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Guidance for the governance of organizations

37000 DIS

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Foreword

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The committee responsible for this document is Technical Committee ISO/TC 309 *Governance of Organizations*.

Introduction

The growth in volume and range of international guidance suggests that private, public and non-profit sectors globally are showing an increasing interest in the good governance of organizations.

Good governance of organizations means that decision making within the organization is based on norms, practices, behaviours, organizational ethos, culture, structures, and processes to create and maintain an organization with clear purpose that delivers long term value consistent with the expectations of its stakeholders. The implementation of good governance of an organization include a framework of mechanisms, processes and structures that are appropriate for its internal and external context.

This guidance is directed at governing bodies but may also be useful to those that support it in discharging its duties such as:

- those who govern organizations;
- managers and staff;
- governance practitioners;
- other interested stakeholders.

Organizations that apply this guidance will be better equipped to understand the competing expectations of their stakeholders, and to apply the required creative entrepreneurship, culture, principles, performance and accountability that are necessary to deliver the objectives of the organization according to its purpose and values.

Governing bodies hold management to account and ensure that the culture, norms and practices in the organisation align with its purpose. This guidance sets out principles which will assist governing bodies in discharging their duties effectively and efficiently, enhancing trust, inclusion, accountability, responsiveness and equity. Governing bodies that apply this guidance can achieve effective performance, responsible stewardship, and ethical behaviour.

As the organization becomes more important to its stakeholders, the need for good governance and the expectation for transparency and accountability increases.

In applying this standard, stakeholders across countries and sectors can have increased confidence that governing bodies are making decisions that are responsible, accountable, fair, transparent, with probity and informed by:

- credible information and reliable data;
- stakeholders' expectations;
- ethical and societal expectations;
- compliance obligations;
- open and honest reporting and reporting;
- natural environment limitations and impacts.

Sound decision-making increases the confidence of stakeholders in the organization, in terms of how it conducts its business, including the way in which decisions are made, and the way it produces intended outcomes.

The benefits of good governance can apply to

- the organization itself,
- owner stakeholders, and
- other stakeholders.

Examples of these benefits are listed in Table 1.

NOTE Where the benefits accrue largely to owner and/or other stakeholders as well as to the organization in significant ways, they are listed under benefits to the organization. Benefits that accrue to one group frequently interconnect with the benefits of other groups.

Table 1 — Examples of the benefits of good governance

Beneficiary	Benefit
Organizations	- Accurate and effective decision-making as a result of holistic consideration of the organization and the context within it operates. This is of benefit to the organization given the increasing complexity and rapidly changing business, economic, regulatory, political and technical contexts.
	- Improved organizational resilience in the face of negative leadership risks (as examples, faltering leadership due to ineffective succession planning and personal liability impacts), and increased ability to realize operational efficiencies as a result of ethical behaviour by the organization's leadership, and effective delegation of authority and responsibilities.
	- Increased speed of organizational decision-making and action as a result of clarity of leadership responsibilities and clear understanding of delegated authority.
	- Improved organizational ability to remain resilient when negatively impacted (as examples, fraud, non-compliance and environmental or utility impacts) and increased ability to improve competitive advantage (as examples, automation and artificial intelligence) through the recognition and realization of opportunities as a result of improved governing body oversight of risk management and internal controls.
	- Increased owner stakeholder value generation as a result of improved alignment of organizational activities with the agreed organizational purpose and strategy and effective oversight of organizational performance.
	- Increased access to, and reduced cost of, capital as a result of increased investor certainty in the effective governing body oversight of matters impacting the organization's sustainability and holistic decision making in this regard.
	- Improved organizational value generation over the long-term for its stakeholders due to positive impacts on the local and international social, economic and environmental contexts in which the organization operates as a result of governing body considerations for social and environmental responsibility and contribution to the UN Sustainable Development Goals.
	- Lower staff costs due to an increasingly attractive environment for skilled staff, who are motivated not only by financial benefits, but also by intangible organizational benefits such as fairness, transparency and organization attractiveness as a result of effective and ethical leadership by the governing body.
	- Effective and ethical leadership by an organization's governing body is demonstrated, amongst other ways, in the organization's transparency with stakeholders and perceived good corporate citizenship. This contributes to increased organizational reputation, public image, public confidence and goodwill, all of which are part of the organizations' intangible assets.
	- Increased viability of start-up initiatives as a result of increased investor confidence in the organization's ability to remain resilient and true to the stated organizational purpose due to increased leadership skill and attentive oversight; and increased continued organizational viability as a result of attention by the governing body on the organization's sustainability.

