

# Principles of good governance

# Principles of good governance

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**0845 505 1875 | [admin@thegovernanceforum.com](mailto:admin@thegovernanceforum.com)**

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## Foreword

Over recent years, we have seen a significant shift in the nature of the role of the governance professional or company secretary. No longer are we simply an administrator or technical expert; no longer is the role primarily one of compliance. As expectations of governance standards have grown across all organisations, not just in the corporate sector, we are increasingly visible as adviser and counsellor to the board.

And that visibility is, in large measure, because governance is everywhere. We regularly see it referenced in the press or in a public forum. Sometimes these references are negative, but for every one that is there are countless other organisations where good governance, well done, benefits both business and society. That makes it a great time to be a company secretary or governance professional.

One area where we have seen the development of a variety of complementary – and sometimes contradictory – requirements is the plethora of corporate governance codes that are now applied, or complied with, or explained, across a wide variety of sectors and a variety of legal jurisdictions.

Not all organisations are able to study these and develop a comprehensive and coherent response, but one feature that I constantly observe as I discuss governance issues with practitioners in a wide variety of sectors is that although each individual sector has its own individual issues and regulatory requirements, the fundamental governance issues show a remarkable similarity.

That is why I think it helpful that tgf have taken twelve different governance codes and distilled these down to one relatively simple set of twelve principles with supporting guidance which will help organisations across all sectors comply with their own governance code and enable them to develop further by embracing good practice from other sectors and jurisdictions. This will support them in attaining the governance kitemark from The Governance Framework, accredited by The Chartered Governance Institute.

**Peter Swabey, FCG**

Policy and Research Director

The Chartered Governance Institute

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## Introduction

Good governance is more than a compliance issue, it is about how we ensure that an organisation's purpose, strategy, values and culture have a golden thread that aligns them. It is the intertwining of, and the linking of, strategy and policy, oversight and disclosure. It's about running the organisation well, and the better the governance the better and more sustainable the organisation. Oversight and foresight are necessary but promoting success is much more than satisfying just profit objectives or one stakeholder group. Good governance is a vehicle to achieving so much more than that. It generates positive outcomes for business, the economy and the environment.

The principles of governance described in this document comes from a wider **The Governance Framework** that has been established by the governance forum (tgf) through reviews of hundreds of private and public sector companies and voluntary sector organisations. The tgf itself consists of specialist organisations working together to deliver exceptional standards in the whole area of governance. **The Governance Framework** has nine distinct standards covering a comprehensive review of an organisation's governance and they can be adopted by organisations of any size and in any jurisdiction and are the subject of a wider paper and discussion. Organisations are able to gain a kitemark in governance accredited by The Chartered Governance Institute by demonstrating compliance with these standards and can be supported by tgf or RSM (accountants and business advisors) to do so.

Globally, there are now codes of governance that cover most, if not all, sectors. The Cadbury Code became the UK Corporate Governance Code, which has become a source for international best practice in governance. Many codes that governance professionals read will mirror some of its principles and provisions, but some of those codes also have nuances relating to the sector in which they are to be applied. The Code of Corporate Governance for Singapore (2018) states that: 'The Code should not be seen as burdensome but should help companies by giving clear direction on good Board and Management practices that will help build investor and stakeholder confidence.'

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Codes consist of principles and provisions. Broadly speaking, the principles must be applied coupled with a requirement to explain how the organisation has applied or complied with the provisions and if not, how and why they will do this in the future. Later in this document, the tgf Code will be explored. There are 12 principles, and organisations are expected to apply all of those principles and explain how they have been applied.

The codes of governance used to inform the tgf principles are:

1. UK Corporate Governance Code (2018);
2. NHF – Code of governance promoting board excellence for housing associations (2015);
3. Charity Governance Code (2017);
4. King IV: Report on Corporate Governance for Southern Africa (2016);
5. Good Governance Standard for Public Services (2004);
6. A Code for Sports Governance (2017);
7. Oman Code of Corporate Governance for Public Listed Companies (2015);
8. Department for Education (DfE) Governance Handbook (2017);
9. Community Housing Cymru's Code of Governance (2018);
10. Wates Corporate Governance Principles for Large Private Companies (2018);
11. Nasdaq Corporate Governance Requirements (2019);
12. Code of Corporate Governance – Singapore (2018).

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It is also important to note that various codes call for different ways of demonstrating compliance. Depending on the code and sector, organisations are required to:

- Comply or explain;
- Comply and explain;
- Apply and explain;
- Apply or explain.

