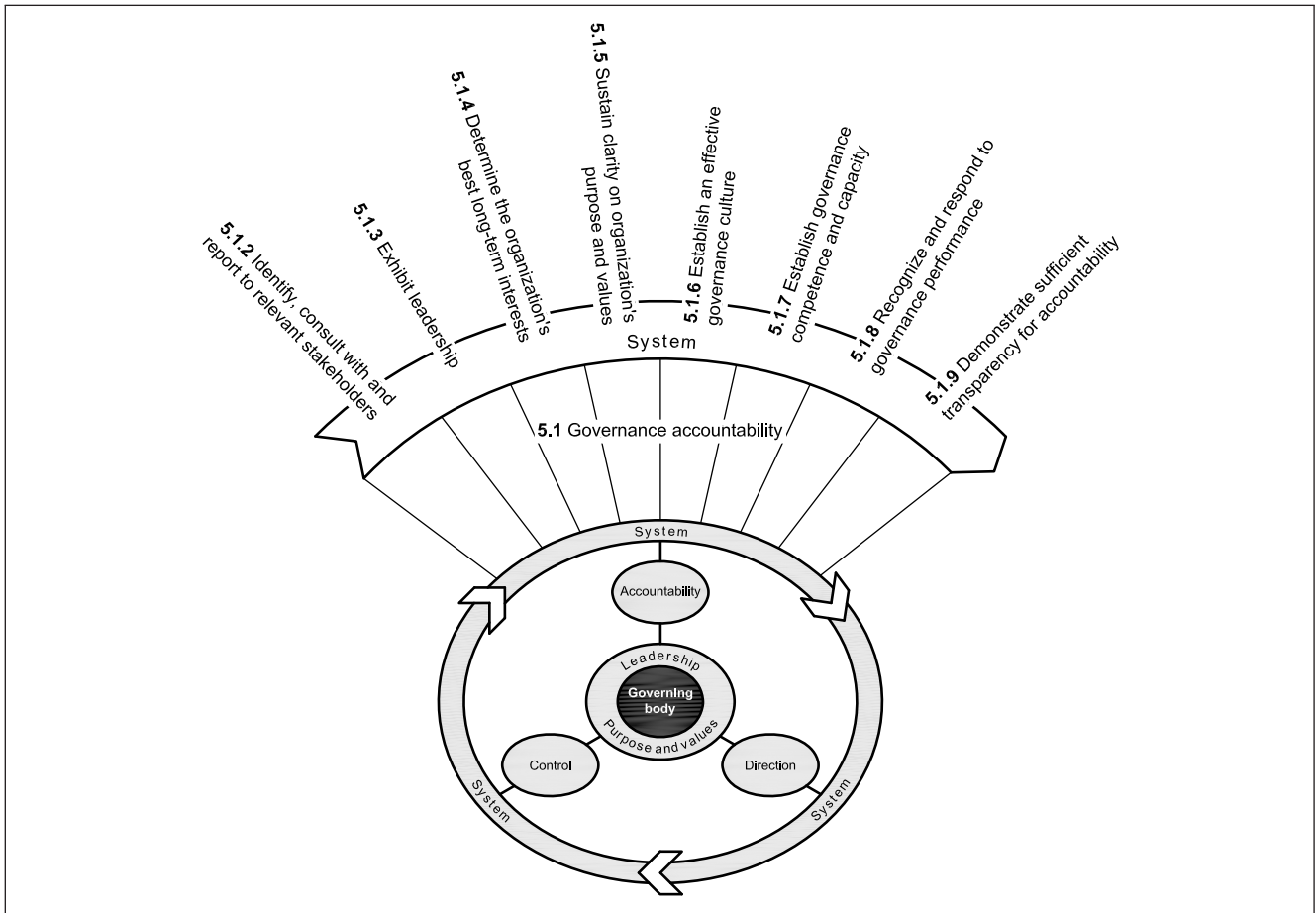
5 Implementing governance

5.1 Implementing governance accountability

5.1.1 General

To ensure that the organization is accountable to all its stakeholders for fulfilment of its purpose and values, the governing body should take the steps recommended in **5.1.2** to **5.1.9** (see Figure 2).

Figure 2   **Implementing governance accountability**

5.1.2   Identify, consult with and report to relevant stakeholders

The governing body should ensure that the organization is listening to and being accountable to the right people (see Annex B) for the right things in the right way by:

a)   understanding, agreeing and regularly reviewing which of its stakeholders are to be treated as the source of the organization's purpose and values and to whom the governing body is therefore directly accountable for the long-term direction and control of the organization, i.e.:

1)   formal stakeholders: those to whom the governing body has a legal obligation to listen and report; and

2)   informal stakeholders: those to whom the governing body believes it has a moral obligation to listen and report;

b)   sustaining an effective dialogue with, and reporting to, those stakeholders to whom the governing body believes it is directly accountable [for relations with other stakeholders, see **5.2.4**b)]; and

c)   determining what, if any, commitments to seek from particular groups of stakeholders (for example, majority shareholders, employees and volunteers) to support the organization's proper accountability to them.

> **EXAMPLE: consulting with stakeholders**
>
> Methods a governing body can use for consulting with stakeholders include discussions at the AGM, personal meetings and interviews, focus groups and opinion surveys. The aim is to demonstrate openness to receiving and acting upon input and feedback. Care needs to be taken to avoid inadvertent discrimination against minority stakeholders and to ensure communications are as far as possible accessible by all stakeholders.

5.1.3 Exhibit leadership

The governing body and its delegates should exhibit leadership of the organization by:

a) focusing on the best long-term interests of the organization on behalf of its shareholders or equivalent, and creating a culture of responsible treatment for all its other stakeholders;

b) recognizing and clearly communicating its ultimate accountability for the organization; and

c) being seen to place a priority on establishing a good governance culture and demonstrate the organization's values.

5.1.4 Determine the organization's best long-term interests

In order to determine the organization's best long-term interests, the governing body should understand the organizations long-term context in terms of:

a) the results of its dialogue with those stakeholders to whom it regards itself as directly accountable as the source of the organization's purpose and values;

b) the impact the organization has on all its stakeholders, including the public, taking particular account of the vulnerabilities of those stakeholders and of the impacts of all stakeholders upon the organization;

c) the organization's current and likely future local, national and international, social, cultural, political, financial, technological, economic, natural, competitive, contractual, legal and regulatory environment;

d) the culture and ethics needed to support effective governance; and

e) ensuring the resilience, and thus long-term sustainability, of the organization (unless the organization's formal stakeholders specify otherwise, for example when an organization is set up for a specific short-term purpose, such as staging a single event).

5.1.5 Sustain clarity on organization's purposes and values

The governing body should provide consistent and clear leadership with regard to the organization's purpose and values on behalf of those to whom it regards itself as directly accountable by:

a) deciding upon and regularly reviewing the purposes in the form of a broad long-term vision for the organization;

b) deciding upon and regularly reviewing the strategic outcomes (see Note to **2.4**) to deliver the organization's vision, taking account of the organization's current and likely future context and the risks inherent in that context and in the potential modes of operation to achieve the desired outcomes; and

c)   maintaining focus on the primary strategic outcomes and addressing the main risks that apply to them rather than on the details involved in accomplishing them, so that strategic plans and goals flow from the selected strategic outcomes in a manner that encourages innovation and agility within appropriate governance controls (see **5.3**).