Beneficiary	Benefit
	- Increased certainty of continued compliance with laws, regulations and good practices, as perceived by the organization's stakeholders and society, as a result of effective oversight by the governing body of the organization's compliance management, leads to improved certainty of owner stakeholder investments and involvement in the organization.
Owner stakeholders	- Improved shareholder relations and consequently investment certainty as a result of reduced minority-majority shareholder conflicts, executive-shareholder conflicts and conflict between the shareholders and other stakeholders due to effective shareholder engagement, limitations of executive authority, suitably transparent decision making and reporting and protection of both small and large investors by the governing body.
	- Increased owner stakeholder trust in the organization due to effective delegation and limitation of authority, and oversight of the exercise of this authority by the governing body.
	- Effective and ethical governance by the governing body includes suitable transparency in its decision making and key operation indicators, and consistency of terminology and application through the adoption of reporting frameworks and standards; this supports owner stakeholders in their ability to hold the governing body and its members accountable and benchmark the organization's results against other similar organizations, allowing better management of their investment and consequently adding value.
	- increased transparency and access to information, demonstration of accountability, and commitment to effective investor engagement by the governing body, leads to increased investor confidence in the governing body's ability to direct the organization to use the invested assets appropriately.
Other stakeholders	- Good governance includes actions by the governing body to direct their organizations to present suitably transparent, clear and consumable reports and disclosures to its stakeholders, allowing regulators and society to evaluate the organization's positive and negative impacts on the social, natural environmental and economic context within which it operates, affording stakeholders the opportunity to hold organization's to account, highlighting inappropriate practices and with action, reduce harm to the public, economy and natural environment.
	- Effective stakeholder engagement and relationship building is a cornerstone of good governance and provides the organization with the ability to understand stakeholder requirements of the organization and co-create services and products of worth to stakeholders, increasing stakeholder value.
	- Improved resilience of organizations of critical importance to societal functioning as a result of good governance practices by their governing bodies leads to increased institutional resilience at national, regional and organizational levels, which benefits all stakeholders;

The governance of organizations is a system performed in the context of enabling principles in order to achieve the organizational purpose, governance outcomes and the generation of value for the organization and its stakeholders. This system operates in a context of externalities which are to be taken into consideration.

Figure 1 illustrates the framework for governance of organizations and consists of the principles and outcomes outlined in this document. These components might already exist in full or in part within the organization. However, they might need to be adapted or improved so that the governance of the organization is efficient, effective and consistent.