In examining codes from different countries and different sectors, it is clear that some of them have principles and provisions that are unique to that sector or region. Given that code compliance is applied on a sector basis, these unique elements are not implemented outside that particular sector, despite the fact that they could help to improve practice everywhere. A few of these idiosyncrasies are listed here:

- King's approach to 'Triple Context' the areas of reporting being economy, society and natural environment. This code from South Africa demonstrates ethical and effective principles towards the achievement of ethical culture, good performance, effective control and legitimacy. The application of corporate citizenship as a part of corporate governance compliance include recommendations related to integrated reporting, IT governance and stakeholder inclusion;
- Jordanian Corporate Governance Code – A code that is able to combine the applicability to the private and NGO sectors. It is applicable to public shareholding companies not listed on the stock exchange, private shareholding companies, limited liability companies, private shareholding companies that are not for profit and limited liability companies that are not for profit;

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- A Code for Sports Governance – The Code has three tiers and will apply to any organisation seeking funding from Sport England or UK Sport. It is unique in that the Code is proportionate. Each tier has a different level of mandatory governance requirements linked to the amount of funding received from each of the bodies who published the Code, given the desire for the Code not to exclude smaller organisations from applying for funding but to remain accountable;
- Good Governance Standard for Public Services – Although published over 15 years ago, this Code is still relevant and has usefully highlighted the concept of ‘public value’ and the central tenet that governance is about focusing on the organisation’s purpose and outcomes for citizens.
- The German Code of Governance also encourages international best practice standards, especially related to transparency, which is the basis for sound decision-making. The concept of being a ‘reputable business person’ is not just about complying with the law but engaging in ethically, sound and responsible behaviour – something reinforced by the German Code and something that can be applied when considering implementing best practice from another jurisdiction.

**Dr Karl George MBE, FCG, FCCA**

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## The tgf principles

The 12 principles are oriented around three areas: resources, competency and execution. Each of those areas has four principles. Organisations should have complete and up to date resources, individually and collectively competent boards and the boards should execute their strategic role appropriately.

The four principles that make up the **Resources** section are:

**Principle 1:** 'The board should have a clear purpose and the right resources and structures.'

An organisation's resources are the foundation of its governance structures. Therefore, organisations need to be able to provide evidence that they have robust and up to date governing documents in place along with terms of reference. This principle covers the structures, purpose and the presence of an effective governance framework being in place as a contributor to good governance. The evidence required for Principle 1 lies in outlining the how, when and where of the functions and responsibilities of the board.

Main Principle C in the NHF Code of governance – promoting board excellence for housing associations – states that:

'Each board must be clear about its duties and responsibilities. These must be formally recorded and made available for all existing and potential board members.'

Both the board and its various members, including the executive, having clarity about what they are there to achieve is a fundamental aspect of effective governance.

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In order for the board to be effective in leading the organisation it must have an appropriate governance framework of prudent, ethical, sustainable and effective controls and the necessary resources to carry out its role. The essential functions will be recorded in its terms of reference and standing orders. The differences between the role of the board and that of the executive should be clarified and a schedule of matters reserved for board consideration and those of the executive agreed. Subject to its 'risk appetite', the board should be entrepreneurial in its approach, act wholly in the interests of the organisation and endeavour to promote the long-term, sustainable success of the company. Having the right resources in place will allow the company to measure its objectives and measure and monitor the performance of the organisation.

The constitutional framework should clearly outline the division of responsibilities between the executive and the board. In all cases, the executive should be accountable to the board.

**Principle 2:** 'The board should have access to the right reports and information and should present a fair and balanced assessment.'

Board packs should contain clear information that is not over-complicated and tells the members what they need to know. Board members should be clear about the performance indicators that the organisation has to measure itself against. Information should be circulated in a timely manner. The calendar of meetings should be measured against the formal responsibilities of the board and committees and outline what should actually be included in the agendas. Information about the company, presented in the annual report, should present a fair and balanced assessment of the company's position. The UK Corporate Governance Code states that: 'The board should present a fair, balanced and understandable assessment of the company's position and prospects.'

Board members should know what the business plan says so they can understand their role in directing the company towards it. The principle extends beyond the provision of board packs and also requires that boards are provided with information updates on the sector in which the organisation operates, pertinent to the delivery of the Corporate plan. That may be legislative updates or regulatory updates (where applicable).

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Principle 2 relates to the information the board receives. Without the right information that members have time to read, analyse and comment on, they are not able to contribute to effective decision-making. Access to the right information should be a minimum standard for board members across all sectors.

The NHF Code of Governance states that: 'The board must act effectively, making clear decisions based on timely and accurate information.'

Information provided to the board should be accurate and timely with minutes and actions arising recorded clearly and concisely after each meeting. Meetings should be managed with timed agendas that focus on the key strategic areas. Board information packs should include concise reports with sufficient detail to enable scrutiny and monitoring by the board together with strategic plans, risk plans and business plans that are up to date and relevant. The information received by the board should be accurate, timely and clear in order to ensure they are able to undertake their role effectively. The right policies, processes and resources that support the provision of this information should be in place. The board should ensure that they present a fair, balanced and understandable assessment of the company's positions and prospects and should have oversight of the main strategic and financial documents.

**Principle 3:** 'The board should have the right documentation in place including policies and registers.'

Having the right documents in place should be a priority for any board. This is necessary to serve requests from stakeholders and particularly in a regulated sector, a regulator may ask to see a board's suite of strategic policies. Governance documentation must always be easy to find and accessible, not just to the company secretary, governance officer or an individual in a similar role. Policies provide guidance for organisations – in essence, they are the source of what to do if and when something happens or when decisions are made. Having the right documents in place should be a priority for any board. To complement this, there should be forms in place for aspects of governance such as board appraisals, conduct and probity, including registers. Part b of Principle 3 (Director Responsibilities) of The Wates Corporate Governance Principles for Large Private Companies published in 2018 states that: 'The board's policies and procedures should support effective decision-making and independent challenge.'

