The Governance Code

**THE
CODE'S
PRACTICES
CHART A JOURNEY
FROM THE BOARDROOM
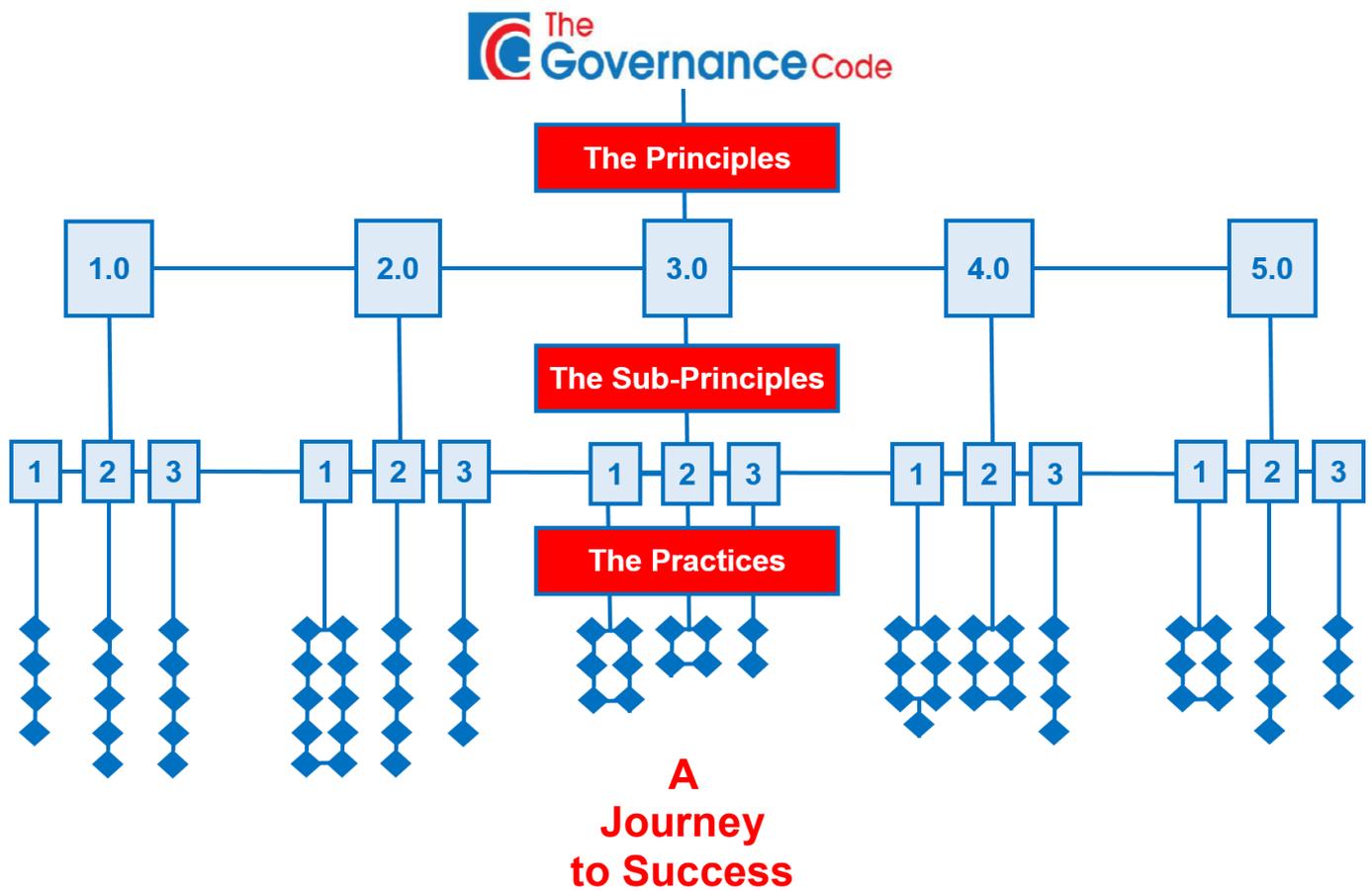TO THE REALISATION OF VISIONS**