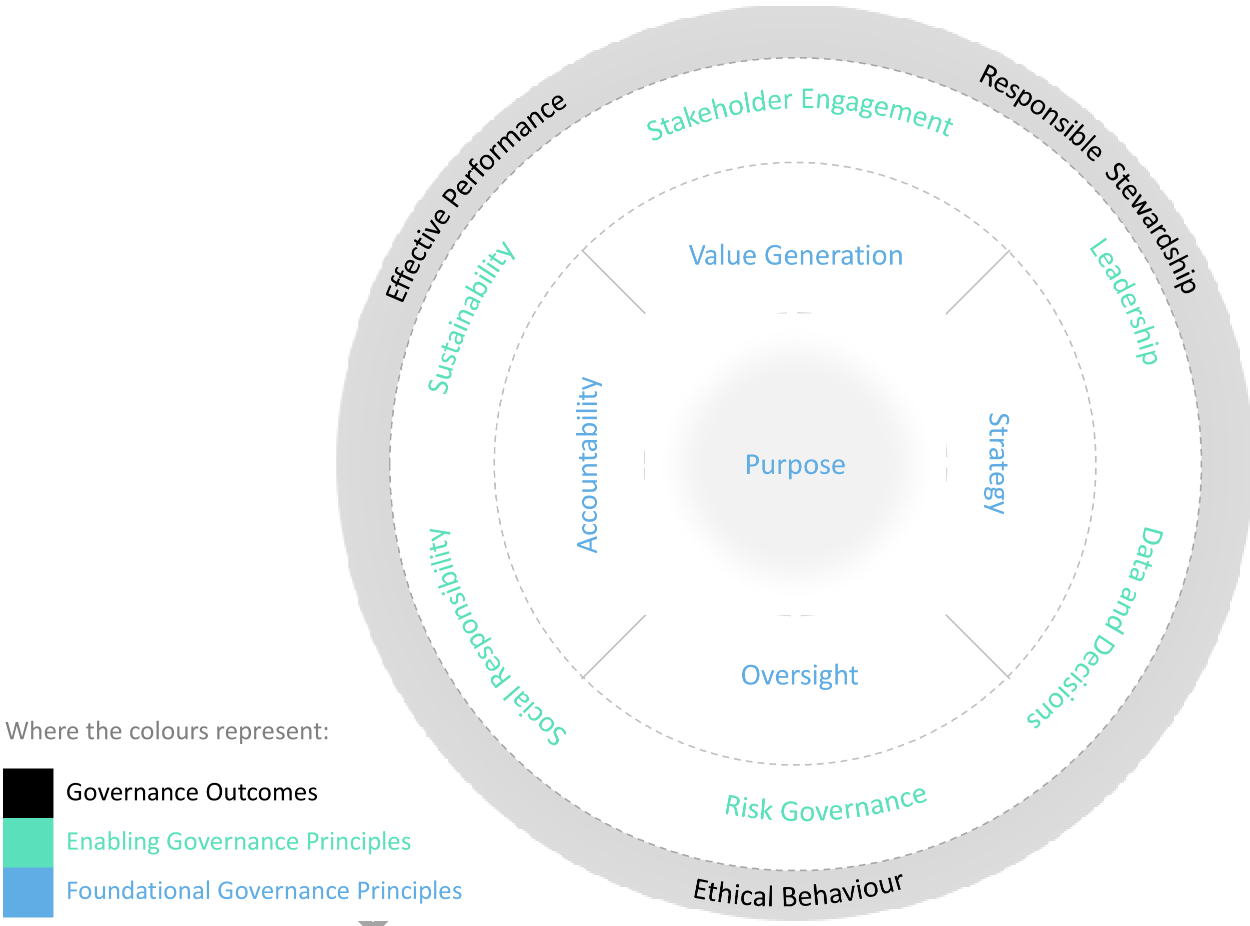

Figure 1 — Governance framework overview

Guidance for the governance of organizations

1 Scope

This document gives guidelines for the governance of organizations. It provides key principles, relevant practices and a framework to guide governing bodies on how to meet their responsibilities so that organizations can fulfil their purpose. It is applicable to all organizations, regardless of type, size, location, structure or purpose.

2 Normative references

There are no normative references in this document.

3 Terms and definitions

For the purposes of this document, the following terms and definitions apply.

ISO and IEC maintain terminological databases for use in standardization at the following addresses:

— IEC Electropedia: available at http://www.electropedia.org/
— ISO Online browsing platform: available at https://www.iso.org/obp

3.1 Governance and organization

3.1.1
governance of organizations
system by which an *organization* (3.1.3) is directed, overseen and held accountable for achieving its defined purpose

Note 1 to entry: This is a human based system.

3.1.2
governance framework
strategies, policies, decision-making structures and accountabilities through which the organization's governance arrangements operate

[SOURCE: ISO/IEC TR 38502:2017, 3.1]

3.1.3
organization
person or group of people that has its own functions with responsibilities, authorities and relationships to achieve its objectives

Note 1 to entry: The concept of organization includes, but is not limited to sole-trader, company, corporation, firm, enterprise, authority, partnership, charity or institution, or part or combination thereof, whether incorporated or not, public or private.

[SOURCE: ISO/IEC Directives Part 1:2019, Annex L 3.1]

3.1.4
organizational entity
organization (3.1.3) that has a distinct and independent existence

Note 1 to entry: In some cases, an organizational entity could be a legal entity.

3.1.5
governing documents
authoritative and unique set or collection of documents that establishes the organization's existence and *accountability* (3.2.2)

Note 1 to entry: Documents vary depending on type, location of the organization, and could include a deed of incorporation, articles of association and charter.

[SOURCE: BS 13500, amended]

3.1.6
dynamic system
group of interrelated yet changing entities that rely on each other to exist

3.1.7
risk appetite
amount and type of risk that an *organization* (3.1.3) is willing to pursue or retain

[SOURCE: ISO Guide 73 - Risk management - Vocabulary]

3.1.8
due diligence
process through which *organization*s (3.1.3) proactively identify, assess, prevent, mitigate and account for how they address the actual and potential adverse impacts as an integral part of decision-making and risk management

[SOURCE: ISO 20400:2017, 3.3amended]

3.2 Principles and outcomes

3.2.1
principle
fundamental truth, proposition or assumption that serves as foundations for a set of beliefs or behaviours or for a chain of reasoning

[SOURCE: BS 13500:2013, 2.14, amended]

3.2.2
accountability
obligation to another for the fulfilment of a responsibility

3.2.3
commons
shared resources that are available to everyone and limited in quantity

3.2.4
compliance
meeting all the organization's *compliance obligations* (3.2.5)

[SOURCE: ISO 19600:2014, 3.17]

3.2.5
compliance obligation
requirements that an *organization* (3.1.3) mandatorily has to comply with as well as those that an *organization* (3.1.3) voluntarily chooses to comply with

[SOURCE: ISO 19600:2014, 3.16]

3.2.6
ethical behaviour
behaviour that is in accordance with accepted *principles* (3.2.1) of right or good conduct in the context of a particular situation, and consistent with international norms of behaviour

[SOURCE: ISO 26000:2010, 2.7]

3.2.7
organizational policy
position set by the *governing body* (3.3.3) providing intentions and guidance related to the purpose and strategic direction of the *organization* (3.1.3)

3.2.8
organizational purpose
organization's reason to exist which guides its performance objectives and provides clear context for daily decision making by relevant *stakeholders* (3.3.1)

3.2.9
organizational values
beliefs about socially or personally desirable outcomes or actions defined by the organization as good and important to be explicitly or implicitly shared and applied by the *organization* (3.1.3)

3.2.5
social responsibility
responsibility of an *organization* (3.1.3) for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that:

— contributes to *sustainable development* (3.2.8), including the health and the welfare of society;
— takes into account the expectations of *stakeholders* (3.3.1);
— is in *compliance* (3.2.4) with applicable law and consistent with international norms of behaviour; and
— is integrated throughout the *organization* (3.1.3) and practised in its relationships.

