

ICSA guidance on induction of directors

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To access the FRC's Guidance on Board Effectiveness, please click [here](#)

1 Introduction

- 1.1 The objective of induction is to provide a new director with the information he or she will need to become as effective as possible in their role within the shortest practicable time.
- 1.2 In 2003 the 'Higgs Suggestions for Good Practice' stated that the induction process should aim to achieve three things, and these remain relevant today:
- Build an understanding of the nature of the company, its business and the markets in which it operates.
 - Build a link with the company's people.
 - Build an understanding of the company's main relationships.
- This note draws out two further elements: ensuring an understanding of (i) the role of a director and (ii) the framework within which the board operates.
- 1.3 As well as providing a checklist of topics and documents (section 4) to consider covering in an induction programme, this note makes suggestions for programme design (section 3) because the way in which any induction programme is delivered is an essential factor in its success.
- 1.4 The time taken to complete an induction will depend on the organisation, its size and complexity, but may take 12 months in order to cover a full board cycle.

2 References to induction in regulation and guidance

2.1 The UK Corporate Governance Code 2010 (the Code), published by the Financial Reporting Council (FRC)

The Code applies to all companies with a Premium Listing of equity shares at the London Stock Exchange.

The Code states (B4) that all directors should receive induction on joining the board and that to function effectively, all directors need appropriate knowledge of the company and access to its operations and staff.

It goes on to state that the chairman should ensure that new directors receive a full, formal and tailored induction on joining the board. As part of this, directors should avail themselves of opportunities to meet major shareholders.

B5 states that the company secretary's responsibilities include facilitating the induction programme under the direction of the chairman.

2.2 The FRC Guidance on Board Effectiveness

This guidance is issued by the FRC as 'associated guidance' to the Code, to assist companies in applying some of the Code's leadership and effectiveness principles.

Paragraph 1.7 reinforces the notion that the chairman should take the lead on induction.

Paragraph 1.12 states that the chairman should make certain that executives are aware of their wider responsibilities when joining the board, and ensure they receive appropriate induction and regular training, to enable them to fulfil the role. It goes on to say that executive directors are also likely to be able to broaden their understanding of their board responsibilities if they take up a non-executive director position on another board.

Paragraph 1.18 states that a non-executive director should, on appointment, devote time to a comprehensive, formal and tailored induction which should extend beyond the boardroom. It states that initiatives such as partnering a non-executive director with an executive board member may speed up the process of him or her acquiring an understanding of the main areas of business activity, especially areas involving significant risk. The director should expect to visit, and talk with, senior and middle managers in those areas.

Paragraph 5.3 states that the outcome of a board evaluation should be fed back, as appropriate, into the design of the induction programme.

2.3 ICSA guidance: a sample non-executive director's appointment letter

The ICSA template letter states that a new director will be expected to make himself/herself available during his/her first year of appointment for an additional number of days. 10 days is suggested in the template letter, reflecting the importance of the induction process.

3 Best practice points and points to consider in the programme design

3.1 Best practice points

- 3.1.1 Speak to the new director, before devising the programme, to get his/her input on how it should be tailored, in relation to both content and delivery. Previous experience is of course relevant to the induction programme design: it may be that the director is aware of some or most of the non company-specific items and may simply require an update in certain areas.
- 3.1.2 Plan the timing of the provision of information to avoid overloading a new director with everything all at once. Prioritise and schedule the various induction elements over an extended period. Arrange meetings with employees, advisors, shareholders and other relevant stakeholders over an extended period too. However, let the director see the whole programme plan at the start so he or she has the option to request certain elements earlier, or to have access to certain documents sooner.
- 3.1.3 Vary the delivery of information, and limit the amount of data presented just as reading material (whether in hard copy or via a board portal/on-line reading room), for example by designating meetings with executives to cover off certain elements, making use of advisors, other stakeholders, external training courses and organising site visits.
- 3.1.4 Plan the induction programme with reference to the director training and development programme, as one should transition smoothly into the other.
- 3.1.5 Review the induction with the director mid-way through the process, and after (12/18) months, and seek his/her input on any further induction requirements he or she may have.

3.2 Points to consider

- 3.2.1 Consider asking an existing non-executive director to bring his/her experience to bear by commenting on the content and design of the draft induction programme intended for an incoming director.
- 3.2.2 Consider arranging induction meetings/site visits around existing board/committee meetings.
- 3.2.3 Consider whether it would be appropriate to encourage a new executive director to take up a non-executive role on another board, once he or she has become well-established within their executive role, to broaden their understanding of their responsibility as a member or a unitary board¹.
- 3.2.4 Consider whether it would be beneficial to partner a new non-executive director with a particular executive director to hasten an understanding of a particular part of the business.
- 3.2.5 Consider whether any of the outputs of the latest board/director evaluation exercise could be achieved, or partially achieved, by changes to the induction programme.

4 Director induction checklists

The following checklists are not intended to be prescriptive or exhaustive, but to act as an aide-memoire when devising a programme. The expectation is that the programme will be tailored to the needs of the particular director to avoid repeating information the director is already well versed in, and that the content will be delivered using a variety of methods, over an extended period.

Many of the topics listed below will be best conveyed by making the director aware of the source document, while providing an overview/summary of the key points.

4.1 The role of a director

- the role of a director and his/her statutory duties
- UK Listing Authority (UKLA)'s Model Code and details of the company's policies and procedures regarding directors' shareholdings and share dealings, including close period dates
- support role of the company secretary/secretariat
- policies relevant to the director as an individual (independent professional advice, expenses, data protection)
- directors' and officers' liability insurance, deeds of indemnity
- personal development process
- protocol, procedures and dress code (if applicable) for board meetings, general meetings, formal dinners, staff social events, site visits etc, including the involvement of partners where appropriate

¹ Check the latest regulatory/best practice limits apply to your organisation as regards the number and type of mandates a director can/should hold.

