



tomorrow's company

BS 13500 Code of practice for delivering effective governance

Introductory Guide by Tomorrow's Company

"Tomorrow's Company are a London based global think tank delivering value for business leaders and owners by addressing the systemic and behavioural questions of the business world through the overarching themes of: leadership & talent; sustainability & models of business success and governance & stewardship.

Tomorrow's Company believe businesses can and should be a force for good; and it believes the challenges the world faces are best served through harnessing business' innovation, creativity and resources.

Tomorrow's Company's solutions are by business for business, built on deep relationships with business leaders, government, opinion formers and the media."

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BS 13500 Code of practice for delivering effective governance

“ Good governance is an asset and strengthens a company ”

Tomorrow's Company

Governance gives direction, drives performance and enforces credibility. It helps to build trust within key business relationships and mitigates against risks. A lack of effective governance creates confusion and can prevent opportunities from being fully grasped.

This document accompanies *BS 13500 Code of practice for delivering effective governance* and the associated BS 13500 case studies. It provides an overview of governance, what the standard seeks to achieve and how it can be of benefit to all organizations.



Background to BS 13500

Twenty years ago, a series of dramatic company crisis and failures prompted the first major review of corporate governance leading to the Cadbury Report in the UK. One of the key outcomes of this report was to place issues of behaviour and culture firmly at the heart of governance.

Delivering Effective Governance

Twenty years on, the financial crisis and public examples of governance failure have reinforced the vital importance of disciplined governance to business as a whole and to the national economy.

There is a tendency to think that these failures of governance were about a lack of compliance with a set of rules or codes. But this is not the case.

Research and inquiries into the causes of many of these corporate failures have highlighted that, while there were some systems and process issues, many of the underlying causes were due to board-driven behavioural and organizational risk factors.

For example, inadequate board skills and non-executive director (NED) control, defective communication and information, as well as inadequate leadership on ethos and culture.¹

¹See: *Cass Business School on behalf of Airmic, sponsored by Crawford and Lockton. Roads to Ruin: A study of major risk events: Their origins, impact and implications, London: Airmic, 2012. Also: Tomorrow's Good Governance Forum and Tomorrow's Company. Tomorrow's Corporate Governance: The boardroom and risk, 2013*



What is governance about?

Governance and leadership are intertwined. Leadership is defined as *“the process of persuasion or example by which an individual or leadership induces a group to pursue objectives held by the leader or shared by the leader and his or her followers.”*²

“A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole...”

Section 172 of the Companies Act 2006

Governance is about the system through which leadership is exercised and held accountable.

Governance and leadership are ultimately the responsibility of a governing body. For companies, this is the board of directors who by law owe their duty to the company. Their task is to secure the long-term prosperity of the business.

This is not achieved by the governing body managing the business themselves, but by ensuring that it is being soundly managed by the executive in the long-term interests of its shareholders or other stakeholders.

Shareholders, for example, delegate authority to the board by electing the directors. The board, led by its chairman delegates to the management of the organization by appointing the chief executive.

The governing body can only fulfil its duty to the organization and create long term prosperity for its shareholders or other stakeholders if it recognizes and looks after the health of all its key relationships. In particular those with customers, employees, suppliers, the local community and wider society.

So while formally accountability is with shareholders or other stakeholders, in practice effective governance extends to cover all key relationships. At the same time, it is worth noting that the board must ensure that it is conforming to company law, accounting rules and other relevant requirements such as stock exchange rules and regulations.

²John W Gardiner, *On Leadership*, The Free Press; 1993

“Effective corporate governance creates and sustains the leadership and decision-making frameworks that enable an organization to deliver value for all stakeholders. This standard will provide guidance for companies looking to develop their corporate governance structures with the objective of achieving leading practice.”

Richard Tapp, Company Secretary
and Director of Legal Services, Carillion



Although leadership and governance are distinct but intertwined activities; both start with ensuring the organization has and stays true to its purpose and values. Without a clear and worthwhile purpose, the organization lacks direction. Without clear and strongly upheld values, the reputation and trustworthiness of an organization can quickly be eroded.