Note 1 to entry: Activities include products, services and processes.

Note 2 to entry: Relationships refer to an organization's activities within its sphere of influence.

[SOURCE: ISO 26000:2010, 2.18]

3.2.6
stakeholder engagement
activity undertaken to create opportunities for dialogue between an *organization* (3.1.3)and one or more of its *stakeholders* (3.3.1), with the aim of providing an informed basis for the organization´s decisions

[SOURCE: ISO 26000:2010, 2.21]

3.2.7

sustainability

state of the global system, including environmental, social and economic aspects, in which the needs of the present are met without compromising the ability of future generations to meet their own needs

Note 1 to entry: The environmental, social and economic aspects interact, are interdependent and are often referred to as the three dimensions of sustainability.

Note 2 to entry: Sustainability is the goal of *sustainable development* (3.2.8).

[SOURCE: ISO guide 82:2014, 3.1]

3.2.8

sustainable development

development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

Note 1 to entry: Sustainable development is about integrating the goals of a high quality of life, health and prosperity with social justice and maintaining the earth's capacity to support life in all its diversity. These social, economic and environmental goals are interdependent and mutually reinforcing. Sustainable development can be treated as a way of expressing the broader expectations of society as a whole.

[SOURCE: ISO 26000:2010, 2.23]

3.3 Roles

3.3.1

stakeholder

person or *organization* (3.1.3) that can affect, be affected by, or perceive itself to be affected by a decision or activity

Note 1 to entry: Depending on the nature of the organization, stakeholders can include owner stakeholders, and other stakeholders, including, customers, regulators, suppliers, employees.

[SOURCE: ISO/IEC Directives Part 1:2019, Annex L 3.2 amended]

3.3.2

owner stakeholders

owners, shareholders or members of the *organization* (3.1.3), who, through formal decisions, are entitled to decision making powers exceeding that of the *governing body* (3.3.3)

Note 1: Depending on the nature of the organization, members could include those members of associations with voting rights.

3.3.3

governing body

person or group of people who have ultimate *accountability* (3.2.2) for the whole *organization* (3.1.3)

Note 1 to entry: Every organizational entity has one governing body, whether or not it is explicitly established.

Note 2 to entry: A governing body can include, but is not limited to, board of directors, supervisory board, or trustees."

Note 3 to entry: Where the term *governing body* is used throughout this document, the term *governing group* (3.3.4) will be applicable when the *organization* (3.1.3) is not an *organizational entity* (3.1.4).

[SOURCE: ISO/IEC 38500:2015, 2.9 amended]

3.3.4

governing group

person or group of people who govern an *organization* (3.1.3)

Note 1 to entry: In some cases, the governing group can include executive managers or persons who have a top management role, while keeping management and governance roles separate.

Note 2 to entry: In some cases, the governing group can include a person or group of people representing an organizational entity.

Note 3 to entry: Where an organization spans multiple organizational entities, it is governed by a governing group. Additionally, where an organization exists wholly within an organizational entity (e.g. a subsidiary company or department) it has a governing group that is responsible for maintaining the organizational entity's thread of governance within that organization.

3.3.5

executive manager

person who has authority delegated from the *governing body* (3.3.3) for implementation of strategies and policies to fulfil the purpose of the *organization* (3.1.3)

Note 1 to entry: Executive managers can include roles which report to the governing body or the head of the organization or have overall accountability for major reporting function, for example Chief Executive Officers (CEOs), Heads of Government Organizations, Chief Financial Officers (CFOs), Chief Operating Officers (COOs), Chief Information Officers (CIOs), and similar roles.

Note 2 to entry: In management standards, executive managers can be referred to as top management.

[SOURCE: ISO/IEC 38500:2015, 2.7]

4 Context of this standard

4.1 The need for guidance

Society, policymakers and other stakeholders are seeking, and have an increasing expectation of, "good governance" and "good citizenship" from the organizations that impact their lives. This results in the need to develop a common understanding of what constitutes good governance of organizations across all jurisdictions, and therefore, a global consensus-based approach is needed.

This document on governance defines key principles and recommends best practices that guide the governing body to meet its responsibilities so that the organization can fulfil its purpose. This guidance is for the members of the governing body, those they oversee and those to whom the governing body is accountable.

4.2 The governance of organizations

Governance of organizations is the system by which an organization is directed, overseen, and accountable for achieving its defined purpose.

At its foundation this includes:

— setting the purpose, mission, vision, organizational ethos, organizational values, and culture to give the organization direction;

— steering the strategy and balancing resources appropriately to achieve that purpose;
— exercising oversight of the organization's performance, ensuring compliance and viability;
— engaging with and accounting to stakeholders.

4.2.1 Thread of governance

Governance is performed throughout the organization by various groups, including

- the governing body,
- owner stakeholders,
- management, and
- other internal functions of the organization.