A Journey to Success

THE CODE

STEWARDSHIP GUIDELINES

These Stewardship Guidelines empower Stakeholders…

…such as dependents, members, volunteers and funders…

…by enabling them conduct structured assessments and award ratings…

…to hold Boards of Directors to account…

…for the quality of their declared compliance…

…with the Governance Code

OCTOBER 2016

The
Governance Code
Structure

The Principles

| 1.0 | 2.0 | 3.0 | 4.0 | 5.0 |

The Sub-Principles

| 1 | 2 | 3 | 1 | 2 | 3 | 1 | 2 | 3 | 1 | 2 | 3 | 1 | 2 | 3 |

The Practices

**A
Journey
to Success**

The Governance Code

A Journey to Success

The Code

Stewardship Guidelines

are developed by the

Governance Code Working Group

whose members are currently drawn

from the following organisations:

Boardmatch Ireland

Business in the Community Ireland

Carmichael Centre for Voluntary Groups

Charities Institute Ireland

Clann Credo – the Social Investment Fund

Disability Federation of Ireland

Good Governance Solutions

Volunteer Ireland

The Wheel

CONTENTS
Linked

1.0 THE CVC GOVERNANCE CODE

1.1 The Governance Code for the Community, Voluntary and Charitable (CVC) sector was initially conceived during the development of the Dóchas NGO Code of Governance in 2009. Work got underway in 2010 and after two years of consultations, research and multiple town-hall meetings across the country, a final draft was approved by the Working Group for launch in Dublin's Mansion House in 2012.

1.2 At the time, corporate governance was undergoing vigorous debate and scrutiny internationally in the wake of the financial crisis and corporate scandals. Up to then, in this part of the world, corporate governance had evolved as a principles-based concept, meaning that a board could adopt a code on a comply-or-explain basis. In other words, it could comply with most practices of a code and choose not to with others and publish explanations of these divergences for stakeholder review in its annual report and other channels. This transparency and explanation of divergence would render the organisation, and its board, compliant with the spirit of the code.

1.3 Some years earlier, the OECD had undertaken a major project to define the broad principles of corporate governance and establish the standards of good business practice underlying a healthy global economy. In it they defined corporate governance as*…*

> *'Corporate governance provides the structure through which the objectives of the company are set and the means of attaining those objectives and monitoring performance are determined'.*

In effect, this concept put board formulation and oversight of the achievement of the organisation's strategic objectives at the heart of governance with all other practices being subsets of that process.

1.4 It was these two concepts that formed the framework of the CVC Governance Code – it was to be a principles-based code comprised of board best-practices in setting and overseeing the achievement of strategic objectives while applying such practices on a comply-or-explain basis. And so, the CVC sector's principles-based governance code concept was born and work began on assembling the principles and practices to bring it to life.

1.5 Also around that time, a rules-based model of governance was gaining momentum both locally and internationally as the regulatory pendulum swung to counteract the causes of the economic crash. A code based on such a model contains statutes rather than principles and provisions that are mandatory requiring absolute board compliance without discretion. Such codes are favoured by legislators and regulators with a growing interest among state funding agencies. A good example of the latter is the HSE who now, understandably, require their 'Section 38' service providers to annually submit a board statement of compliance with HSE's specified governance requirements.

1.6 During the recent Code Review, the feedback from signatories over the three years since its launch pointed to a degree of confusion regarding the Code's position on the rules-vs-principles spectrum. This Review is a good time to reiterate that the Code is not a set of rules that must be obeyed. The Code is a set of practices that are designed to enable a board define its vision and set its journey to success starting in the boardroom. It can do so by adopting these practices on a comply-or-explain basis. The Board can then subject its integrity to scrutiny through stakeholder stewardship of its explanations for non-compliance with specific practices.

1.7 This transparency actually makes principles-based governance far more demanding on board members than rules-based compliance which unfortunately has a tendency to become an exercise in box-ticking by boards who show little affinity with statutory practices. Principles-based commitment on the other hand, requires absolute board determination to deliver success through best-practice in governance, while subjecting its collective reputation to scrutiny for its effectiveness in doing so.