EXAMPLE: vision and strategic outcomes

A cancer research charity's vision might be "A world without cancer". Its strategic outcomes might set benchmarks for knowledge in specific fields over the next five years.

An insurance company might have a vision statement, "To be recognized by our customers, partners and regulators as providing the highest quality insurance products in the UK." Its strategic outcomes might set benchmarks for shareholder value created from the penetration of specific markets over the next seven years.

The vision for a trade association might relate to members' business success and its strategic outcomes might require specified benefits for members, such as professional skills and public awareness in return for a reasonable membership fee.

5.1.6   Establish an effective governance culture

The governing body should ensure that effective governance becomes embedded in the organization's culture by:

a)   ensuring that all those involved (stakeholders, governing body members, employees and volunteers) are aware of the importance of governance and how they contribute to its effectiveness;

EXAMPLE: governance culture 1

Regular and consistent communication about governance might take the form of team discussions between employees, managers and members of the governing body about topics such as ethics and risk. An aim of such communications is to make it clear to all that managing risk is a part of their daily responsibilities at all levels of the organization and is critical to the company's success and survival.

---

b)   ensuring that all those involved (stakeholders, governing body members, employees and volunteers) are aware of, and are encouraged to use, channels by which they can raise governance concerns without fear of reprisal; and

   NOTE   Recommendations for whistleblowing arrangements are given in PAS 1998.

c)   ensuring that members of the governing body and its delegates demonstrate commitment to effective governance, by their actions not merely their words, in an atmosphere of openness and mutual support.

> **EXAMPLE: governance culture 2**
>
> Employees can be incentivized to do the wrong thing. For example, if remuneration policies are seen to reward results gained through doing "whatever it takes" then messages about risk could be ignored. Similarly, if employees are too strongly focused on short-term targets, the organization's long-term sustainability might be jeopardized. Policies and actions need to be consistent in encouraging behaviours that support good governance.

5.1.7 Establish governance competence and capacity

The governing body should ensure governance competence and capacity by:

a) ensuring that the governing body is composed of diverse, competent and diligent persons who understand the principles of good governance and the strategic position of the organization sufficiently to direct, control and be held accountable for its long-term success;

b) ensuring that all those with governance authorities and accountabilities are competent to perform the required tasks, e.g. by appropriate training of governing body members;

c) assessing the maturity and adequacy of the organization's current governance processes, competencies and understanding, and, therefore, the approach to be adopted to engage stakeholders and implement effective governance; and

d) giving appropriate attention and resources to achieve effective governance.

> **EXAMPLE: investment in governance competence**
>
> By being open to review of, and investment in, its own composition, education, administration, legal and audit services and performance evaluation, a governing body can demonstrate its commitment to continual improvement. By valuing its own capacity to "lead by example" the governing body can create a positive culture and set the tone for others in terms of their own behaviours and expectations.
>
> This is likely to engender trust and cooperation among all the organization's stakeholders.

5.1.8 Recognize and respond appropriately to governance performance

In order to recognize and respond appropriately to governance performance, the governing body should:

a) assess the actual performances of those with governance responsibilities, including members of the governing body itself, and take the necessary actions to address any issues;

b) recognize and demonstrate the understanding that learning from failure and success is an inherent part of long-term success, and provide additional training where unintended failures occur;

c) acknowledge, celebrate and demonstrably reward governance good practice, warnings of potential failures or abuses and the capture of learning that comes from dealing with problems; and

d) recognize, acknowledge and impartially apply disciplinary or other grievance processes for instances of deliberate abuse, or lack of application, of the governance system.

5.1.9 Demonstrate sufficient transparency for accountability

5.1.9.1 The governing body should ensure that decisions and activities that affect stakeholders, including the public, are properly documented, visible and communicated in a clear, accurate, timely, honest, complete and open manner.

5.1.9.2 The governing body and its executive should disclose as much information as is necessary to evidence proper accountability.

5.1.9.3 Openness should involve disclosure of:

a) the organization's processes, both of governance and accountability as a whole; and

b) specific activities, decisions and impacts where these affect stakeholders or the general public.

5.1.9.4 Transparency should involve disclosure either to:

a) one or more specific stakeholders where the information directly concerns matters that affect them; or

b) the general public where the information concerns matters affecting the public interest.

NOTE 1   Occasionally, transparency toward one stakeholder (or the public) or an overarching obligation (e.g. a legal requirement) could result in harm to another stakeholder. Situations involving commercial confidentiality are a common example. However, good governance might, exceptionally, require that the public interest overrides commercial interests. Even where this is not the case, following proactive discussion with the affected stakeholders, the following need to be documented, safely stored, and declared.

- *The conflict of interest.*

- *The decision on disclosure that the organization has reached.*

NOTE 2   Transparency is vital to ensuring accountability to the legal and moral owners of any size of organization. Wider transparency considerations need to cover relationships with employees, volunteers, suppliers and customers or clients.

The principle of transparency does not require that proprietary information be made public, nor does it involve providing information that is legally protected or that would breach legal, commercial, security or personal privacy obligations (see BS ISO 26000).

**EXAMPLE: appropriate transparency**

An organization that is restructuring may be open about the need to restructure but, due to the sensitivity of a possible merger, might not be able to be completely transparent due to the nature of the restructuring whilst the governing body is investigating the possible merger. However, when a formal announcement can be made the level of transparency and openness would be expected to change accordingly.

5.2 **Implementing governance direction**

5.2.1 **General**

In order to direct the organization in an appropriate manner, the governing body should translate the organization's purpose and values into clearly established and regularly reviewed expectations that direct itself and its delegates by taking the steps recommended in **5.2.2** to **5.2.8** (see Figure 3).