The governing body is accountable for an effective governance framework across the organisation. The governance framework should enable/empower all internal and external governance groups involved in making decisions that affect the organisation.

Responsibility associated with decision making is a critical element of good governance. The framework should therefore ensure that the decision-making levels match the responsibility and authority granted. To this end, the scope and impact of possible decisions should be defined and aligned with the levels of responsibility. This empowers staff to act appropriately and makes the whole organization more resilient and agile. Decision-makers should be competent and adequately resourced to make the decisions for which they are responsible. Controls should be implemented to ensure that governance systems are adequate for the tasks they are to achieve.

4.2.2 Governance and management

"Governance" and "management" are distinct, necessary, and complementary within organizations. They interact and influence one another, and it is the responsibility of the governing body to ensure that throughout the engagement between them, the defined outcomes and value for the organization and its stakeholders are achieved or improved.

Governance involves setting and being accountable for the purpose and parameters for the organization, whereas management is about fulfilling the associated objectives within those parameters. This distinction is important because it provides focus for each system and clarifies the responsibilities and interfaces between the two. For example, if managers see the need to change organizational parameters (such as culture or purpose) they should propose such a change to the governing body rather than implement such a change themselves. Similarly, if the governing body sees a need for operational changes, it should examine such a need from the perspective of organizational strategy. Management is responsible for the establishment and operation of a system of internal controls. The role of the governing body is to ensure it has independent assurance on the effectiveness of those internal controls and holds management accountable.

Governance and management roles are sometimes unavoidably combined in the same person. Having an executive manager as a member of the governing body is acceptable, as long as it is clear when this person is functioning in their governing role and when they are functioning in their management role.

This document complements management standards by defining and guiding the role and functioning of the governance of the organization/ organizational governance.

4.3 Governance and stakeholders

The aim of governance, and the duty of the governing body, is to create the conditions for, and to enable, the organization to be successful over time. The pursuit of value of one kind or another is at the centre of the definition of "success" for all organizations. Value is therefore of primary importance for the governance of organizations. This value is defined through engagement with stakeholders.

The governing body should ensure that the organization treats owner stakeholders fairly in its achievement of defined outcomes for the organization and its stakeholders.

5 The governing body

5.1 Composition and structure

The governing body is the person or group of people who are ultimately accountable for the whole organization.

The composition and structure of the governing body will vary between organizations. The governing body is a distinct role accountable to the organization's stakeholders and consequently, held responsible for the organization, its actions, decisions and behaviour. In order to ensure that the governing body, as a collective, is suitably equipped for the matters at hand, appointments to the governing body should consider

- competence (knowledge and understanding, skills, and experience),
- diversity,
- independence of thought,
- capacity, and
- integrity.

Every governing body member should continuously improve their knowledge regarding the organization's activities, legal requirements, and more broadly, the organization's contexts. This improving capability together with regular reviews of organizational practices should ensure a continually improving governance environment.

Depending on the size of the organization, governing bodies may constitute committees to help them fulfil their obligations. These committees may be statutory requirements, or may provide the governing body with additional capacity, skills, independence, diversity and/or stakeholder representation. Should a governing body make use of supporting committees, it is important to note that although the governing body may delegate authority and responsibilities, it may never abdicate its accountability for the whole organization.

At all times, the governing body acts as a collective, performing many interrelated activities in order to exercise its authority and fulfil its accountability. Members of the governing body should act with probity and in the best interests of the organization. They should:

- act ethically and with integrity within the power and authority afforded to them;
- promote organizational viability and success over time;
- exercise independent judgement;
- exercise reasonable care, skill and diligence;
- ensure that they have all the necessary information at hand when making a decision, and keep themselves informed of the organization and its context;
- declare and appropriately manage conflicts of interest;
- promote a unified governing body, supporting governing body decisions outside of governing body meetings, and ensure that dissenting positions are accurately recorded;
- ensure that when benefits from third parties are offered, these are managed in a compliant manner;
- act in compliance with applicable laws, rules, and organizational policies.

5.2 Competence

The governing body should:

a) ensure it has the right combination of knowledge, skills and experience to understand the operations of the organization and the markets in which it operates;

b) develop and competently use appropriate criteria for measurement that will indicate progress towards the achievement of the organization's objectives and strategic alignment of the organization;

NOTE: Criteria for external performance results can also include comparative measures with other, similar, partner or competitive organizations.

c) assess its own competence, including by drawing on the support of experienced and independent professionals, with respect to the adequacy of its effectiveness, efficiency, composition and member succession plans;

NOTE Such self-assessment could include the application of a maturity model as a means of indicating progress towards a desired level of competence;

d) set an expectation of the appropriate quality and quantity of measurements and timeliness of delivery.

6 Framework

Figure 2 depicts an overview of the governance framework.