There are many pressures, especially financial, which encourage boards to focus on the performance of the business and the people within it. But some of the biggest failures both large and small companies have encountered are when they fail to guide and monitor the behaviour of people in the course of pursuing those results.

**Were they using safe working methods?
Were they behaving ethically? Were they
telling the truth to customers and regulators?**

**Good governance is about ensuring that
these questions are continually asked.**

The board needs to review and understand how value is created through the different relationships the organization has. It needs to look outwards and ensure it has the 'radar' to identify and take advantage of the opportunities from the changing context in which it operates.

This entails; attracting and putting together the people and resources necessary, organizing and directing activities, managing and guiding progress whilst reporting and communicating about it all to key stakeholders.

Governance is not primarily about compliance with codes and rules. Of course these cannot be ignored. However it is an integrated system of policies, processes and practices which all work together in a coherent manner.

Just as leadership is more art than science, governance is less a mechanistic ritual, and more a dynamic, energizing process – unique to every organization – which can harness the capabilities and resources of the organization to better fulfil its purpose.

Most codes relating to governance are primarily aimed at insisting on large corporates doing better, making their boards more effective and their organizations more socially acceptable. There is a growing amount of sector-level guidance on governance but no summary level definition of the fundamentals of good governance.

BSI has set out to fill this gap by developing a voluntary code of practice - **BS 13500 Code of practice for delivering effective governance**. This has been developed in consultation with expert stakeholders in many different areas of industry and enterprise and as such acknowledges and builds on existing requirements, codes and current best practice. It therefore does not seek to contradict but seeks to work alongside and reinforce these.

**For the purposes of this standard,
governance is defined as:**

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

**This definition was adopted as it firmly
places governance in the context of:**

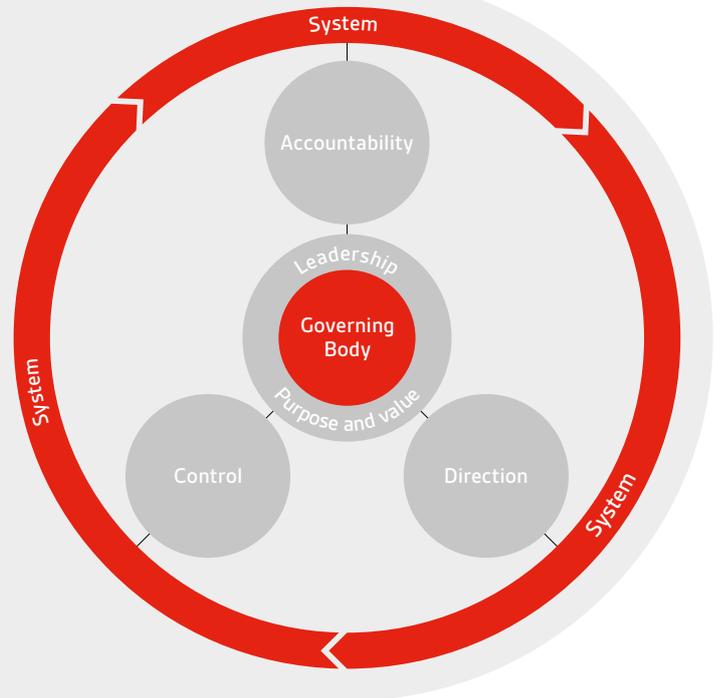
- The accountability of a whole organization to all stakeholders; and
- Ensuring that the organization as a whole fulfils its full purpose.

What is the standard about?

Good corporate governance helps keep an organization honest without destroying its energy. It is about leadership working within a framework of accountability so that those who depend on the organization and its activities have some assurance that it is working well.

The standard aims to help organizations mitigate the risk of poor governance and ensure effective governance by focusing on the key components of accountability, control and direction.

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.



The standard outlines a systematic way of evaluating governance. The challenge is for organizations to use the standard to examine their own governance in order to identify where improvements are needed. The standard provides:

- A basic checklist to ensure that all the necessary elements for good governance are in place
- Guidance on how organizations can justify good governance
- A baseline which can be used to implement and ensure effective governance
- More detail on the important principles that lie behind much sector-specific guidance that does exist.