4.2 Board issues

4.2.1 Board and committees

- board and committee structure, matters reserved for the board, delegated authorities, committee terms of reference, items requiring approval outside of board meetings
- brief biographical and contact details of all directors of the company, the company secretary and other key executives. This should include any executive responsibilities of directors and their dates of appointment
- schedule of board committee membership
- board composition, board renewal, succession plans and policy on directors' re-election by shareholders
- board support framework: chairman, senior independent director, company secretary

4.2.2 Board meetings

- minutes of recent board meetings
- schedule of dates of future board meetings with pro forma forward agendas of regular items or an indication of when routine business is transacted
- description of board procedures covering details such as when papers are sent out, the method of delivery, the normal location of meetings and how long they last
- training in the use of any board portal or online board paper/reading room facility

4.2.3 Boardroom behaviours

- explanation by the chairman of his/her expectations of the board in terms of its output and behaviours
- culture and values, codes of conduct/ethics etc

4.2.4 Rules, regulation and guidance

- concept of the unitary board
- up-to-date copy of the company's articles of association/constitution
- Companies Act 2006 and legislation in other jurisdictions, as apply to the company
- UKLA's Listing, Prospectus and Disclosure and Transparency Rules
- other jurisdictions' securities and listing rules requirements, as apply to the company
- concept of comply or explain and best practice
- UK Corporate Governance Code and associated FRC guidance (Board Effectiveness, Internal Control (Turnbull), Audit Committees, Going Concern and Liquidity Risk)
- investors' corporate governance guidelines which the company seeks to follow

4.2.5 Board procedures

- board, committee and individual director evaluation processes
- board training and development programme
- special procedures (accounts sign off, company disclosures)
- treatment and disclosure of price sensitive information
- bid/defence handbook

4.2.6 Current issues

- key governance issues affecting the company
- remuneration policy, trends and issues affecting the company
- voting and shareholder feedback from the last AGM
- most recent board evaluation report

4.3 The nature of the company, its business and its markets

- corporate history, with a summary of significant events (incorporation, acquisitions and divestments, restructurings)
- organisational/business overview/chart, indicating the major domestic and overseas subsidiaries, associated companies and joint ventures
- business model
- products/services
- local, regional/global operations
- strategy
- key performance indicators, including KPIs on which incentive plans are measured
- market analysis, market shares, trading backdrop, recent operational and financial performance, current challenges
- the company's risk profile and tolerance, risk management and internal control procedures and relevant disaster recovery plans
- financial and treasury issues: accounts/interim management statements, audit, management accounts, budgets, funding sources, dividend policy, credit-rating metrics
- significant contracts
- status of company pension plans, including any deficits
- insurance policies
- marketing and branding
- details of any major litigation, either current or potential
- relevant company/group policies, such as health & safety, corporate social responsibility, environmental, ethics and whistleblowing, bribery, diversity, equality, charitable & political donations, etc
- glossary of company-specific jargon/acronyms
- glossary of sector-specific jargon/acronyms

4.4 Building a link with the company's people

- meetings with senior management
- visits to company sites in addition to the head office
- internal company contact list (UK and overseas as applicable)
- employee committees or surveys

4.5 The company's main relationships

- market facing issues: investor relations and media views
- major shareholders (facilitate meetings)
- notices of any general meetings held in the last 3 years
- FRC's Stewardship Code
- recent press cuttings, reports and articles concerning the company
- the company's advisers (lawyers, bankers, auditors, registrars, brokers etc) and the key internal contacts for any external advisers
- key customers
- key suppliers
- key stakeholders (regulators, unions)

5 Board committee induction

Where the director will be joining a committee, he or she should be provided with copies of the committee minutes from the preceding 12 months.

5.1 For the audit committee²:

- role and remit of the committee
- link between committee policy and the company's strategic objectives
- members of the committee, and those regularly invited to attend meetings
- meeting schedule with pro forma forward agendas of regular items or an indication of when routine business is transacted
- main business and financial dynamics and risks
- regulatory and legal requirements in the UK/relevant jurisdictions
- market practice and current trends
- current issues
- views of investors on current arrangements and potential areas of focus
- meeting(s) with the CFO, external auditors and the head of internal audit
- technical training on key matters, tailored according to level of financial expertise

5.2 For the remuneration committee:

- role and remit of the committee
- link between committee policy and company's strategic objectives
- members of the committee, and those regularly invited to attend meetings
- meeting schedule with pro forma forward agendas of regular items or an indication of when routine business is transacted
- regulatory and legal requirements in the UK/relevant jurisdictions
- market practice, current trends and best practice guidelines
- current issues
- views of investors on current arrangements and potential areas of focus
- meeting(s) with the remuneration advisers
- technical training on key matters, tailored according to experience

5.3 For the nomination committee:

- role and remit of the committee
- link between committee policy and the company's strategic objectives
- members of the committee, and those regularly invited to attend meetings
- meeting schedule with pro forma forward agendas of regular items or an indication of when routine business is transacted
- board composition, board renewal, succession planning, ongoing recruitment
- internal talent and capability, leadership development programmes
- current issues
- views of investors on current arrangements and potential areas of focus
- recruitment process and recruitment agent(s) typically used

The generic items in 5.1 to 5.3 can be used as the starting point for an induction to other board committees, such as risk or sustainability/CSR.

² See also the FRC Guidance on Audit Committees 2010, in particular paragraphs 1.11, 2.17 and 2.19