

BENCHMARKING GOVERNANCE

A new code of practice for evaluating corporate governance compliance could be an important step in helping to restore confidence in Ireland's business reputation. **Grainne Rothery** spoke to Ann Riordan, president of the IoD, and John Smyth, chair of the group that devised the code



Pictured at the launch of SWiFT 3000: Code of Practice for Corporate Governance Assessment in Ireland were John Smyth, chair of the consultative committee; Minister for Trade and Commerce, Billy Kelleher, TD; and Ann Riordan, president of the IoD and chairman of the NSAI

NANANCE

Developed in response to recent revelations around high-profile corporate governance failures and their impact on Ireland's business reputation and stakeholder confidence, a new best-practice standard for the independent evaluation of organisational compliance with existing governance codes was launched by the National Standards Authority of Ireland (NSAI) and the Institute of Directors in Ireland (IoD) in March.

Specifically, the standard – SWiFT 3000: 2010 Code of Practice for Corporate Governance Assessment in Ireland – focuses on how independent assessors should evaluate the compliance of Irish companies and state bodies with the OECD Principles on Corporate Governance, the Combined Code on Corporate Governance and the Code of Practice for the Governance of State Bodies, as relevant. Organisations that are assessed and meet the specifications of the code will be awarded the SWiFT 3000 certification, which will be valid for three years.

The new code is the first of its kind in the EU and, according to Ann Riordan, president of IoD Ireland, the first to award certification to companies meeting the required benchmark.

With initial training programmes for assessors expected to start in June, the IoD anticipates that the first batch of companies looking for SWiFT 3000 certification will be evaluated in the final quarter of 2010.

"It is likely that those companies with strong corporate governance practices in place will be the first to participate in this process," says John Smyth, chair of the committee that developed the code.

"I know of companies that already feel confident they're complying," adds Riordan. "My thinking is that they will want to be able to say that their corporate governance has been certified to the SWiFT 3000 standard. Those who are ready and know they comply would find it useful to have that in their annual report for 2010."

The assessment process

The assessment itself will cover the three core areas of board composition, board processes and the fulfillment of board responsibilities. It will also look at other elements of governance procedures such as chairman-CEO

separation. As part of the process, the assessor will have access to all relevant documentation and will evaluate an organisation based on the completion by its board of a questionnaire, a review of its compliance with the relevant codes and interviews with company directors, chairs and CEOs as appropriate.

The process is designed to be completely transparent: companies that are assessed see their results and any recommendations from the assessors and may also appeal the outcome.

Crucially, assessors – who must meet comprehensive qualification and experience criteria – cannot have a business relationship with any organisation they are evaluating for two years before or after the assessment.

Fast-track development

The urgency around the need to improve corporate-governance performance is reflected in the speed with which the code was developed: the idea for devising a quality mark was first proposed in June 2009 when the IoD council was looking at ways it could help improve the situation around Ireland's corporate governance reputation.

"We decided IoD should absolutely not give the quality mark," Riordan says. "We were also looking for a way that we could have a consultative process so that the broad spectrum of Irish business and semi-state organisations would be included. It was important that we would have representation and input from professional bodies."

Developing a full-scale standard normally takes around three years, with the expert consultation taking a couple of years before it is opened to public input. "We didn't feel there was the time to go through that long process," says Riordan. Instead the IoD opted to take the NSAI's priority development process (SWiFT) route, which has incorporated the expert consultation without the public input.

While the code could eventually become a standard, neither Riordan nor Smyth feels this is a priority.

"Because existing codes of practice are probably going to change every year, particularly in the environment we're in now, we need something that can be updated," says Riordan.



'It has turned out to be a very robust standard, and it is a first. The UK will make some changes to the combined code, probably later this year. They'll probably recommend independent assessment as well'

Developing the code

Development of the code began in earnest last September, with Smyth leading the NSAI corporate governance working group, which included 16 other representatives from a range of key professional bodies, including NSAI, the Financial Regulator, Office of the Director of Corporate Enforcement, Corporate Governance Association of Ireland, the Institute of Public Administration, Institute of Chartered Secretaries and Administrators, ISME, the Standards in Public Office Commission and Broadcasting Authority of Ireland, as well as Dublin Airport Authority, FÁS, ESB and UCD. The group also received feedback from a chairpersons' consultative group that included Maurice Pratt, chairman of Bank of Scotland, and Michael Kelly, chairman of the Higher Education Authority. "So it was a good cross-section of individuals, with lots of input and lots of work," says Smyth.

The process has been designed as efficiently as possible, he says. "It shouldn't involve long amounts of time and it is aimed to be as cost effective as it possibly can."

Depending on the size of the company, it is expected that the process will take a maximum of five or six days.

"That's key because the feedback we had even before we entered into this process was that companies choosing to do this themselves were being quoted significant fees," he continues. "This is very structured and consistent."

The assessment is designed to be both quantitative and qualitative.

"It's important to say that it's not a box-ticking exercise," says Smyth. "There's a quantitative element and it's very structured. But it has a strong qualitative framework as well in the interaction between the assessor and the directors and the company itself. That will add to its value."

Both Riordan and Smyth say they are very pleased with the end result. "It has turned out to be a very robust standard, and it is a first," says Riordan. Smyth points out that it demonstrates where the Irish corporate community is leading rather than following. "It's a

small step, but it's a good signal," he says. "The UK will make some changes to the combined code, probably later this year. They'll probably recommend independent assessment as well."

In the future, the Irish code may be used as a model in other countries. "It's based on existing codes of corporate governance and there's certainly no reason why another country or another organisation could not adapt it," says Riordan. "We're not aiming it at the international market but I would have no reason to doubt that some other country or organisation or country in Europe will look at this as a model."

Both believe the code offers extensive benefits to a range of stakeholders. "Certainly, ministers will get comfort if agencies under their control are certified," says Riordan. "There are benefits for future investors and for existing shareholders and other stakeholders. Also, I, as a chairman, would feel very comforted that the company I chair has been certified. It also gives comfort to the board."

While larger organisations are expected to be the first to go for assessment, Smyth says the code is an opportunity for firms of all sizes to benchmark their corporate governance. "Growing companies could target a transition period to place themselves in a position to be confident of success in an external assessment of their corporate governance. Mark Fielding of ISME was on the panel, so they could see the value of it for small companies."

Smyth also believes the code will gain momentum once the first cohort of organisations achieve certification.

"This is a crucial step in reestablishing stakeholder confidence and rebuilding Ireland's reputation as a country to do business with," says Riordan. "But it's only one tool towards rebuilding corporate reputation. There are other tools and there are a lot of other organisations looking at what they can contribute. This is IOD's contribution along with all of those organisations that were involved with the consulting committee. This is our offering, which hopefully will make a difference."