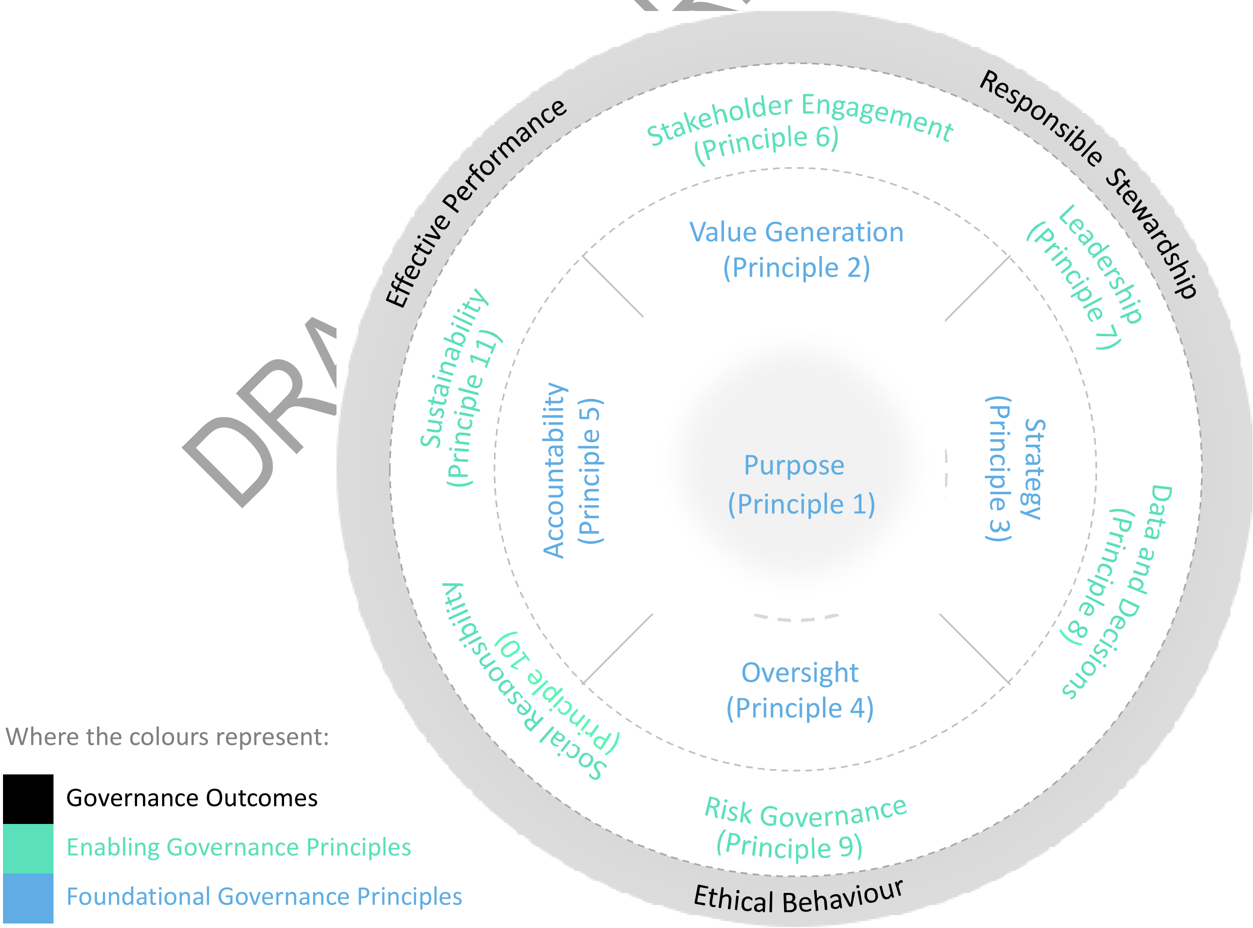

Figure 2 — Governance framework overview

The governance outcomes that can be achieved through the understanding and application of this document are:

l) **Effective performance.** The organization is true to its purpose, performs as required, realizes value for stakeholders and remains in compliance with its policies and stakeholder expectations;
m) **Responsible stewardship.** The organization makes use of resources in a responsible manner, effectively balancing negative and positive impacts, considering its global context and ensuring its long-term sustainability;
n) **Ethical behaviour**. The organization demonstrates: accountability, accurately and timely reporting on its performance and stewardship of resources; fairness in its treatment of and engagement with stakeholders; integrity and transparency in fulfilling its obligations and commitments; and competence and probity in the manner in which it makes decisions.

The pursuit of purpose is at the centre of all organizations and therefore of primary importance for the governance of organizations. This is the primary intent of the governance of organizations. It is important this is achieved in an ethical, effective and responsible manner in line with stakeholder expectations. This is “good governance” according to this standard.

This standard comprises 11 principles of governance as stated in 7.1 to 7.11. Of these 11, five principles act as a foundation, offering an iterative-learning process:

1. Purpose
2. Value Generation
3. Strategy
4. Oversight
5. Accountability

Further to these are “enabling governance principles” which expand the guidance to cover the additional responsibilities that the governing bodies of modern organizations need to meet the increasing expectations of stakeholders. These enabling principles should be applied when applying the founding principles.