Figure 3   **Implementing governance direction**
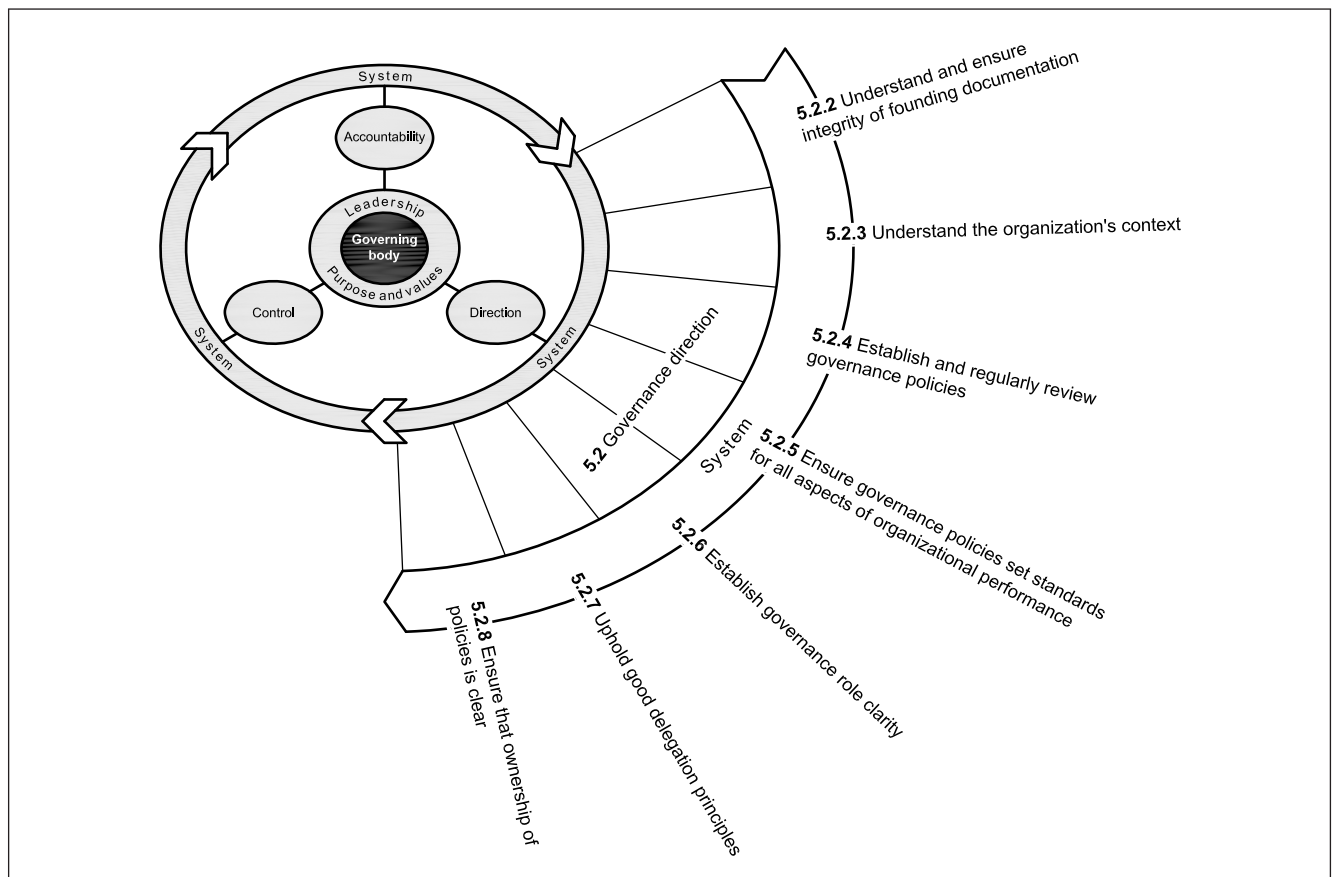
5.2.2 **Understand and ensure the integrity of founding documentation**

The governing body should ensure that all its expectations are set within a good understanding of the organization's founding documentation and that such documentation:

a)   defines and enables the organization's full potential scope of operation to which governance is to be applied;

  NOTE   The organization's scope of operation may be set out in its mission statement.

b)   clarifies the governing body's formal accountability to its stakeholders [see **5.1.2**a)] in terms of both consultation and reporting;

c) provides for appropriate formal stakeholder impartiality in the appointment, remuneration, roles and termination of members of the governing body; and

d) provides the basics needed to establish the appropriate composition of the governing body to reflect the diversity of perspectives of, and best interests of, all those stakeholders who are shareholders or equivalent to shareholders.

5.2.3 Understand the organization's context

In order to ensure that its expectations are appropriate the governing body should thoroughly understand the external and internal context within which its decisions need to be made. Understanding the organization's context should involve considering:

a) the results of the governing body's consideration of the organization's long-term best interests as determined in accordance with **5.1.4**;

b) the results of the organization's dialogue with its formal and informal stakeholders as determined in accordance with **5.1.2**;

c) the capabilities and parameters that influence how the organization tries to achieve its objectives and manages the risks to those objectives; and

d) the culture and ethics needed to support effective governance.

5.2.4 Establish and regularly review governance policies

In order to provide direction, the governing body should comprehensively state, and thereafter regularly review and update as necessary, its governance policies to ensure that they remain aligned with the organization's founding documentation and its changing context. Governance policies should state:

a) the identity of, and governing body's relationship with, those stakeholders to whom the governing body believes it is legally or morally directly accountable [see **5.1.2**a)];

b) the identity of any other internal or external stakeholders (such as customers, employees, regulators, suppliers and local communities) and the nature of the organization's accountabilities and relationships with them [see **5.1.4**b)];

c) the organization's purpose in terms of the vision and strategic outcomes it exists to produce (see also **5.1.5**);

d) the limits on the risks that the governing body is willing for the organization to take in producing the strategic outcomes;

EXAMPLE: risk

In making decisions on which strategic outcomes to pursue to achieve its vision, the risks that the organization is willing to take are considered.

Having established the strategic outcomes, the risks associated with each of the possible options for delivery of the strategic outcomes are considered, as it is likely that different outcomes will have different risks, timescales and costs. Some risks might be threats and others opportunities. The nature and extent of risks to the achievement of the organization's goals are proactively managed. Understanding the amount of risk that the organization is willing to accept helps to establish its risk appetite. This is a useful control which can help the governing body delegate day-to-day activities without losing control.

Setting risk limits is a useful control that enables the governing body to delegate activities to its executive, but also support the executive with understanding when it is necessary for them to escalate or request support from the governing body. To help understand where risk limits could be, the governing body considers possible risk scenarios with the help of the executive. This helps everyone understand the potential relationships between a risk and its impacts, and, where appropriate, risks limits can be set.

In considering risks, internal and external risks are considered, including those involving the organization's relationships with partners and third-party suppliers. Where external risks are identified, these are coordinated and agreed with the relevant stakeholders to ensure that these risks are also identified, understood and managed.

By clearly identifying its vision and strategic outcomes, and risk limits on their fulfilment, the governing body has provided sound controls as a basis for managers to ensure that risks are managed effectively across the organization.

e)   the arrangements in the event of unexpected crises in relation to communications, continuity and recovery;

f)   the process by which the governing body governs its own work, including that of its officers and committees, to ensure it carries out its responsibilities within the governance system and guards against biases, abuses and unmanaged conflicts of interest;

NOTE   Conflict of interest arises in any situation or set of circumstances where a person's judgment or actions regarding a primary interest is unduly influenced by a secondary interest.

Organizations can be damaged not only when conflicts of interest actually arise, but also when others perceive conflicts of interest, whether or not they have any direct impact.

Particularly in small and highly interconnected communities, conflicts of interest are bound to arise. Thus, while the aim is to eliminate conflicts of interest whenever possible, such elimination might not be possible without defeating the organization's overall purpose. A major incentive for increasing the diversity of the organization's leadership is that it helps to minimize conflicts of interest.

g)   the process by which the governing body governs the work of its direct delegate(s) to ensure the accountability of everyone in the organization for establishing sufficient operational controls to deliver governance policies (see **5.3**);

h)   the arrangements for designing, implementing, monitoring, reviewing and continually improving governance controls throughout the organization;

i)   the arrangements for the proper safekeeping, updating and distribution of all governance documentation, including evidence of the implementation of the operation of its controls and correspondence with stakeholders and any other interested parties.

5.2.5   Ensure governance policies set standards for all aspects of organizational performance

The governing body should ensure that its governance policies provide direction in a manner that enables control and therefore accountability. Therefore, the governing body should ensure that its governance policies set standards for accomplishment relating to:

a) the organization's purpose and strategic outcomes [see Note to **2.4,** and **5.1.5**a) and **5.1.5**b)];

b) the desired manner of achievement and all areas of related risk (see Annex A); and

c) the adequacy of its governance performance, including its succession planning.