1.8 For such a principles-based governance model to work at its best, it needs informed stewardship by stakeholders who have an interest in assessing a board's effectiveness in setting and achieving its strategic goals through its adherence to the Code's practices, and especially, the veracity of its explanations for divergence from them. These guidelines attempt to address that stewardship process and empower stakeholders to hold boards to account.

2.0 STEWARDSHIP AND PRINCIPLES-BASED GOVERNANCE

2.1 One definition of Stewardship is…

"The duties of a person who acts as the surrogate of others, responsible for overseeing and protection of something considered worth caring for and fostering".
This well defines the role in the context of principles-based governance as a Board's explanations used for divergence from the Code's practices should be open to oversight by a steward acting as surrogate of key stakeholders. Such a surrogate would ideally be skilled in assessment or audit techniques and act as an official representative of the stakeholder body.

2.2 Typically, key stakeholders of a community, voluntary or charitable body could be a beneficiary, member; donor, sponsor or philanthropic organisation, a regulator; or a state funding agency. Someone who has a personal, official or vested interest in the organisation's vision, objectives or purpose.

2.3 Unlike monitoring of rules-based governance which is solely focussed on assessing absolute compliance, principals-based stewardship needs to assess both evidence of compliance and explanations for divergence – the comply-or-explain protocol. And then, form reasoned opinions.

2.4 Responsibility for stewardship is shared. The primary responsibility rests with the Board of the organisation which sets its vision, formulates strategy and oversees the performance of management in achieving its objectives. Stakeholders in the organisation, such as members, also play an important role in holding the Board to account for its effectiveness in fulfilling that responsibility.

2.5 The CVC Code is highly proportionate in that it has three versions with practices recommended for very small; medium; and, large organisations know as Types A, B and C. These Guidelines are written for application to Type C's as they are the most likely to attract stewardship reviews. If stewards are required to conduct assessments of Type A's or B's, we recommend they would be supportive in nature and primarily focussed on advising organisations on areas with potential for improvement to enable them develop further.

2.6 As for Type C organisations, we would encourage stewards to be challenging in their engagement with boards as the stakeholders they represent will, in turn, primarily rely on their objective assurances to justify their trust and confidence in the organisation.

3.0 STEWARDSHIP GUIDELINES

3.1 Stewardship activities include monitoring and engaging with organisations on matters such as strategy, risk, financial accounting, and corporate governance including performance, remuneration and transparency. Engagement is purposeful dialogue with organisations on those matters as well as on the quality of the Board's adherence to the Code's practices in pursuit of its objectives and the veracity of its explanations for divergence from specific practices.

3.2 While much of the steward's assessment will be focussed on evidence-based compliance with practices, key questions will arise that will require qualitative interpretation to form a reasoned opinion. Such opinion-forming will be helped by repeatedly reminding oneself of the context – i.e. the clarity of the organisation's strategic objectives.

3.3 Some key questions that will assist insightful opinion-forming are:

- *Has the Board clearly formulated a vision for the organisation's direction and strategic objectives that is shared by each Board Member and the Executive?*
- *Does the Board fully understand that the Code's practices are enablers to achieving its primary focus – the organisation's vision and strategic objectives?*
- *To this end, are matters such as risk management, internal controls, compliance, Board and Executive performance evaluations addressed as subsets of this focus?*
- *Does the Board give any consideration to its collective competencies that will be required to oversee the realisation of its vision and objectives?*
- *Has the Board set quantifiable key performance indicators by which it will oversee Executive performance in achieving such objectives?*
- *Is there a clear and formal separation of Board governance and Executive operational roles with related written delegations in place?*
- *Does the Chair take personal ownership of Board governance and give leadership by declaring the Code's principles and practices to be the pillars of the organisation's corporate culture?*
- *Do Board members believe that their organisation's journey to success unfolds or flounders by their individual ability to effectively execute the Code's practices in the boardroom?*

3.4 Effective monitoring is an essential component of stewardship. It should take place regularly and be checked periodically for effectiveness. When monitoring Code signatories a steward should seek to:

- determine if the organisation has registered itself on the Code's website as 'Compliant' - if it has, it is open for stewardship.
- alternatively, check if it is on the Code's 'Adoption Journey' website register for longer than three years – if so, it is certainly due an assessment.
- satisfy yourself that the organisation's vision, direction and strategic objectives are clear and reflect its continuously evolving environment;
- keep abreast of the organisation's performance in realising its vision;
- satisfy yourself that the organisation's leadership is effective;
- satisfy yourself that the organisation's board and committees adhere to the spirit of the Governance Code through holding discussions with the chairman and individual board members;
- consider the quality and transparency of the organisation's reporting; and
- form an opinion on the organisation's integrity based on how well the Code's practices are embedded at operational levels and monitored by the Board.

3.5 Stewards should carefully consider explanations given for departure from Code practices and make reasoned judgements in each case. They should take particular comfort in explanations that relate to the organisation's strategic objectives and how explained deviations can better secure their achievement. Stewards should make their observations known to the full Board in a timely manner and in writing where appropriate. They should be prepared to enter dialogue to determine the organisation's position by:

- holding additional meetings with the Executive to discuss concerns;
- meeting with the Chairperson and other Board members.

3.6 Initial discussions should take place on a confidential basis. However, if a board does not respond constructively, a steward should consider whether to escalate their action into the public arena, for example, by:

- intervening jointly with other stakeholders on particular issues;
- making a complaint to the CRA (in the case of a charity);
- complaining to their representative body;

- seeking the removal of the board;

- withholding financial support.

3.7 Where it is evident that a Board has embraced the spirit, principles and practices of the Code in its determination to succeed on behalf of its members and community, a steward would be well advised to give that organisation due public citation and recognition. This will provide immense encouragement to others to emulate their example.

4.0 STEWARD ASSESSMENT AND RATING TOOLBOX

This section provides the Steward with the templates and tools they might need to document their assessments and record a rating of the quality of an organisation's compliance with the Governance Code. Remember, the organisations you're addressing are those whose boards have declared and registered their organisation on the Code's website as:

A. **Fully compliant with the Code, or,**

B. **On the Code's adoption journey for over three years.**

The Rating Toolbox is comprised of the following components which are presented in the next sections:

4.1 **The Rating Scales**

4.2 **Assessing Board Explanations**

4.3 **Practice-to-Principle Compliance Ratings**

4.4 **Overall Governance Code Compliance Ratings**

4.1 THE RATING SCALES

4.1.1 The ratings range from 1 to 4 with 1 representing 'Unacceptable' and 4, 'Excellent'. The range of 'descriptors' give a clear representation of a steward's opinion which provide board members with a strong incentive to improve their governance standards.

Table 1

Governance Code Compliance Rating Scales			
Unacceptable	**Reasonable**	**Good**	**Excellent**
1	**2**	**3**	**4**

It is highly recommended that each steward adopts these rating scales and the methodology outlined below as that will enable potential benchmarking of all organisations' ratings. Such benchmarking will enable stewards compare their results with other stewards' ratings of the same organisation or compare their results with other Code assessments or awards. Consistency in stewards' use of these scales will be required to achieve such benchmarking.

4.1.2 The Governance Code is structured under Principles, Sub-Principles and Practices. It has five Principles. Each Principle has three Sub-Principles. Each Sub-Principle has multiple Practices. The process to calculate an organisation's overall compliance rating with the Code has four steps:

I. Ratings of 1 to 4 are awarded to each of the Practices within one of the three Sub-Principles of a Principle.

II. The ratings are added and the total is then divided by the number of Practices to determine the Sub-Principle's rating.

III. Then, each of the Sub-Principle's ratings are added and divided by three, this generates the Principle's rating.

IV. When each Principle's rating is determined, they in turn should be added and divided by the total number of Principles i.e. 5. This determines the organisation' overall Code compliance rating.

The calculations in steps **II** to **IV** should be restricted to only one decimal point e.g. 3.5.