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There should be a comprehensive, accessible list of essential governance documentation that includes formal and transparent policies and procedures. The board has a legal obligation to promote the long-term success of the company and to ensure that all of the required documentation is in place. The relevant registers and remuneration policies should be designed to support strategy and promote long-term, sustainable success. All policies and processes and especially those related to remuneration should be aligned with the values and purpose of the company and the fulfilment of the strategy. They should also be aligned with any applicable regulatory standards, and support compliance with these standards. The board should be responsible for periodic reviews of this documentation.

The board should ensure that there is compliance with the requirements outlined in this documentation and that the codes and standards support ethical practice.

**Principle 4:** 'The board's roles and responsibilities, including the division of responsibilities should be clearly defined.'

Organisations should be able to provide board members with all the information about their role, responsibilities and any expectations, including the length of time they will be expected to commit to the role, from the outset. The organisation should solicit information about members' skills and information about them in the form of an evidence-based profile. Principle 2 of The Good Governance Standard for Public Services states that: 'Good governance means performing effectively in clearly defined functions and roles.'

Having the right resources in place creates a platform for systems and processes to become embedded into the work carried out at any organisation. However, having great policies, role descriptions, terms of reference and other important governance documentation in place is not enough by itself, it's about the right people and culture.

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Jim Collins, in his book *Good to Great*, refers to ‘getting the right people on the bus before the bus departs’ – the bus being a hypothetical business. The next section of the tgf Code begins to explore aspects of competency; having the right people in the right seats so that the bus can drive off.

Competent board members are essential to facilitate effective decision-making processes. Good governance is found where there is an empowered, competent board where members understand and implement their key roles of accountability, transparency and probity to lead and control an organisation effectively.

Decision-making is one of the main functions of the board. To make good decisions, the people making those decisions need to have the right skills, knowledge and experience to do this. Behaviour also has to be appropriate to create an atmosphere and culture that facilitates effective decision-making. But what things need to be in place for this to be achieved?

An effective board should be at the head of every company. Board members (including the secretary), should be aware of their role and the vision, history, culture and legacy of the organisation and should work effectively as a team. They are collectively responsible for the long-term sustainable success of the company and the delivery of the strategic objectives to the wider stakeholder or shareholder group. There should be a code of conduct for board members, comprehensive role descriptions and targets for board performance. Board members should understand how their input will ensure cost-effective, value-added and stakeholder-focused decisions are made and how this input differs from that of the executive. Board members will be provided with access to the governing documents and all information required and will seek external advice where necessary.

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The four principles relating to **Competency** are:

**Principle 5:** 'The board should be diverse, balanced and suited to the needs of the organisation in its composition.'

In relation to diversity, the 2017 Charity Governance Code states that: 'The board's approach to diversity supports its effectiveness, leadership and decision-making.'

Diversity is crucial across a number of areas including skill level, thinking, socio-economic background, age, gender, ethnicity etc. This helps to bring cognitive diversity and depth to the boardroom creating an environment in which assumptions can be robustly and appropriately challenged, which contributes to more effective decision-making processes.

The board members in every organisation should have the skills required to direct the work of the organisation, including specialist knowledge of the technical aspects of the sector. Alongside this, there are a number of essential skills that should be reflected in boards across all sectors, which are: governance, strategy, risk, finance, HR, legal and increasingly important now are skills in digital technologies and social media. And it is important that boards have members with 'senior level skills', which will normally come from having operated at executive level in other organisations, so that they have a good understanding of the operations of a business and of the requirements of good governance.

Would a different complement of board members at Carillion, who were branded delusional at an MPs' Q&A, have been able to respond differently to the signals that it was going bust? Would a more diverse board at Thomas Cook have been able to anticipate the disruptive forces caused by technology that had taken place in the holiday market sector?

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Principle 11 (a) of the Oman Code of Corporate Governance for Public Listed Companies states that: 'The company shall adopt a transparent method in preparing the nomination policy targeting directors of high competence and calibre.'

Making sure that the right skills are present in the members of a board helps to create balance and ensures competency when these skills are applied in the boardroom.

Finally, because behaviours such as independence, transparency and openness are at the heart of good governance, balance must also take into account the number of executives versus the number of non-executives that are appointed to the board. The UK Corporate Governance Code refers to this as: 'an appropriate combination...'

The organisation should ensure that its board and committees are balanced with a suitably qualified and experienced chair who leads the board and a suitably qualified company secretary (or equivalent) who advises the board on governance matters. There should be age, gender, disability, social and ethnic diversity of board membership. An appropriate collection of skills, experience and knowledge and the right proportion of executives and non-executives should also be represented on the board with the chair leading the board and encouraging a culture of openness, debate, scrutiny and appropriate challenge.

