Chartered Governance Institute UK & Ireland

Guidance note

Principles of Good Practice for listed companies using external board reviewers

July 2023

Comments, questions and observations
If you have any feedback on the content of this guidance note, or additional questions that you'd like to discuss, please contact the Chartered Governance Institute UK & Ireland: 020 7580 4741| enquiries@cgi.org.uk

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Foreword

When BEIS (as it then was) invited the Institute to identify further ways of improving the quality and effectiveness of board evaluations back in 2018, it specifically requested that we include in this work “the development of a code of practice for external board evaluations”.

This second edition of the Principles has been published following a review by an independent working group chaired by Dr Ian Peters, MBE., Director of the Institute of Business Ethics.

The impact of any board performance review depends as much – if not more – on the commitment of the board as it does on the ability of the reviewer.

The board appoints the reviewer, sets the terms of the review, and decides how to respond to the findings. The role of the external board reviewer is to identify and highlight any issues that the board should consider; and the role of the board is to take appropriate action to address them in the interests of its own improvement and to create long term value for shareholders.

For this reason, any action to improve the conduct and accountability of externally facilitated board performance reviews must look at the role of the board as well as that of the reviewer.

These principles are intended to outline how an organisation should engage with its reviewer in order both to achieve the maximum benefit from the engagement and give assurance to its stakeholders.

This document should be read in conjunction with:
- Code of Practice for board reviewers; and
- Reporting on board performance reviews: Guidance for listed companies

Selection

1. The company should not delegate the decision on the appointment of a reviewer to a single board member or employee. This should normally be a matter for the nomination committee in accordance with FRC guidance. Where appropriate, for example if an actual or potential conflict of interest is identified, the decision should be ratified by the full board.

2. The company should avoid the appointment of reviewers with which it, or a member of the board, has commercial or other relationships that might create a conflict of interest. If there is a potential conflict of interest, this should be fully disclosed in the annual report with an explanation of why the company believes the reviewer to be independent and any potentially conflicted individual should declare that to the board and recuse themselves from the appointment process.

3. The company or the person leading the appointment process should not normally have a relationship with the same reviewer for more than six years or two full reviews, whichever is shorter. If the length of time exceeds six years or two full reviews, whichever is shorter, or if other connections exist, for example with a particular director, the annual report should explain how independence and objectivity are safeguarded.

Scope and process

4. The company and reviewer should agree terms of engagement before the review commences. These must specify the objectives and scope of the evaluation, and the process to be followed. The company should not subsequently seek to amend the terms of engagement without the agreement of the reviewer.

5. The company should provide the reviewer with direct access to the board collectively and directors individually as part of the review process. It should also provide access to board papers, board committees, management and other internal and external stakeholders where the reviewer considers this appropriate to meet the agreed objectives of the review.

6. The company should provide the reviewer with an opportunity to present their findings directly to the full board and discuss outcomes and future actions with them.

7. The company should identify a contact with whom the reviewer can discuss in confidence any concerns they have about the way the process is being managed. This would normally be one of the independent board members.

Disclosure

8. In the annual report, the company should state whether it has followed these principles, and whether the reviewer is a signatory to the Code of Practice for reviewers.

9. Where an external reviewer has been used, the company should provide the reviewer with an opportunity to comment on any description of the process followed and the findings contained in the annual report or other disclosures, and agree any opinions attributed to the reviewer. The annual report should state whether this has been the case and, if not, explain why.

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