4.1.3 The ratings are awarded after the steward has completed an evidenced-based assessment of each Practice with which the organisation claims to comply. The steward will need to have separately reviewed and rated the board's explanations for divergences before it can complete step one. This process is covered in the Section **4.2.**

4.1.4 The descriptors used in the ratings helps the steward record their qualitative opinions with a quantitative scale 1 to 4. However, as the steward conducts the process of calculating the ratings at Sub-Principle, Principle and Code levels, the descriptors require a refinement in their numerical value to make them meaningful. The values used in the definitions of the descriptors in this reporting tool are based on the SWiFT 3000[1] Standard.

Table 2

Governance Code Reporting Scales				
Descriptor	**Unacceptable**	**Reasonable**	**Good**	**Excellent**
Values	**1.0 – 1.9**	**2.0 – 2.9**	**3.0 – 3.5**	**3.6 – 4.0**

4.1.5 By adopting this Reporting Scales, the steward is saying that aggregate ratings up to 2 are 'unacceptable' and the following band of up to 3, is just 'reasonable'. These are demanding thresholds. At the other end of the scale, the 3's are divided into 'good' and 'excellent'. Anything in this range is praiseworthy. However, an aggregate board rating of 3.6 or over for a Principle or the Code itself, certainly deserves an 'Excellence' along with our recognition and, our respect. Such a Stewardship Report would look something like this:

Table 3

GOVERNANCE CODE STEWARDSHIP RATING AWARDED TO: ANIMAL WELFARE CHARITY		
No	**PRINCIPLE**	**RATING**
1.0	**Leading Our Organisation**	**3.9**
2.0	**Exercising Control Over Our Organisation**	**2.9**
3.0	**Being Transparent And Accountable**	**3.6**
4.0	**Working Effectively**	**3.8**
5.0	**Behaving With Integrity**	**3.6**
TOTAL STEWARDSHIP RATING:	**EXCELLENT**	**3.6**

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[1] NSAI Corporate Governance Certification Standard

4.2 ASSESSING BOARD EXPLANATIONS

4.2.1 The first step in the stewardship process is to assess a board's explanation for its deviation from, or rejection of, a given Practice and to give it a rating of 1 to 4. When assessments are completed for all Practices a board has chosen not to comply with, these ratings can be carried forward to the Principle and Practice Rating tables addressed in the next section.

4.2.2 It is this current section on Explanations that will require the greatest level of subjectivity and interpretation to form a reasoned opinion. A good starting point will be to determine the board's integrity and commitment to adopting best-practice in corporate governance. A steward can elicit a good sense of this by engaging with board members on the range of questions covered in Section **3.3**. The outcome of such questioning will give the steward an informed perspective by which to interpret the subsequent rationale presented for not complying with a given Practice. This should provide an insightful basis by which to provide an informed rating.

4.2.3 The following table illustrates a steward's assessment of a board's explanations for divergence from four randomly selected Practices found under three Principles.

Table 4

RATING THE EXPLANATIONS OF DIVERGENCE WITH THE CODE'S PRACTICES	UNACCEPT-ABLE	REASON-ABLE	GOOD	EXCELLENT
PRINCIPLE 1.0 **LEADING OUR ORGANISATION** **Provision 1.2:** Developing, resourcing, monitoring and evaluating a plan to make sure our organisation achieves its stated purpose.				
Practice 1.2c Make sure there is a monitoring and evaluation system in place.	1			
Explanation *Practice 1.2c is disproportionate to the scale and resources of our organisation*	1			
Practice 1.2e Make sure the discussion of strategic issues is a regular item on the board agenda.				4
Explanation *The organisation has found a practice more effective than 1.2e in helping us achieve our strategic objectives*				4

Table 4 *continued*

RATING THE EXPLANATIONS OF DIVERGENCE WITH THE CODE'S PRACTICES	UNACCEPT-ABLE	REASON-ABLE	GOOD	EXCELLENT
PRINCIPLE 3. BEING TRANSPARENT AND ACCOUNTABLE. Provision 3.3: Encouraging and enabling the engagement of those who benefit from our organisation in the planning and decision-making of the organisation.				
Practice 3.3b Make sure stakeholders are appropriately involved in decision-making processes.			3	
Explanation *We put a reasonable limit on this so as to be practical.*				
PRINCIPLE 5. BEHAVING WITH INTEGRITY. Provision 5.1: Being honest, fair and independent.				
Practice 5.1a Make sure the chair leads the board in developing an ethical culture in line with the values of the organisation.		2		
Explanation *The Chair has delegated this practice to a board sub-committee*				