6. Stakeholder engagement
7. Leadership
8. Data and decisions
9. Risk governance
10. Social responsibility, and
11. Sustainability

The interaction between these principles, the processes that connect them and other topics such as management interaction, governance tools and reviews are covered in this document.

7 Principles of governance

7.1 Purpose

7.1.1 Principle

The governing body should ensure that the organizational purpose expresses its intentions with respect to the organization’s stakeholders, society, commons and natural environment. Furthermore, it should ensure that the organizational values and culture are aligned and deliver the organizational purpose.

This first principle is also the central point of all the other principles in this guidance standard. All other principles are to be read in the context of the application of this principle.

7.1.2 Rationale

A clearly articulated organizational purpose is necessary to ensure that all organizational activities are aligned with the organization's reason for existence.

A clearly articulated organizational purpose with aligned organizational activities:

- Creates certainty for the organization's stakeholders on the organization's intentions and behaviours in relation to them;
- Provides stakeholders with an understanding of the organization's identity;
- Creates a point of reference for efficient and agile decision making;
- Provides a framework within which plans are created and executed in a focused manner, avoiding unnecessary distractions;
- Puts organizational values into practice, providing the foundation for the organization's culture;
- Provides the governing body with a basis on which to define the value that the organization is trying to create for its stakeholders and the manner for doing so;
- Provides a basis on which stakeholders can assess the organization's outcomes and the achievement of stated objectives.

7.1.3 Key aspects of practices

Organizational purpose statements are generally driven by legal and/or tax requirements. However, they should also express the organization's intentions with respect to the organization's context, namely, the organization's approach with respect to

- stakeholders,
- society,
- commons, and
- the natural environment.

The governing body should determine and communicate the organizational purpose and values and ensure they are embedded throughout the organization.

7.1.3.1 Determine the organizational purpose

An organizational purpose reflects the core value the organization brings to others and aligns to its core identity. In determining the organizational purpose, the governing body should ensure that the following have been taken into account:

a) Existing documentation relating to the purpose and scope of activities of the organization, such as governing documents or other artefacts;
b) Views from a wide sample of stakeholders and relevant data sources to identify and understand the historic, current and aspirational core identity of the organisation;
c) Those stakeholder group(s) the organisation is primarily seeking to serve;
d) Evidence of the important problems that are, or will be, faced including global threats that evolve over time (e.g. climate change);
e) The range of plausible solutions to these problems and the balance between the solutions and the associated anticipated risks, including those to the commons, social interests and the natural

environment.

The governing body should ensure that the essence of the organisational purpose is written down in a summary statement. The organizational purpose should be available to all stakeholders and for those with legal founding documents, the purpose should be reflected in them.

Purpose statements may require further interpretation once the governing body has determined the organization's strategic and value generation objectives, to ensure that the organizational purpose and its consequences are understandable.

7.1.3.2 Determine organizational values

The governing body should:

- Engage with all relevant stakeholders to determine and promote an explicit set of organizational values;
- Be clear about the expected ethical behaviour that expresses its organizational values through for example, a code of conduct and/or code of ethics.

Having established the organizational values, the governing body should ensure that these values are an active part of decision making. The governing body should use these organizational values to determine the manner in which value is generated by the organization.

The governing body remains responsible for ensuring that the organizational values are monitored and reviewed, and should assess whether the values remain aligned to and support the organizational purpose. The effectiveness of the organizational values will be evident in the culture of the organization.

7.1.3.3 Communicate the organizational purpose and organizational values and their centrality

For the organizational purpose and organizational values to be a reference point for decision-making and the basis for the organization's culture throughout the organisation, the governing body should ensure that a communication plan is created and effectively implemented. This plan should, at a minimum, result in all stakeholders being:

- Aware of the organizational purpose and organizational values;
- Convinced of the centrality of these to the organisation.

7.1.3.4 Embed the organizational purpose and organizational values

The governing body should lead the organisation in fulfilling the organizational purpose and living the organizational values. To achieve this, specifically it should ensure the following are aligned with the purpose:

- Strategies formulated with management or by management;
- Performance indicators;
- Incentive structures;
- The organizational culture.

The governing body manifests the organizational purpose by:

a) Establishing how the organization generates value over time (Value generation);
b) Directing the organization and steering its strategy (Strategy);
c) Overseeing the organization to ensure that it achieves its objectives within the parameters set by the governing body (Oversight);
d) Demonstrating its accountability to the organization's stakeholders (Accountability).

These are supported by:

1. Engaging stakeholders appropriately (Stakeholder engagement);
2. Leading ethically and effectively (Leadership);
3. Recognizing data as a valuable resource for decision making by the organization and others (Data and decisions);
4. Determining the organization's overall approach to governing risk (Risk governance);
5. Making transparent decisions that are aligned with societal expectations (Exercising social responsibility);
6. Ensuring that the organization is viable and sustainable over time (Organization viability and success over time).