NOTE   Standards relating to the desired manner of achievement of strategic objectives need to be designed to prevent risks arising from conflicts of interest, other unacceptable conduct, health and safety, poor security, inadequate quality, environmental harm, inadequate maintenance of assets, etc. (See also Annex C.)

5.2.6   Establish governance role clarity

The governing body should ensure that it has a single system of direction and control within which the authorities, accountabilities, performance standards and reporting requirements of all involved in governing and operating the organization are clearly defined by:

a)   ensuring that the governing body, its officers, committees, executive and other delegates have clearly documented authorities, accountabilities, rules of conduct and reporting requirements to be observed in matters of governance (for example, in governing body policies, job descriptions or terms of reference and codes of conduct); and

b)   ensuring that the executive, in its turn, has a clear system for ensuring the authority and accountability of all its delegates in fulfilling the governing body policies.

5.2.7   Uphold good delegation principles

The governing body should ensure that principles of good delegation are upheld by:

a)   ensuring that its delegates are only held accountable for those matters over which they have been given authority;

b)   stating its expectations of its delegates;

c)   remaining accountable for its delegates' use of its authority by ensuring that all its expectations are monitored;

d)   ensuring that its delegates are clear about how to escalate matters that exceed their authority; and

e)   ensuring that its delegates are clear about their ability to secure relevant support.

### 5.2.8 Ensure that the ownership of policies is clear

Governance policies should belong to the governing body and not be open to change without the governing body's agreement. Managers should be empowered to create lower level policies within governing body policies.

5.3 Implementing governance control

5.3.1 General

In order to assure itself that its expectations of itself and the organization are being fulfilled, the governing body should ensure that control is clearly established and regularly reviewed, to protect and enhance the organization's long-term value by taking the steps recommended in **5.3.2** to **5.3.4** (see Figure 4).

Figure 4 **Implementing governance control**
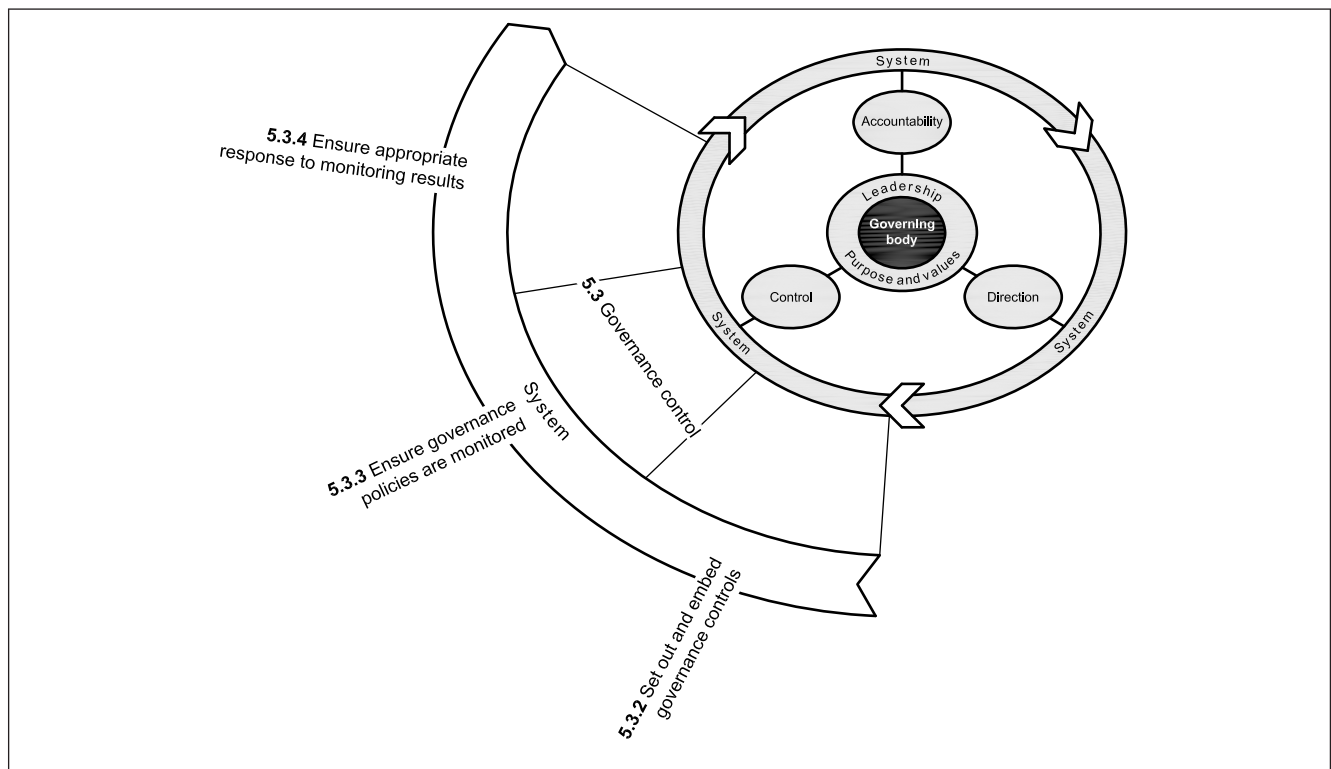
5.3.2 Set out and embed governance controls

5.3.2.1 The governing body should clearly establish and regularly review governance controls founded on its expectations for the organization as stated in its governance policies. The governing body's controls should:

a) enable it to assure performance against, and respond to deviations from, its expectations such that risks to their fulfilment can be managed; and

b) include: 1) the relevant governance policies and 2) the metrics or other performance indicators used to track and report on the success or otherwise of the implementation of its policies by itself, its executive and all involved.

NOTE   A governing body's controls comprise measures and/or actions that enable the prevention, detection and mitigation of risks, as well as mechanisms to identify, respond to and thereby maximize opportunities.

Governance policies that clearly set out the governing body's risk tolerance levels (such as a spending limit) can be described as preventative controls. Regular monitoring against such polices can be described as detective controls. Regular assessment and follow-up of deviations from policies could be described as mitigation controls.

5.3.2.2 The governing body should use its policies and policy monitoring to ensure that its controls are embedded in all key organizational processes, including business planning and budgeting, job descriptions, reporting and evaluations.

5.3.3 Ensure governance policies are monitored

The governing body should monitor and assess the implementation of its policies in a manner that is proportionate to the organization's nature, size and complexity, and:

a)   includes appropriate degrees of independent review;

b)   takes account of the need for timeliness in reporting unplanned or unexpected events; and

c)   provides documented evidence of implementation.

> **EXAMPLE: monitoring and assessing of governance policy**
>
> A governing body may establish a timetable for the receipt of reports from its chief executive on the implementation of each of its policies. It may assess these reports at each of its relevant meetings and agree an appropriate response to any cases of non-compliance.