4.2.4 To arrive at the ratings shown in the above illustration, the steward will have assessed the board's rationale for divergence along with any evidence provided that such divergence better enables the organisation achieve its strategic objectives. This rationale and evidence will be assimilated in the context of the board's commitment to good governance determined from the questioning engagements. At all times the steward will assessing if explanations given improve the likelihood of success on the journey to securing the organisation's goals as defined by its strategic objectives.

4.3 PRACTICE-TO-PRINCIPLE COMPLIANCE RATINGS

4.3.1 Rating compliance is strictly an evidence-based process. The 1 to 4 ratings are awarded based on the quality of the evidence provided by the organisation to the steward to verify compliance. Those ratings awarded during the assessment of board explanations for divergence are carried forward to this section as can be seen in the Table 5 illustration below.

Table 5

RATING THE BOARD'S COMPLIANCE WITH THE CODE'S PRACTICES IN PRINCIPLE 1 LEADING OUR ORGANISATION		UNACCEPT-ABLE	REASON-ABLE	GOOD	EXCELLENT
Practice	**SUB-PRINCIPLE 1.1** Agreeing our vision, purpose and values and making sure that they remain relevant				
1.1(a)	Agree a strategic plan for your organisation. The plan should include clear statements of your vision, mission, values and objectives.			3	
1.1(b)	Make sure 1.1(a) reflects the governing document of the organisation. *e.g. Constitution; Memorandum & Articles etc.*			3	
1.1(c)	Review it at least every three years so that the organisation is still relevant.		2		
1.1(d)	Review and agree written policy statements on relevant operational matters at least every three years.		2		
Sub-Principle 1.1 Rating (Sum of Practices ÷ 4)		**2.5**			
Practice	**SUB-PRINCIPLE 1.2** Developing, resourcing, monitoring and evaluating a plan so that our organisation achieves its stated purpose and objectives.				
1.2(a)	Agree a strategic plan for the organisation that includes: ■ objectives; ■ operational plans; ■ budget; ■ key performance indicators, and; ■ timelines.			3	
1.2(b)	Agree role of board in making sure that there are enough resources to implement the strategic plan and consider the organisation's sustainability over the long term.		2		
1.2(c)	Make sure there is a monitoring and evaluation system in place.	1			
1.2(d)	Review report from CEO on progress compared with agreed objectives and key performance indicators.		2		
1.2(e)	Make sure the discussion of strategic issues is a regular item on the board agenda.				4
Sub-Principle 1.2 Rating (Sum of Practices ÷ 5)		**2.4**			

Table 5 *continued*

RATING THE BOARD'S COMPLIANCE WITH THE CODE'S PRACTICES IN PRINCIPLE 1 LEADING OUR ORGANISATION		UNACCEPT-ABLE	REASON-ABLE	GOOD	EXCELLENT
Practice	**SUB-PRINCIPLE 1.3** **Managing, supporting and holding to account** **staff, volunteers and all who act on behalf of the organisation**				
1.3(a)	Make sure contracts and employment policies are in place and that they cover: ■ recruitment; ■ induction; ■ supervision; ■ appraisals; ■ grievance; and ■ disciplinary procedures. Give responsibility for the implementation of board-approved human resource policies and employment contracts to the CEO.			3	
1.3(b)	Make sure: ■ formal arrangements are set up for the ongoing supervision and development of staff; and ■ formal arrangements are set up for the supervision and development of the CEO. This should include a yearly or twice-yearly appraisal.		2		
1.3(c)	Give responsibility for developing the volunteer policy to the CEO.			3	
1.3(d)	Delegate responsibility for job descriptions and staff supervision to CEO.				4
1.3(e)	■ Agree job description of CEO; ■ Set yearly performance expectations of CEO; ■ Agree ways for CEO to report to the board.		2		
Sub-Principle 1.3 Rating (Sum of Practices ÷ 5)		**2.8**			
PRINCIPLE 1 RATING **LEADING OUR ORGANISATION** (Sum of Sub-Principles ÷ 3)		**2.6**			

4.3.2 In the Table above, the three Sub-Principles underlying Principle 1 are shown. The Practices to be assessed within each Sub-Principle are presented for rating. The steward is advised to record or document the evidence shown to verify compliance and justify the awarded rating.