Boards should operate as teams with the appropriate level of scrutiny and challenge demonstrating the capacity and capability to lead the organisation. The company secretary should ensure that all governance processes are managed effectively. There should be a clear division of responsibility between the leadership of the board and the executives leading the company business. Board members should be impartial, objective and have a diverse range of experiences and perspectives.

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**Principle 6:** ‘The board should conduct themselves appropriately, avoiding conflicts of interest and adhering to a code of conduct.’

There have been many instances in the media where high-profile figures have been called into question regarding their approach to probity. For example, politicians have lost their jobs as a result of not strictly adhering to clear principles of good governance and not declaring interests. In the private sector, we have witnessed directors being party to decisions where there are clear conflicts and they should not have been part of the process.

Boards in all sectors have a duty to be independent and not to allow their personal interests to impact their decision-making in the boardroom. There should also be a culture of openness and transparency. Board members are expected to behave appropriately in the boardroom, also ensuring that there is a supportive yet challenging environment.

The Department for Education (DfE) Governance Handbook states that: ‘In order to make credible decisions that are in the best interest of pupils it is **essential that the board has an effective approach to conflicts of interest**. All boards should prevent conflicts of interest from affecting their decisions by **removing them or managing them as appropriate**. For example, it is unlikely that the conflict of interest that would arise from a close family relationship existing between someone on the board and a senior executive leader could be managed fully, and hence in most circumstances this situation would be best avoided altogether. The Charity Commission offers guidance on managing potential conflicts of interest.’

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The emphasis in the definition above is the author's and has been added to highlight that the approach to conflicts of interest should be **effective**, which means there must be processes in place that work and are monitored. The second point to emphasise is that conflicts of interest should be **removed** or **managed**. Where conflicts are material, boards and board members should take the view that the individual with the conflict should resign from the board. Other conflicts should be managed using common practices such as board members abstaining from taking part in certain discussions, not voting on certain matters or being asked to leave the room when items that could cause them to be conflicted are discussed.

Board members should adhere to a code of conduct displaying integrity and the highest ethical standards of probity at all times, which includes avoiding conflicts of interest and discharging their responsibilities appropriately. The interests of the organisation should be placed before those of the board members in all circumstances. The board leads by example and should consider and undertake its Environmental, Social and Governance Matter (ESG) obligations. It should undertake its role with integrity, openness and accountability.

Board members should strive to maintain their independent status and there should be formal and transparent procedures for developing policy on executive remuneration. No director – executive or non-executive – should individually decide his or her own remuneration.

Board members should act with humility, good judgement, resilience and determination while safeguarding the purpose, vision and values of the organisation. The statutory and legal frameworks that detail the responsibilities of the directors should be adhered to at all times.

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**Principle 7:** 'The board should have clear processes for appointment, induction and training in place for board members.'

Before an individual is appointed to the board they should be made aware of the commitment required, what the role will entail, and although they would have been notified about time commitment it is at this stage that they will be informed about the expected requirements in fulfilling their role. Prior to this, the board should have in place policies and procedures that detail how their recruitment will be undertaken, a process that must be open and transparent.

Once appointed, board members should receive a full induction that includes, but is not limited to:

- Completion of all relevant paperwork
- Meeting with the chair
- Meeting with the CEO
- Meetings with the executives
- Site or office visits
- Governance refresher
- Sector induction training

They should also have access to key governance documentation including the governing document, terms of reference for the board and committees, profiles of existing board members and the code of conduct.

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Listing Rule 5610 in the Nasdaq Corporate Governance Requirements states that: 'The company must adopt a code of conduct applicable to all directors, officers and employees.' In all sectors, making sure that conduct is appropriate and in line with the Nolan Principles is closely linked to board effectiveness. The Nolan Principles have become a universal standard of conduct in the UK but were specifically developed for those in public office.

Board members will not always have experience in the sector in which they serve on a board. In addition, each person will bring unique skills but may lack knowledge in other areas. To avoid having a board where only the accountant talks about the finances, or only the solicitor or procurement specialist gets involved in the discussions about contracts or on a healthcare sector board, only the retired consultant contributes on patient care issues, there must be training and ongoing development in a number of areas.

Identifying a Board's training needs can be achieved through a range of methods, for example, training needs analysis at induction, information from the Board appraisal process, and carrying out a Board skills audit (especially when an organisation is diversifying into a new area of business and new skills/knowledge are required).

Boards should ensure there is a robust, formal, open, rigorous and transparent process for appointment, induction and training, including on-going training. Appointments to the board should be made on merit. Board members should devote sufficient time to their role, a factor that should be determined during the appointment process. Refreshing the board should be an integral and ongoing part of its operation. The board must have an appropriate balance in order to refresh the board, therefore appointments and succession should be based on objective criteria. The board should establish a nomination committee (or equivalent) to provide sufficient oversight of these matters.

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**Principle 8:** ‘The board should have effective processes for evaluation of itself as a whole, individual board members and its committees.’

Appraisal is an important part of the board’s evaluation of its own performance. While individual and other facets of board appraisal do take place, one of the common development areas found across all sectors is a lack of consistency in how effective and rigorous these processes actually are.