5.3.4 Ensure appropriate response to monitoring results

In order to ensure that it responds appropriately to the results of performance monitoring, the governing body should:

a)   respond to any deviations from standards in a manner that corrects or minimizes the current and future impact of any deviations, including sustaining a crisis management capability and appropriate continuity plans, and subsequently confirming that effective recovery and remedial actions have been taken;

b)   regularly review the suitability and quality of its controls and the adequacy of its arrangements for objective and impartial assurance from internal and/or external auditors;

c)   follow the recommendations of **5.1.8** on recognizing and responding to governance performance; and

d)   use the results to report to formal stakeholders.

**Annex A
(informative)**

Governance policy development: Areas that typical governance policies might cover

Not all the items in the following list are relevant to all organizations.

Governance system

- Policy/Standard-setting process
- Policy/Standard-monitoring process
- Auditing the governance controls
- Continually improving the governance controls

Governance accountability

- Stakeholder identification and relations (including consultation and reporting)
- Governing body authority and accountability
    - officer authority and accountability
    - committee authority and accountability
- Governing body composition
- Governing body expenses (including remuneration as relevant)
- Governing body code of behaviour/conduct
- Governance succession and contingency planning
- Executive authority and accountability

Vision and strategic outcomes

- Vision
- Strategic outcomes

Risk limits

- Legal and regulatory compliance
- Ethical/Public interest commitments:
    - voluntary commitments on issues such as the environment, safety, privacy, security and sustainability
- Planning and budgeting
- Risk-Value balance/Risk appetite
- Financial control
- Asset protection
- Investment
- Procurement
- Treatment of employees (and/or staff, volunteers, contractors or suppliers), including performance management, remuneration and whistle-blowing provisions)
- Treatment of customers/beneficiaries
- Executive contingency planning

Examples of different stakeholder profiles for different organizations

Organizations are accountable to different people and entities for different things. In particular, they might be accountable to different persons or organizations for:

a)   fulfilment of their overall purpose;

b)   compliance with regulations/licensing terms;

c)   contract/promise compliance; or

d)   fair and proper treatment and ethical conduct.

As defined in **2.18**, an organization's stakeholders comprise any persons or other organizations that can affect, be affected by, or perceive themselves to be affected by its decisions or activities. This can include: regulators, suppliers, shareholders, employees or volunteers, customers or clients, local communities, the general public, advisers and many more persons or entities.

In order to govern well, governing bodies need to distinguish between those persons on whose behalf they are governing (directing, controlling and holding the whole organization accountable) and those persons whose interests they ought to take account of while governing in order to ensure their fair and proper treatment. In this British standard, the former are referred to as a special category of stakeholder on whose behalf the governing body determines the organization's purpose and controls all aspects of its performance.

The governing body is directly accountable to certain stakeholders for the long-term direction and control of the whole organization by virtue of either:

1)   a legal duty of accountability required by the founding documentation; or

2)   a moral duty of accountability acknowledged by the governing body.

The following examples illustrate this distinction.

A publicly-listed corporation

The stakeholders on whose behalf the governing body of a publicly-listed corporation governs, and to whom it is directly accountable for the long-term direction and control of the whole organization, are its shareholders.

The governing body also needs to ensure that the organization is accountable to other stakeholders (such as customers, employees, regulators, suppliers and local communities) for their fair and proper treatment, but does not derive its authority from them.

A privately-owned corporation

The stakeholders on whose behalf the governing body of a privately-owned corporation governs, and to whom it is directly accountable for the long-term direction and control of the whole organization, are its shareholders.

The governing body also needs to ensure that the organization is accountable to other stakeholders (such as customers, employees, regulators, suppliers and local communities) for their fair and proper treatment, but does not derive its authority from them.

A credit union

The stakeholders on whose behalf the governing body of a credit union governs, and to whom it is directly accountable for the long-term direction and control of the whole organization, are its members as owners/shareholders.

The governing body also needs to ensure that the organization is accountable to other stakeholders (such as its members as customers, as well as its employees, suppliers and local communities) for their fair and proper treatment, but does not derive its authority from them.

A further education college

The stakeholders on whose behalf the governing body of a further education college governs, and to whom it is directly accountable for the long-term direction and control of the whole organization, are the members of its governing body.

However, the governing body can decide to widen its concept of stakeholders to include others in the community in which it operates. The governing body also needs to ensure that the organization is accountable to other stakeholders (such as its students as customers, employees, regulators, suppliers and local communities) for their fair and proper treatment, but does not derive its authority from them.

A membership association

The stakeholders on whose behalf the governing body of a membership association governs, and to whom it is directly accountable for the long-term direction and control of the whole organization, are its members as owners/shareholders.

The governing body also needs to ensure that the organization is accountable to other stakeholders (such as its members as customers, as well as its employees, regulators, suppliers and local communities) for their fair and proper treatment, but does not derive its authority from them.

A professional regulatory body

The stakeholders on whose behalf the governing body of a professional regulatory body governs, and to whom it is directly accountable for the long-term direction and control of the whole organization, are the public (but note some are also membership associations).

The governing body also needs to ensure that the organization is accountable to other stakeholders (such as its members as customers, as well as its employees, regulators, suppliers and local communities) for their fair and proper treatment, but does not derive its authority from them.

A local council

The stakeholders on whose behalf the governing body of a local council governs, and to whom it is directly accountable for the long-term direction and control of the whole organization, are council tax payers as owners.

The governing body also needs to ensure that the organization is accountable to other stakeholders (such as members of the entire local community as customers, as well as its employees, regulators, suppliers and local communities) for their fair and proper treatment, but does not derive its authority from them.

A charity

The stakeholders on whose behalf the governing body of a charity governs, and to whom it is directly accountable for the long-term direction and control of the whole organization, are usually the members of its governing body. However, the governing body can decide to widen its concept of formal stakeholders to include others in the community in which it operates.

The governing body also needs to ensure that the organization is accountable to other stakeholders (such as its clients as customers, employees, volunteers, regulators, suppliers and local communities) for their fair and proper treatment, but does not derive its authority from them.

A privately-owned, owner-manager run, small business

The stakeholders on whose behalf the owner-manager of a privately-owned small business governs, and to whom it is directly accountable for the long-term direction and control of the whole organization, are its owners. The owner-manager may be the sole owner or share ownership with other business partners.

The governing entity (be it the owner-manager or more widely composed governing body) also needs to ensure that the organization is accountable to other stakeholders (such as customers, employees, regulators, suppliers and local communities) for their fair and proper treatment, but does not derive its authority from them. A sole shareholder may wish to consider establishing an "advisory board" to assist with establishing effective governance.

NOTE   Section 172 of the 2006 Companies Act [6] requires directors to promote the success of the company in the interests of all of the shareholders, whilst taking into account the impact of such a promotion on a wide group of stakeholder interests, e.g. employees, suppliers, local communities and the environment.

Annex C
(informative)

Examples of handling multiple roles

The allocation of governance and management roles has to reflect the size and structure of the organization. In a smaller organization a person might need to play several roles. For example, in a small business or a small charity, one person may play the roles of stakeholder, governor, governing body officer and executive.

Effective governance can be achieved in such cases, as long as the person(s) concerned is clear about the nature of all the roles they need to play and seeks to mitigate the potential for conflicts of interest between them.

The following are the key roles in governance.