4.3.3 When compliance with Practices is fully assessed and ratings awarded, each Sub-Principle's ratings can then be individually calculated. This, in turn, provides the data needed to generate a total compliance rating for the Principle as a whole.

4.3.4 Repeating the exercise illustrated above for each of the five Principles, enables the stewardship process calculate the organisation's compliance rating for the complete Code as will be shown in the next and final section.

4.4 OVERALL GOVERNANCE CODE COMPLIANCE RATINGS

4.4.1 And finally, we reach the Code. It is evident from the steps we have been through to get here that the workload along the way is onerous. The Code is comprised of 75 Practices many of which contain multiple sub-topics to be considered. Stewards are advised to be cognisant of the scale of the undertaking before setting out on a single assignment to complete a whole-Code stewardship assessment. Assessing evidence of compliance with 75 Practices is one thing, but adding the requirement to form considered opinion on the veracity of a board's explanations for divergence from any number of them, is another. Unless professionally resourced to do it, we recommend prospective stewards consider a rolling programme of assessment of compliance with each of the Principles. This will enable the steward 'publish' each Principle's rating when finished and 'announce' the calculation of the overall Code rating when the five-Principle cycle is complete.

4.4.2 Table 6 below shows completed hypothetical ratings for the five Principles of the Code including the example illustrated in Section **4.2** of these Guidelines for Principle 1, *Leading Our Organisation.* At this point the steward is in a position to run the final calculation to determine the organisation's overall Code compliance rating which, in this case, is 3.1.

Table 6

No	PRINCIPLE	RATING
1	**Leading Our Organisation**	**2.6**
2	**Exercising Control Over Our Organisation**	**2.7**
3	**Being Transparent And Accountable**	**2.9**
4	**Working Effectively**	**3.6**
5	**Behaving With Integrity**	**3.7**
	TOTAL STEWARDSHIP RATING:	**3.1**

4.4.3 All that's left to do is to publish the Stewardship Report which requires reference to the reporting scales that were addressed in Section **4.1**. These will provide the descriptor to be associated with this organisation's rating of **3.1** namely, **GOOD.**

Table 7

Governance Code Stewardship Reporting Scales				
Descriptor	**Unacceptable**	**Reasonable**	**Good**	**Excellent**
Values	**1.0 – 1.9**	**2.0 – 2.9**	**3.0 – 3.5**	**3.6 – 4.0**

4.4.4 The completed Governance Code Compliance Assessment Report can then be assembled and awarded to the board of the rated organisation named in our illustration as the Animal Welfare Charity. Boards with favourable ratings deserve recognition and the right to promote such recognition as part of the marketing of their brand and mission. Others will receive a potent message on what governance improvements need to be addressed.

Table 8

GOVERNANCE CODE STEWARDSHIP RATING AWARDED TO: ANIMAL WELFARE CHARITY			
No	**PRINCIPLE**		**RATING**
1	Leading Our Organisation		2.6
2	Exercising Control Over Our Organisation		2.7
3	Being Transparent And Accountable		2.9
4	Working Effectively		3.6
5	Behaving With Integrity		3.7
	TOTAL STEWARDSHIP RATING:	GOOD	3.1

4.4.5 Due recognition and thanks will also be owed by every stakeholder to their surrogate who conducted the governance assessment in their name. The stewardship process undertaken by them is arduous but extremely fulfilling. The process recognises boards who have achieved success through their effective application of the Code's practices. It celebrates this success as it is actually all about these boards realising their vision to the benefit of their stakeholders.

It is a celebration of good people, using good governance, to achieve good things.

The
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