

# THE CORPORATE HEALTH CHECK

"There couldn't be a better time to promote the concept of a health check for companies as a means of monitoring their well-being and identifying incipient risks in the way they manage their intangible assets. The "softer" areas of business are attracting increasing focus and importance for ensuring survival, sustainability and long-term shareholder value. With boards appearing to be increasingly uncertain about whether they really understand the businesses and risks for which they are responsible, this initiative in providing a comprehensive, forward-looking and independent enterprise risk assessment of corporate health is one which I strongly commend companies to undertake."

**Digby Jones, Director-General, Confederation of British Industry**

"I was interested to read the approach which you have adopted and you have clearly set out the key issues which need to be addressed. There could be no more appropriate time for boards to accept your offer of a Corporate Health Check. What impressed me most about your document was, first, the accent on looking ahead to preparing for future challenges rather than simply dealing with the past and present and, second, the calibre of the team which you are fielding."

**Sir Adrian Cadbury**

## Background

Recent events underline the need to maintain shareholder and public confidence in companies. Confidence, however, has to have a basis in reality. While it is likely that shareholders and other stakeholders may perceive the company to be well-managed, the Chairman and directors need to be reassured that this perception is well founded.

SAMI has developed a 'corporate health check', a process akin to the concept of a health check individuals undergo as a means of monitoring their well-being and identifying incipient risks.

## What is the Corporate Health Check?

The Corporate Health Check provides a quick, but thorough diagnosis of the health of the company.

It is designed to provide the Board, through a professional, independent and objective review, with the assurance that it is properly exercising and fulfilling its responsibilities and that there are no submerged issues which could affect the integrity, health, sustainability or reputation of the company. Its diagnostic process differs from others by focussing on the future in order to prioritise action to address present concerns.

All organisations have a diverse mix of assets, both tangible and intangible, which, if managed in a strategic and long-term manner, will open up new areas of sustainable business and profit. Whilst all organisations are different and no simple formula will fit all circumstances, the Board's processes and systems will need to be supported by seven intangible attributes that require investment and maintenance in order to sustain current and future business prospects and net financial result. These are:

- A vision into the future
- Leadership and effective internal communication
- Clearly defined culture, values and behaviours
- Knowledge, skills and competencies
- Earned reputation and trust
- Engagement with stakeholders
- Managed relationships and communication with the wider community

## Key issues addressed by the Corporate Health Check

In addition to the assessment of the seven intangible attributes, other key issues integral to the effectiveness of a company are addressed during the course of a Corporate Health Check:

### Intangible assets

- Strategies
- Capabilities
- Stakeholder contribution
- Processes
- Stakeholder satisfaction
- Licence to operate

# SAMI Consulting

St Andrews Management Institute

## Governance

- Board structure and balance
- The Chairman's role and responsibilities
- Directors' responsibilities generally (including conflicts of interest)
- The Company Secretary and management of the Board
- Board delegation and reporting by management
- Implementation of board strategy and decisions
- Measurement of performance
- Assessment of risk to the business and internal control
- Corporate Policies and Codes of Business Practice
- Board Committees - Audit, Remuneration and Nomination
- Directors' service contracts and other arrangements, including transactions

## External driving factors

- Relevant legislation and other anticipated statutory interventions
- The impact of politically generated imperatives
- Changing demands from regulators and reporting regimes
- Response to incidents which may impact negatively on reputation
- Response to economic pressures and investor attitudes
- Issues of diversity, equal opportunities and racial equality
- Response to public and media attitudes
- Communities and the environment

## Methodology

Through a diagnostic and self-assessment process, we start by defining an organisation's key stakeholder dynamics and go on to develop an objective analysis of the Board's effectiveness in managing these dynamics and the interaction between them.

The Health Check process involves a series of workshops and confidential interviews, first with the Board and senior management and then with agreed representative groups of institutional and private shareholders, customers, suppliers, employees and the wider community. The workshops and interviews are used to agree what 'good' looks like in each of the identified key dynamics and to compare how the company sees itself with the interaction of stakeholder views and expectations of the company. This comparison is made against two sets of questions:

### Future activities

- What is changing in the external world?
- How does this affect where we want to go?
- How do we invest for the future?

**The focus here is** on building options and flexibility for the future, understanding how the business context is likely to change and what needs to be done to drive or, at least, take advantage of change.

### Current activities

- Where are we now?
- What do we need to change?
- What action should we take?

**The focus here is** on reviewing what the organization does and reflecting on where improvements might be achieved in ways to increase value.

## Deliverables

On completion of the diagnostic process, the Corporate Health Check will have identified existing practices where improvements are required and aspects of the corporate well-being that may need further attention in order to sustain its future. These results are then presented to the Board in an interactive workshop, facilitated by SAMI, at which priorities for attention are identified, a plan for dealing with them is outlined and responsibilities for action are agreed.

The Corporate Health Check is undertaken and supervised by SAMI. It is implemented by a small team of SAMI's highly experienced consultants, assisted, as appropriate, by personnel drawn from partner organisations. The Health Check normally takes between eight and ten weeks to complete and the findings are available within two weeks of the diagnostic process being completed. However, if a Health Check is required to concentrate on a particular aspect of a company's affairs, the time required will be adjusted accordingly.

## Testimonials in support of the Corporate Health Check

The Corporate Health Check has been endorsed by the following:

- *"The Corporate Health Check is a welcome initiative and one which companies would be wise to undertake."*  
**Chris Hirst, Chief Investment Manager, Cooperative Insurance Society**
- *"The Corporate Health Check supports the levels of best practice in the area of risk management which we expect companies to achieve."*  
**Peter Butler, Chief Executive, Hermes Focus Investment Management**
- *"The Corporate Health Check goes beyond mere box-ticking into the crucial areas which corporate governance should always - but too often does not - address".*  
**Philip Goldenberg, a Corporate Finance Partner in City Solicitors, S J Berwin, and Advisor to the Company Law Review about directors, shareholders and stakeholders**
- *"We welcome this Health Check initiative as a means of helping companies achieve high standards of governance".*  
**Ken Rushton, Head of the UK Listing Authority, Financial Services Authority.**