Formal stakeholder

The role of a formal stakeholder (i.e. a stakeholder acknowledged by the organization's founding documentation or governing body decision to be in a position equivalent to that of a shareholder) is to hold the governing body accountable for the long-term direction and control of the whole organization. As such, a formal stakeholder needs to be aware of their powers and to exercise those powers in a responsible manner that takes account of the governing body's need to reflect the best interests of all the organization's formal stakeholders and ensure the fair and proper treatment of all stakeholders.

Governor

The role of a governor is to be accountable to formal stakeholders for the long-term direction and control of the whole organization. As such, a governor needs to be aware of their powers and exercise those powers in a responsible manner that takes account of the governing body's need to reflect the best interests of all the organization's formal stakeholders and ensure the fair and proper treatment of all stakeholders.

Governing body officer

The role of the chair is to ensure the governing body is acting in accordance with its expectations of itself and those legitimately imposed upon it by other authorities.

The role of the secretary is to ensure the integrity of the governing body's records.

The role of the treasurer is to ensure the integrity of the governing body's financial reporting.

Executive

The role of the executive is to be accountable to the governing body for the day-to-day operation of the whole organization.

Other stakeholders

The role of other stakeholders is to uphold their fair and proper rights and obligations, and to ensure that the organization is held accountable for these.

Regulator

The role of a regulator is to hold the organization accountable for compliance with specific and relevant rules and regulations.

Annex D   **Self-assessment checklist**
(informative)

Table D.1   **Main steps in implementing a governance system and principles**

System and component principles	Steps to implementation
3 Governance system	**3.1** Implement governance to ensure that the organization's purposes are fulfilled in alignment with its values.
	3.2 Ensure all aspects of governance are integrated into a single holistic system
	3.3 Ensure the system is fully and accurately documented in founding documents and policies
	3.4 Ensure information is held in a central repository where documentation is provided to and from the accountability, direction and control components
5.1 Governance accountability	**5.1.2** Identify, consult with and report to relevant stakeholders
	5.1.3 Exhibit leadership
	5.1.4 Determine the organization's best long-term interests
	5.1.5 Sustain clarity on organization's purpose and values
	5.1.6 Establish an effective governance culture
	5.1.7 Establish governance competence and capacity
	5.1.8 Recognize and respond to governance performance
	5.1.9 Demonstrate sufficient transparency for accountability
5.2 Governance direction	**5.2.2** Understand and ensure integrity of founding documentation
	5.2.3 Understand the organization's context
	5.2.4 Establish and regularly review governance policies
	5.2.5 Ensure governance policies set standards for all aspects of organizational performance
	5.2.6 Establish governance role clarity
	5.2.7 Uphold good delegation principles
	5.2.8 Ensure that ownership of policies is clear
5.3 Governance control	**5.3.2** Set out and embed governance controls
	5.3.3 Ensure governance policies are monitored
	5.3.4 Ensure appropriate response to monitoring results

Annex E **Map of BS 13500 against the UK Corporate**
(informative) **Governance Code 2012 [2]**

Table E.1 **BS 13500 mapped against the UK Corporate Governance Code (UKCG) 2012**

UKCG 2012	BS 13500
Section A: Leadership	
A.1: The Role of the Board	
Main Principle: "effective board which is collectively responsible for the long-term success"	Clause **3**: Purpose of governance and its effective delivery by a governance system.
Supporting Principles:	**4.2.3**: Exhibit leadership of the organization and create a culture of responsible treatment for all stakeholders.
- "provide entrepreneurial leadership within a framework of prudent and effective controls which enables risk to be assessed and managed";	**4.2.4, 5.1.4** and **5.2.3**a): Determine the organization's best long-term interests with an understanding of the internal and external context.
- "set the company's strategic aims, ensure that the necessary financial and human resources are in place for the company to meet its objectives and review management performance";	**4.2.5**: The organization's purpose should be clear and focused on the creation of value.
	4.2.6 and **5.1.6**: Create an effective governance culture.
- "set the values and standards and ensure that its obligations to its shareholders and others are understood and met";	**4.3**: Set out appropriate standards for organization performance in governance policies that are aligned with sound founding documentation, together with the roles, authorities, accountabilities and reporting requirements.
- "act in the best interests of the company"	**4.4**: Establish and regularly review governance controls.
	5.1.2: Identify, consult with and report to relevant stakeholders.
	5.1.3a) Exhibit leadership by focusing on the best long-term interests of the organization.
	5.1.5a) Provide consistent and clear leadership about the organization's purpose and values on behalf of those to whom it regards itself as directly accountable in the form of a broad long-term vision.
	5.1.7d): Embed effective governance in the organization's culture by giving appropriate attention and resources.
A2: Division of Responsibilities	
Main Principle:	
- "clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business";	**4.3.7**: Ensure that principles of good delegation are upheld; delegates are not held accountable for things over which they have no authority or for expectations that have not been stated. Accountable people can delegate their authority to others, but they remain accountable for their delegates' use of that authority.
- "No one individual should have unfettered powers of decision."	**5.2.4**g): Governance policies should state the process by which the governing body governs the work of its direct delegate(s) to ensure the accountability of everyone in the organization for establishing sufficient operational controls to deliver governance policies.
	5.2.6a): Ensure there is a single system of direction and control within which the authorities, accountabilities, performance standards and reporting requirements of all involved in governing and operating the organization are clearly defined.
	5.2.6b): Ensure the executive has a clear system for ensuring the authority and accountability of all its delegates in fulfilling governing body policies.
	5.2.7: Ensure principles of good delegation are upheld.

Table E.1   **BS 13500 mapped against the UK Corporate Governance Code (UKCG) 2012**

UKCG 2012	BS 13500
A.3: The Chairman Main Principle: "The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role."	–
A.4: Non-executive Directors Principle: "As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy."	**5.1.5, 5.1.8** and **5.2.1**: Governing body's role in direction-setting/strategy and monitoring performance.
Section B: Effectiveness **B.1: The Composition of the Board** Main Principle: "The board and its committees should have the appropriate balance of skills, experience, independence and knowledge."	**5.2.2**d): Ensure all expectations are set within a good understanding of the organization's founding documentation and that such documentation provides the basics needed to establish the appropriate composition of the governing body to reflect the diversity of perspectives and best interests of all key stakeholders. **5.1.7**a): Ensure the governing body is composed of diverse, competent and diligent persons who understand the principles of good governance and the strategic position of the organization sufficiently to direct, control and be held accountable for its long-term success.
B.2: Appointments to the Board Main Principle: "There should be a formal, rigorous and transparent procedure for the appointment of new directors."	**5.2.2**c): Ensure that the organization's founding documentation provides for appropriate formal stakeholder impartiality in the appointment, remuneration, roles and termination of members of the governing body.
Supporting Principles: - "The search for board candidates should be conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the board, including gender"; - "The board should satisfy itself that plans are in place for orderly succession and to ensure progressive refreshing of the board"	**5.2.2**d): Ensure that the founding documentation provides the basics needed to establish the appropriate composition of the governing body to reflect the diversity of perspectives and best interests of all key stakeholders. **4.2.7**: Ensure the competence and capacity of members and delegates to fulfil their governance accountabilities.
B.3: Commitment Main Principle: "All directors should be able to allocate sufficient time."	**5.1.7**d): Ensure governance competence and capacity by giving appropriate attention and resources. **5.1.6**a): Ensure that all those involved are aware of the importance of governance and how they contribute to its effectiveness. **5.2.6**a): Ensure that the governing body, its officers, committees, executive and other delegates have clearly documented authorities, accountabilities, rules of conduct and reporting requirements to be observed in matters of governance.
B.4: Development Principle: "All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge."	**5.1.7**b): Ensure governance competence and capacity by ensuring that all those with governance authorities and accountabilities are competent to perform the required tasks.

