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Code of practice for delivering effective governance of organizations

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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 is 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 recommendations 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.