One example was an organisation that deemed that a single independent observation and feedback was all that was required for the annual board evaluation. Other examples include appraisals that are informal ‘fireside chats’, or individual appraisal meetings with no clear feedback to the individual, a lack of consistency across individual meetings and no objectives being agreed. None of these examples reflect what the tgf Code would constitute as being ‘effective’ and do not reflect good governance practices. While there is a place for informal communication and review, such activity must also be formalised at a frequency that is not too onerous but also does not wait so long that the needs of the organisation have changed, or too much time has passed to be able to address underperformance which has in turn affected the overall performance of the board.

In their positions as directors and custodians of the organisation, board members need to be held to account for their performance. The board as a whole should appraise itself, including the committees, and the board should ensure there are effective processes in place for appraising the chair and the CEO. As the board has responsibility for appointing and removing the CEO, they must also be responsible for monitoring the CEO’s performance.

Principle 9 of the King IV: Report on Corporate Governance for Southern Africa states that: ‘The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.’

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There should be a three-year plan in place that outlines when evaluation of the board will take place across all aspects of its work. Most codes recommend annual appraisal in all areas, supported by a more robust process every two to three years with the recommendation for external, independent support taking place in that second or third year. The UK Corporate Governance Code states that: 'There should be a formal and rigorous annual evaluation of the performance of the board, its committees, the chair and individual directors. The chair should consider having a regular externally facilitated board evaluation.'

It is important also for the board to evaluate its own performance collectively (ideally, anonymously) so that its effectiveness can be adequately commented on and any concerns brought to the fore. Good practice in the area of individual appraisal will include formally-recorded objectives that are reviewed periodically and monitored prior to the next appraisal. This will help to ensure that the skills of each board member are maximised and that any challenges can be identified, including with behaviour and other things that may impact the stability of board membership and succession planning. The chair should play a lead role in designing the appraisal process and in appraising all board members, supported by the secretary and CEO.

The board should undertake a robust, annual process for the evaluation of its own performance and that of each board member. As a minimum, the regular annual appraisal of the board's performance should include individual board member appraisals, appraisal of the chair, appraisal of the CEO, a review of the skills using an evidence-based competency framework, succession planning, external board and committee observations, an appraisal of the whole board and an assessment of compliance against the relevant code of governance. Maximum terms of office and election and re-election protocols must be agreed. All remuneration should form part of a formal, open and transparent process overseen by a suitably qualified and constituted remuneration committee (or equivalent).

In summary the four principles in the Competency section of the tgf Code relate to the performance, review and evaluation of the board. They also include balance, integrity and training.

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John Carver said that boards are: 'incompetent groups of competent individuals.' As an organisation, you should do all you can to dispel this commonly-displayed challenge faced by organisations across all sectors. The following principles then look at execution.

The four principles that make up the **Execution** section are:

**Principle 9:** 'The board should make informed decisions that take risk into account in ways that safeguard and promote the future success of the organisation.'

Principle 4 of Community Housing Cymru's Code of Governance (2018) says that: 'The board makes sure that its decision-making processes are informed, rigorous and timely and that effective delegation, control and risk assessment and management systems are set up and monitored.'

One of the reasons that it is important that every organisation has a vision and mission is that this helps to guide decision-making. Coupled with this, the board should be aware of, and actively monitor, the main strategic risks. Decision-making and risk go hand in hand when sitting on a board and all decisions that are made should take into account the protection of the assets/goods/services that the organisation has or offers and ensuring the long-term success of that organisation.

To be able to do this effectively, the board must understand what the aims of the organisation are and, in its most simplistic form, all reports, agendas, discussions, decisions, actions should be in line with the fulfilment of these aims.

The Good Governance Standards for Public Services (2004) state that: 'Good governance means taking informed, transparent decisions and managing risk.' Being cognisant of risks is a vital part of being able to safeguard the organisation.

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The board should establish a sound decision-making, sound judgement and control framework and ensure that it deals appropriately with risk (including new and emerging risk) and setting and monitoring the risk appetite and tolerance of the organisation. All processes should be formalised and should be transparent with independent advice sought when required. Consideration should be given to the nature and extent of the significant risks and a sound system for risk management and an informed internal control framework (including internal and external audit where required) established, adhered to and actively monitored. In addition to this, the audit committee (or equivalent) should lead on the requirements for a robust, independent, internal and external audit and assurance function and overseeing the financial and narrative reporting.

The appropriate committee structure with specific terms of reference should be in place to ensure the effectiveness of decision-making related to risk with effective delegation. This process should help to safeguard the assets and interests of the organisation.

**Principle 10:** 'The board should be able to evidence challenge, debate, accountability and transparency.'

tgf runs The Effective Board Member (EBM) programmes, which are designed to equip people who want to become board members with the appropriate knowledge, skills and understanding. On those programmes, organisations are taught about four dysfunctional board behaviours: groupthink, conflict, operational and passive.

A passive-style board would be typified by board members who do not contribute and where there is a lack of debate or challenge. Often in these environments there is no challenge, which restricts how open and transparent decision-making can be.