Table E.1   **BS 13500 mapped against the UK Corporate Governance Code (UKCG) 2012**

UKCG 2012	BS 13500
B.5: Information and Support Main Principle: "The board should be supplied in a timely manner with information in a form and of a quality appropriate to discharge its duties."	**5.3.3**: Monitor and assess the implementation of policies in a manner that is proportionate to the organization's nature, size and complexity.
B.6: Evaluation Main Principle: "The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors."	**5.1.8**a): Assess the performance of those with governance responsibilities, including members of the governing body itself, and take the necessary actions to address any issues. **5.2.5**c): Ensure that governance policies set standards relating to the adequacy of governance performance, including succession planning.
B.7: Re-election Main Principle: "All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance."	Implicit in **5.1.7**a).
Section C: Accountability **C.1: Financial and Business Reporting** Main Principle: "The board should present a fair, balanced and understandable assessment of the company's position and prospects."	**4.2.1**: Ensure the organization is accountable to its shareholders or equivalent for the fulfilment of its overall long-term purpose and values, and to all its stakeholders for the organization's impact upon them. **5.1.2** Ensure that the organization is listening to and being accountable to the right people for the right things in the right way. **5.1.9.1**: Ensure that decisions and activities that affect stakeholders, including the public, are properly documented, visible and communicated in a clear, accurate, timely, honest, complete and open manner.
C.2: Risk Management and Internal Control Main Principle: - "The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives." - "The board should maintain sound risk management and internal control systems."	**3.1**b): Identify the risks involved in fulfilling the organization's purpose in alignment with its values. **4.4.3**: Ensure that all policies are monitored and assessed, and respond appropriately to the results. **5.2.4**d): Governance policies should state the limits on the risks that the governing body is willing for the organization to take in producing the strategic outcomes. **5.2.5**b): Ensure governance policies set standards relating to the desired manner of achievement and all areas of related risk. **5.3**: Ensure that control is clearly established and regularly reviewed. **5.3.4**b): Regularly review the suitability and quality of controls and the adequacy of arrangements for objective and impartial assurance from auditors.
C.3: Audit Committee and Auditors Main Principle: "The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors."	**5.1.9.3**: Disclose: a) the organization's processes, both of governance and accountability as a whole; and b) specific activities, decisions and impacts where these affect stakeholders or the general public. **5.3.4**d): Use monitoring results to report to formal stakeholders. [See also **5.2.6**a).]

Table E.1   **BS 13500 mapped against the UK Corporate Governance Code (UKCG) 2012**

UKCG 2012	BS 13500
Section D: Remuneration **D.1: The Level and Components of Remuneration** Main Principle: "Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance."	**5.1.6**c): Ensure members of the governing body and its delegates demonstrate commitment to effective governance, by their actions not merely their words, in an atmosphere of openness and mutual support.
Section E: Relations with Shareholders **E.1: Dialogue with Shareholders** Main Principle: "There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place."	**4.2.2**: Determine what commitments to seek from particular groups of stakeholders. **5.1.2**: Ensure the organization is listening to and being accountable to the right people for the right things in the right way. **5.1.4**a): Understand the organization's long-term context in terms of the results of its dialogue with those stakeholders to whom it regards itself as directly accountable as the source of the organization's purpose and values.
E.2: Constructive Use of the AGM Main Principle: "The board should use the AGM to communicate with investors and to encourage their participation."	**5.1.2**: Identify, consult with and report to relevant stakeholders. **5.1.9**: Demonstrate sufficient transparency for accountability.

Bibliography

Standards publications

For dated references, only the edition cited applies. For undated references, the latest edition of the referenced document (including any amendments) applies.

BS ISO 26000:2010, *Guidance on social responsibility*

BS ISO 31000:2009, *Risk management – Principles and guidelines*

ISO/IEC Directives, Part 1:2012, *Consolidated ISO Supplement – Procedures specific to ISO*

ISO/IEC Guide 73:2009, *Risk management – Vocabulary*

PAS 1998, *Whistleblowing arrangements – Code of practice*

Other publications

[1] UNITED KINGDOM LISTING AUTHORITY. Listing Rules. (http://fshandbook.info/FS/html/handbook/LR).

[2] FINANCIAL REPORTING COUNCIL. The UK Corporate Governance Code. London: The Financial Reporting Council Limited. 2012.

[3] INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES. *Report of the Committee on financial aspects of corporate governance: The code of best practice* (The Cadbury Report). London: Gee and Co. Ltd. 1992.

[4] CORNFORTH, C. *The Governance of Voluntary and Community Organisations: An Overview*. Co-operativesUK. 2003.

[5] ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD). *Principles of Corporate Governance*. Paris: OECD Publications Service. 2004.

[6] GREAT BRITAIN. The Companies Act 2006. London: TSO.

Further reading

There is a growing wealth of literature on governance, much of which has influenced the development of this code. Some of this literature is included here, with the caveat that the list is limited and is not, and cannot be, in any way definitive or exhaustive.

General

BS 10012, *Data protection – Specification for a personal information management system.*

BS 11000-1, *Collaborative business relationships – Part 1: A framework specification.*

BS 11000-2, *Collaborative business relationships – Part 2: Guide to implementing BS 11000-1.*

BS 11200, *Crisis management – Guidance and good practice* (in preparation).

BS 31100, *Risk management – Code of practice and guidance for the implementation of BS ISO 31000.*

BS 65000, *Guidance on organizational resilience* (in preparation).

BS EN ISO 9000, *Quality management systems – Fundamentals and vocabulary.*

BS ISO 15489-1, *Information and documentation – Records management – Part 1: General.*

BS ISO/IEC 27001, *Information technology – Security techniques – Information security management systems – Requirements.*

BS ISO/IEC 38500, *Corporate governance of information technology.*

AMOUR, D. *The ICSA Company Secretary's Handbook*, 9th ed. London: Institute of Chartered Secretaries and Administrators (ICSA). 2012.

CARVER, J. *Boards that make a difference: A new design for leadership in public and nonprofit organizations.* 3rd ed. San Francisco: Jossey-Bass. 2006.

CARVER, J. and OLIVER, C. *Corporate boards that create value: Governing company performance from the boardroom.* San Francisco: Jossey-Bass. 2002.

CHAIT, R., RYAN, W., and TAYLOR, B. *Governance as Leadership: Reframing the work of Nonprofit boards.* New Jersey: John Wiley & Sons Inc. 2005.

CHARAN, R. *Boards that Deliver: Advancing Corporate Governance from Compliance to Competitive Advantage.* San Francisco: Jossey Bass. 2005.

COMMONWEALTH BUSINESS COUNCIL. *Business principles.* London: Commonwealth Business Council. 2007.

DALTON, D. *Good Governance: A practical guide for trustees, chairs and CEO.* London: National Council for Voluntary Organisations (NCVO). 2011.