When an organization can demonstrate that it is implementing all the standard's ideas in a disciplined fashion, it can be said to have a system in place 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 leadership, organizational values and behaviours.

“Effective corporate governance provides a foundation upon which everybody connected with the organization benefits and that is applicable to every organization regardless of size or structure and this guidance helps provide a useful checklist for companies who are striving to achieve effective corporate governance”

Mark Jenkins, Signet Company Secretary & Chief Legal Officer Signet Jewelers



Who should use the standard?

The principles of leadership and good governance apply to *all* organizations and BS 13500 extracts the 'must-haves' from large corporate codes that apply universally. No code can cover all aspects of leadership and there is a tendency to believe that 'governance' is defined by what is included.

BS 13500 should form the basis of any organization's governance. These are the generalities, but many other things need to be added that are specific. However, doing all the things in the code is not sufficient to guarantee the success of the organization, though not doing them risks weakening effectiveness.

Every organization is different and has many dimensions that cannot be defined by a single code. So each organization has to tailor its governance rules for itself. It's up to each organization to interpret them for their own circumstances and conduct themselves accordingly.

Whilst it is hoped the standard will be a useful and practical tool for all leaders of organizations, it may well be of particular use to smaller and medium-sized enterprises who perhaps feel that the UK Corporate Governance Code is above their level and does not apply to them, or where their governance is at a less well-developed stage.

For more information please visit bsigroup.com/bs13500 or call **+44 845 086 9001** for details.

About BS 13500 Code of practice for delivering effective governance of organizations

BS 13500 is a code of practice that clarifies the fundamental requirements of good governance. It provides guidance, examples and recommendations and is written so that organizations of any size can use it, from a sole-trader right up to a multinational plc.

Governance exists to make sure that organizations fulfil their purpose successfully on behalf of the people to whom the organization is accountable. It follows that to deliver effective governance, organizations should:

- a) clarify their purpose and values in consultation with those on whose behalf they exist;
- b) identify the risks involved in fulfilling their purpose in alignment with their values; and
- c) direct and control themselves in a way that enables proper reporting.

In publishing the standard, BSI acknowledges that there is a substantial amount of sector-level guidance on governance that already exists. But actually there is very little in the way of summary level definitions of the fundamentals of good governance. BS 13500 aims to address that deficiency. To do so, it provides more detail on the important principles that lie behind much

of the sector-specific guidance already published, and offers a baseline for every kind of organization, including those that don't currently have any sector-specific standards to turn to.

BS 13500 should be used by anyone concerned with the governance of an organization as a basic checklist to ensure that all the elements of a good governance system are in place. Organizations should also take any relevant additional or more sector-specific recommendations into account as well. Notwithstanding, if an organization can demonstrate that it is implementing all the recommendations contained in BS 13500, it can be confident it has a system in place for delivering effective governance.

About BSI Standards

BSI is the UK's National Standards Body and represents UK economic and social interests across all European and international standards organizations and in the development of business information solutions for British organizations of all sizes and sectors. BSI is responsible for originating many of the world's most popular management systems standards and publishes over 2,500 standards annually. These standards address the most pressing issues of today from clear billing to energy management and disability access to nanotechnology; spanning sectors including aerospace, construction, energy, engineering,

finance, healthcare, IT and retail. BSI's standards are underpinned by a collaborative and rigorous approach, working with industry experts, government bodies, trade associations, businesses of all sizes and consumers to develop the standards for excellence.

bsigroup.com/nsb

About BSI

BSI (British Standards Institution) is the business standards company that equips businesses with the necessary solutions to turn standards of best practice into habits of excellence. Formed in 1901, BSI was the world's first National Standards Body and a founding member of the International Organization for Standardization (ISO). Over a century later it continues to facilitate business improvement across the globe by helping its clients drive performance, manage risk and grow sustainably through the adoption of international management systems standards, many of which BSI originated. Renowned for its marks of excellence including the consumer recognized BSI Kitemark™, BSI's influence spans multiple sectors including aerospace, construction, energy, engineering, finance, healthcare, IT and retail. With over 70,000 clients in 150 countries, BSI is an organization whose standards inspire excellence across the globe.



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