Evidence of challenge and debate will be recorded in the minutes. Although having minutes demonstrates compliance with the Resources element of the Code, what these minutes say, and how they evidence this, satisfies the execution element of the Code.

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The culture of the organisation, and the culture of the board meetings, is another factor that will impact how challenge takes place. The boardroom should not be a comfortable environment and the board should not be afraid to scrutinise the work of the executive holding them to account. In a unitary board, all board members constructively challenge each other and in a professional and somewhat collegiate atmosphere demonstrate a healthy tension.

How organisations report on their work, and how they report to stakeholders, are crucial parts of determining how transparent and accountable they are. For example, does the governance statement in financial statements just list the names of the board members or does it outline the skills each board members have, their short biography, details of any cross-directorships (where applicable) and list which committee(s) they sit on? Does the description of the structure of the board and its committees, talk about the work the committee and the board have undertaken or just list which committees exist? Transparent and accountable reporting should take the reader on a journey of understanding how the organisation operates – including the details, both good and bad, and an outline of plans for the future.

The NHF Code says that: ‘The board must establish a formal and transparent arrangement for considering how the organisation ensures financial viability, maintains a sound system of internal controls, manages risk and maintains an appropriate relationship with its auditors.’

The board should oversee, challenge and scrutinise performance of the organisation and the executive while still remaining accountable and accessible. Open and rigorous debate should be a feature of this oversight. Probing should be outcome-driven and transparent as a result of specialist skills and experiences. There should be healthy dialogue, trust and candour between the various stakeholders in a unitary board structure. Directors should exercise independent judgement when supervising and authorising remuneration by using the remuneration committee, or its equivalent. The board should present a fair, balanced and understandable assessment of the company’s position and prospects. Within this, there should be a culture of openness and debate where board behaviour is monitored to ensure it is contributing to effective governance.

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**Principle 11:** 'The board should be stewards of the vision, values and culture of the organisation and responsible for setting and monitoring strategy.'

Board members should direct the vision, ensure the values of the organisation are embodied, act in ways that are consistent with these and ensure there is a clear purpose. Away days and other board away time are essential for allowing the board to focus on setting and monitoring the strategy. However, this should not end once these activities are over. The use of a cover sheet, which helps report authors to link their reports with the strategic objectives and questions in the boardroom about how decisions are made, should all be linked back to the vision and values.

The Department for Education Governance Handbook states that: 'The boards' first core function is about strategic leadership. This involves setting the organisation's overall strategic framework, including its vision and strategic priorities. It also includes responsibility for setting and modelling its culture, values and ethos.'

The role of the board is to be strategic and not operational. Boards govern; executives manage. If discussions and decisions are not strategic, you can guarantee that the board has lost sight of the vision, values and culture. It sets the strategic objectives, ensures that they are clear and SMART and that progress in the delivery of the strategic objectives is regularly measured and reported on.

The board should monitor the performance of the organisation in line with the vision, values and strategy and scrutinise and challenge the executive ensuring adequate strategic oversight is in place. The board establishes and monitors the purpose and values ensuring that an appropriate culture is embodied at all levels of the organisation. The board should express a shared view of the vision. They should set out and communicate the vision and strategy to deliver the best possible outcomes for the organisation. The board should be cognisant of the significant challenges of the organisation and monitor these in line with the vision.

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**Principle 12:** ‘The board should be able to demonstrate active and effective engagement with stakeholders.’

No matter what sector an organisation operates in, there will be stakeholders who are impacted by the goods and services delivered. It is important to engage with stakeholders but this should not be a one-off, annual occurrence. Boards should receive regular stakeholder feedback and integrate that feedback in to the decision-making processes. Stakeholder engagement is a necessary ingredient and linked with ethical and responsible behaviour when measuring the performance of the organisation and also to monitor how the vision is executed.

The failure at Mid-Staffs NHS Foundation Trust (note a similar situation at Grenfell Tower) highlighted a lack of robust oversight, ‘purpose drift’ and failings in clinical governance, while perhaps seemingly achieving certain financial performance indicators within the hospital. This may have been a factor, meaning that the board and other senior leaders missed some of the obvious gaps resulting in missed opportunities to prevent those failures in health care from taking place.

The Code for Sports Governance states that: ‘Organisations shall be transparent and accountable, engaging effectively with stakeholders and nurturing internal democracy.’

This notion of internal democracy intimates some exchange between both parties where decisions are informed by the views of all stakeholders. To be able to effectively execute the vision requires collaboration and constant exchange.

Board members should act as ambassadors for the organisation, engaging effectively with its stakeholders and encouraging their active participation. There should be a strategy for communicating the processes and outcomes of this engagement and participation. Boards should develop a good understanding of the needs of all stakeholders, developing a culture of trust and shared ownership and paying particular attention to beneficiaries, impact on the community and environment and the workforce.

## Principles of good governance

The board should consider the appointment of members of the workforce, to enhance stakeholder representation where necessary and appropriate, taking into account skills, diversity and size. There should be appropriate policies in place to ensure that the workforce can raise concerns. Dialogue with stakeholders should be ongoing, purposeful and embedded in the work of the board.