ECONOMIC AND SOCIAL RESEARCH COUNCIL (ESRC). *Beyond the Boardroom.* Swindon: ESRC. 2011.

INSTITUTE OF DIRECTORS/PINSENT MASONS. *The Director's Handbook Revised Edition - Your Duties, Responsibilities and Liabilities.* 3rd ed. London: Kogan Page. 2010.

MALLIN, C. *Corporate Governance.* 4th ed. Oxford: Oxford University Press. 2012.

MONKS, R., and MINOW, N. *Corporate Governance.* Chichester: John Wiley & Sons Ltd. 2008.

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD). *Principles of Corporate Governance.* Paris: OECD Publications Service. 2004.

TOMORROW'S GOOD GOVERNANCE FORUM. *Tomorrow's Corporate Government. The case for the 'Board Mandate'.* (http://www.cimaglobal.com/Documents/Thought_leadership_docs/ Tomorrow's-Value/TC%20Case%20for%20the%20board%20mandate %20report.pdf).

TRICKER, B. *Corporate Governance: Principles, Policies, and Practices.* New York: Oxford University Press (OUP). 2009.

Publicly-listed companies

FINANCIAL REPORTING COUNCIL. *Guidance on board effectiveness.* London: The Financial Reporting Council Limited. 2011.

Small business

INSTITUTE OF DIRECTORS (IOD). *Corporate Governance Guidance and Principles for Unlisted Companies in the UK.* London: IOD. 2010.

QUOTED COMPANIES ALLIANCE (QCA). *Corporate Governance Code for Small and Mid-Size Quoted Companies 2013.* London: QCA. 2013.

Financial services

ASSOCIATION OF BRITISH CREDIT UNIONS LIMITED (ABCUL). *Governing for success: A Code of Governance and Good Practice for credit unions in Great Britain*. ABCUL. 2010.
(http://www.abcul.org/credit-unions/code-governance/code-of-governance).

BASEL COMMITTEE ON BANKING SUPERVISION. *Principles for enhancing corporate governance*. Basel: Bank for International Settlement. 2010.
(http://www.bis.org/publ/bcbs176.pdf).

LLOYD'S. *Behaviour: Bull, bear or lemming? Emerging risks report*. London: Lloyd's. 2010.

Audit

INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES (ICAEW). *The Audit Firm Governance Code*. London: ICAEW. 2010.

Public Sector

INDEPENDENT COMMISSION ON GOOD GOVERNANCE IN PUBLIC SERVICES. *The Good Governance Standard for Public Services*. London: Office for Public Management Ltd. and Chartered Institute of Public Finance and Accountancy. 2004.

HM TREASURY AND CABINET OFFICE. *Corporate governance in central government departments: Code of good practice 2011*. London: HM Treasury.

MONITOR. *The NHS Foundation Trust Code of Governance*. London: Monitor. 2010.
(http://www.monitor-nhsft.gov.uk/home/news-events-and-publications/
our-publications/browse-category/guidance-foundation-trusts/mandat-3).

Third Sector/Charities

NATIONAL HUB OF EXPERTISE IN GOVERNANCE. *Good governance: A Code for the Voluntary and Community Sector*. London: National Council for Voluntary Organisations. 2005.

CODE STEERING GROUP. *Good Governance: A Code for the Voluntary and Community Sector*. 2nd ed. 2010.
(http://www.charity-commission.gov.uk/Charity_requirements_guidance/Charity_
governance/Good_governance/good_gov_code.aspx).

Housing

CONFEDERATION OF CO-OPERATIVE HOUSING (CCH). *Excellence in Governance: Code of Governance for Housing Co-operatives*. CCH. 2012.
(http://www.cch.coop/docs/cch-code-ofgovernance2012.pdf)

NATIONAL HOUSING FEDERATION (NHF). *Excellence in governance: code for members and good practice guide 2010.* NHF. 2010.

FE Colleges

ASSOCIATION OF COLLEGES. *Colleges' Foundation Code of Governance*. London: Association of Colleges. 2011.

This page deliberately left blank

British Standards Institution (BSI)

BSI is the national body responsible for preparing British Standards and other standards-related publications, information and services.

BSI is incorporated by Royal Charter. British Standards and other standardization products are published by BSI Standards Limited.

About us

We bring together business, industry, government, consumers, innovators and others to shape their combined experience and expertise into standards-based solutions.

The knowledge embodied in our standards has been carefully assembled in a dependable format and refined through our open consultation process. Organizations of all sizes and across all sectors choose standards to help them achieve their goals.

Information on standards

We can provide you with the knowledge that your organization needs to succeed. Find out more about British Standards by visiting our website at bsigroup.com/standards or contacting our Customer Services team or Knowledge Centre.

Buying standards

You can buy and download PDF versions of BSI publications, including British and adopted European and international standards, through our website at bsigroup.com/shop, where hard copies can also be purchased.

If you need international and foreign standards from other Standards Development Organizations, hard copies can be ordered from our Customer Services team.

Subscriptions

Our range of subscription services are designed to make using standards easier for you. For further information on our subscription products go to bsigroup.com/subscriptions.

With **British Standards Online (BSOL)** you'll have instant access to over 55,000 British and adopted European and international standards from your desktop. It's available 24/7 and is refreshed daily so you'll always be up to date.

You can keep in touch with standards developments and receive substantial discounts on the purchase price of standards, both in single copy and subscription format, by becoming a **BSI Subscribing Member**.

PLUS is an updating service exclusive to BSI Subscribing Members. You will automatically receive the latest hard copy of your standards when they're revised or replaced.

To find out more about becoming a BSI Subscribing Member and the benefits of membership, please visit bsigroup.com/shop.

With a **Multi-User Network Licence (MUNL)** you are able to host standards publications on your intranet. Licences can cover as few or as many users as you wish. With updates supplied as soon as they're available, you can be sure your documentation is current. For further information, email bsmusales@bsigroup.com.

Revisions

Our British Standards and other publications are updated by amendment or revision.

We continually improve the quality of our products and services to benefit your business. If you find an inaccuracy or ambiguity within a British Standard or other BSI publication please inform the Knowledge Centre.

Copyright

All the data, software and documentation set out in all British Standards and other BSI publications are the property of and copyrighted by BSI, or some person or entity that owns copyright in the information used (such as the international standardization bodies) and has formally licensed such information to BSI for commercial publication and use. Except as permitted under the Copyright, Designs and Patents Act 1988 no extract may be reproduced, stored in a retrieval system or transmitted in any form or by any means – electronic, photocopying, recording or otherwise – without prior written permission from BSI. Details and advice can be obtained from the Copyright & Licensing Department.

Useful Contacts:

Customer Services
Tel: +44 845 086 9001
Email (orders): orders@bsigroup.com
Email (enquiries): cservices@bsigroup.com

Subscriptions
Tel: +44 845 086 9001
Email: subscriptions@bsigroup.com

Knowledge Centre
Tel: +44 20 8996 7004
Email: knowledgecentre@bsigroup.com

Copyright & Licensing
Tel: +44 20 8996 7070
Email: copyright@bsigroup.com

BSI Group Headquarters

389 Chiswick High Road London W4 4AL UK

bsi.

...making excellence a habit.™