As part of this engagement, boards should seek to mitigate any adverse impact of its activities on the economy, the community or the environment.

# Principles of good governance

## Summary

The tgf principles can be applied across all sectors. Being able to apply and explain these principles will help organisations to ensure that they have the right Resources, Competency and Execution in place to govern well. While these Compliance Drivers (the full Governance Framework is made up of Compliance and Performance Drivers) alone are not enough to guarantee that failure will be avoided, they are the foundation for a framework that will help to build good governance systems that will allow the board to, in the words of the venerable Cadbury Report: 'direct and control' the organisation.

One way to understand 'good governance' is to think about the difference between a thermometer and a thermostat. Recording what is happening is like using a thermometer to take the temperature in a room. A thermostat does more and is able to make a change to the temperature in that room, raising it up or taking it down.

In the same way, organisations should not simply measure performance against the 12 principles, which would be like using a thermometer to just measure temperature and do nothing else. Each organisation should decide what level it will aim for and then take monitored action to achieve it, in the way that a thermostat reacts and makes changes based on evidence.

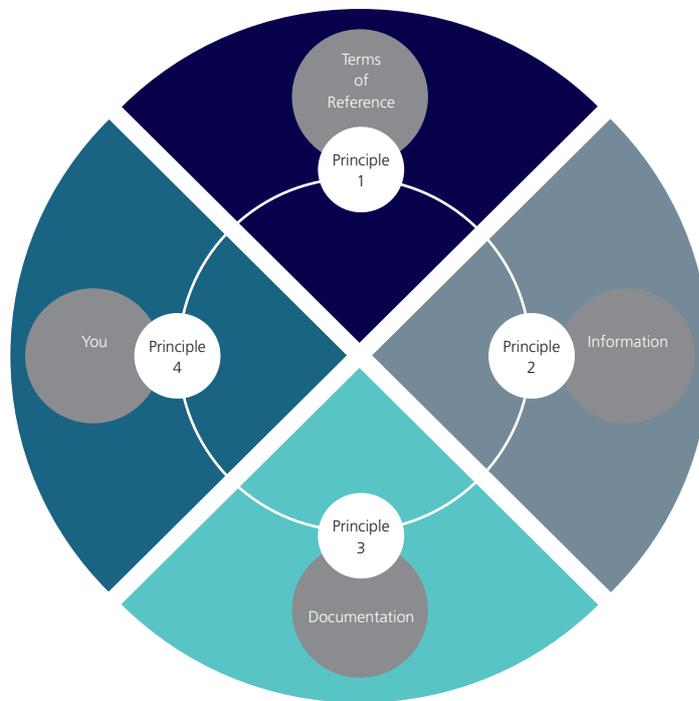
In applying the principles, organisations should monitor progress, regularly ensuring that they are maintaining the right standard and seeking continuous improvement. The principles of the code are covered in a logical manner capturing the key elements of a comprehensive governance framework. It is however the integration of the principles and the spirit of application that is crucially important and this comes from an organisation that is clear about its purpose and the role of governance in achieving that purpose.

# Principles of good governance

## tgf principles 1–4

Resources

TIDY



Principle  
1

**The board should have a clear purpose and the right resources and structures.** As the custodian of corporate governance, it must be effective in strategically leading the organisation and have an appropriate constitutional framework with the essential functions recorded in its terms of reference and other relevant documentation.

Principle  
2

**The board should have access to the right reports and information and should present a fair and balanced assessment.** This information should be appropriate and relevant and provided in an accurate and timely manner.

Principle  
3

**The board should have the right documentation in place including policies and registers.** These documents should be in line with legal, statutory and best practice requirements. There should be a comprehensive, accessible suite of essential governance documentation.

Principle  
4

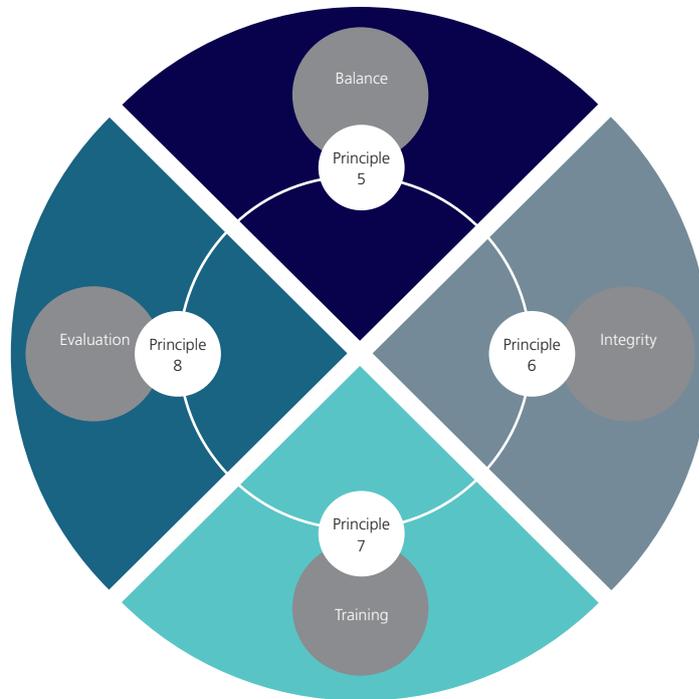
**The board's roles and responsibilities, including the division of responsibilities should be clearly defined.** Delegated authorities and a schedule of matters should be available and up to date. The organisation should have a profile of each board member.

# Principles of good governance

## tgf principles 5–8

Competency

**BITE**



**The board should be diverse, balanced and suited to the needs of the organisation in its composition.** Board and committee membership should be balanced taking into account knowledge, skills, experience, diversity, size and independence.



**The board should conduct themselves appropriately, avoiding conflicts of interest and adhering to a code of conduct.** They should uphold ethically high standards of integrity and probity at all times, always acting in the best interests of the organisation.



**The board should have clear processes for appointment, induction and training in place for board members.** These processes should be robust, formal, rigorous and transparent and take succession planning into account. Board members should be appointed objectively on merit.



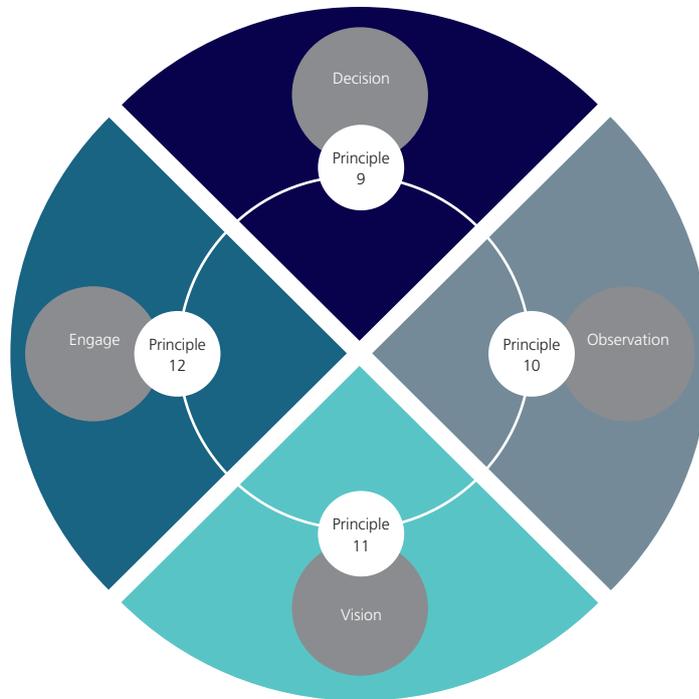
**The board should have effective processes for evaluation of itself as a whole, individual board members and its committees.** The board should implement and oversee robust processes for the evaluation of its own effectiveness and performance and that of each board member. Evaluation should take place at regular intervals, including periodic external support.

# Principles of good governance

## tgf principles 9–12

Evaluation

DOVE



**The board should make informed decisions that take risk into account in ways that safeguard and promote the future success of the organisation.** A sound decision-making framework that identifies and oversees its internal controls, risk appetite and mitigation should be established and monitored.

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**The board should be able to evidence challenge, debate, accountability and transparency.** The work of the board should be open and they should be able to demonstrate sufficient scrutiny.

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**The board should be stewards of the vision, values and culture of the organisation and are responsible for setting and monitoring strategy.** This should include monitoring the performance of the organisation in line with the vision and strategic objectives.

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**The board should be able to demonstrate active and effective engagement with stakeholders.** Board members should act as ambassadors for the organisation and always seek to encourage meaningful and effective participation from all stakeholder groups. They should be responsive to the needs of all stakeholders.

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# Principles of good governance

## About the Author

Dr Karl George is a thought leader, author and internationally established consultant in governance. He is Managing Director of the governance forum (tgf), creator of **The Governance Framework** and the Effective Board Member Programmes. He works with boards and senior executives in the private, public and voluntary sectors and has over 25 years' combined experience in accountancy, business and strategic development. Karl is a Fellow both of the global accounting body ACCA and of international body for governance practitioners The Chartered Governance Institute. He is one of the founders of the Association of Corporate Governance Practitioners (ACGP) and has developed a unique governance framework and kitemark that was endorsed by the late Sir Adrian Cadbury. Karl is the author of the tgf Governance Code – principles of governance for organisations of all sizes, sectors and geographical jurisdictions.

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## **About the governance forum (tgf)**

tgf consists of several specialist organisations working together to raise standards in governance practice. We encourage organisations in the private, public and voluntary sectors to think more strategically about the benefits effective governance and how to achieve it. tgf delivers board effectiveness reviews, away days and consultancy and is the creator of the intellectual property associated with **The Governance Framework**.

The tgf Governance Methodology is taught on the Effective Board Member Programmes in 11 countries around the world.

[thegovernanceforum.com](http://thegovernanceforum.com)

## **About The Chartered Governance Institute**

The Chartered Governance Institute is the professional body for governance. We have members in all sectors and are required by our Royal Charter to lead 'effective governance and efficient administration of commerce, industry and public affairs'. With 125 years' experience, we work with regulators and policy makers to champion high standards of governance and provide qualifications, training and guidance.

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