By doing so the organization will credibly demonstrate

— Effective performance,
— Responsible stewardship, and
— Ethical behaviour in accordance with its organizational values.

7.2 Value generation

7.2.1 Principle

The governing body should determine the organization's overarching value model which defines, creates, delivers and sustains value over time.

7.2.2 Rationale

The focus for all organizations should be to fulfil their purpose by creating appropriate value over time. To achieve this, organizations need to generate value, which represents something of worth to its stakeholders. It can take different forms for the stakeholders of the organization and includes the impacts on society and the natural environment. How an organization generates value is set out in its organizational value model.

The governing body determines an organizational value model to ensure the materialization of the organizational purpose, fulfil its strategy, and to continue to attract and secure resources needed to do so. The governing body has a stewardship function, which requires it to not only to create but also to protect value. Where value is destroyed or at risk, the governing body is accountable to its stakeholders for justifying its actions and indicating, where appropriate, how it will redress or reinstate that value.

The governing body is accountable for assessing and taking appropriate action to ensure that the organization's value model continues to be viable in response to changes in the organizational context and operating conditions.

7.2.3 Key aspects of practices

The governing body ensures that the overarching organizational value model is determined and communicated, and that the input, outputs and outcomes of this model are identified and measured**.**

The process for developing an organizational value model is depicted in Figure 3.

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Figure 3: Organizational Value Model Development Process

7.2.3.1 Define

The governing body defines the organization’s value generation objectives such that they fulfil the organizational purpose. To do this, the governing body consults a range of internal and external sources, including

— owner(s) and other stakeholders,
— research organizations,
— advisory and consulting organizations, and
— non-governmental organizations.

The governing body ensures that the organization’s stakeholders are identified and their rights and expectations are defined within the context of the organization’s purpose and organizational values. The governing body ensures that value generation objectives are defined for each identified stakeholder.

7.2.3.2 Create

The governing body determines the organizational parameters and ensures that the strategy:

— Balances the achievement of the value generation objectives against potential impacts;
— Defines how resources should be allocated to meet the value generation objectives;
— Ensures an integrated approach to sustainable value creation.

7.2.3.3 Deliver

a) The governing body:
   — demonstrates the organizational values by actively leading ethically and effectively and ensuring ethical behaviours throughout the organization;
   — delegates responsibilities and authority to executive management for the implementation of the strategy and consistently and coherently influences decision-making across all stakeholder engagements, and in its use of resources to maximize value.
b) The governing body ensures that:

— value generation objectives are realized as planned within the organization's defined parameters;
— executive management accounts to the governing body for the delivery of the value generation objectives and the governing body guides and directs executive management as necessary;
— information about the organization's performance is based on an integrated view of the organization, including the achievement of value generation objectives;
— the impact of changing contexts on the value generation objectives are monitored and appropriate responses are taken;
— assurance is obtained on the realization of the value generation objectives.

7.2.3.4 Sustain

The governing body ensures that:

a) The derived value is recognized and translated into performance metrics and these results are evaluated against the defined value generation objectives;
b) Value is retained and delivered as required, such that:
   — A balanced approach between the retention of the derived value in the organization to secure the organization's long-term sustainability and commitment to sustainability and social responsibility, and the distribution of this value to stakeholders according to the defined value generation objectives is determined;
   — The governing body's accountability is demonstrated by retaining and distributing value in a transparent manner, reporting on and accounting for the associated processes, decisions and results.

The achievement of organizational value from this model requires an integrated approach to value generation. This "integrated thinking" includes the:

1) identification of all resources involved in the model;
2) measurement and tracking of the organization's use of and impact on these resources;
3) reporting on the extent of the organization's impact on these resources and the impact of the resources on one another.

This overall approach aims to enhance the governing body's ability to oversee the materialization of the organizational purpose.

7.3 Strategy

7.3.1 Principle

The governing body is accountable for the organization's strategy. The governing body should direct the organization in accordance with its value generation model and dynamically steer the strategy.

7.3.2 Rationale

Strategy is the pattern of evolving intentions that provide direction for harmonizing and focusing effort to realize the purpose and objectives of the organization.

The nature of strategies ranges widely, including emergent and deliberate, formal and informal. Effective strategy provides a primary motivation for the organization and functions as a framework for decision making to enable different components of the organization to align. Strategy is brought about through and reflected in the general deployment of finite organizational resources.

By directly and indirectly balancing financial resources as well as time, human resources, attention and rewards, the governing body dynamically steers the organization so as to establish and maintain an appropriate balance between value generation under present conditions and innovation to generate value in the future.

Innovation allows the organization to adapt to and shape its future context, which is an important component of strategy. While service and product innovation is primarily a management level responsibility, governing bodies should ensure that opportunities for innovation are systematically created. Governing bodies should also innovate at the organizational and policy level.

7.3.3 Key aspects of practices

The governing body should direct the organization by providing an understanding of its intentions, expectations and the operating parameters derived from the organization's value generation model. This direction should ensure that the most appropriate strategy is determined for the organization to deliver the value generation objectives.

The governing body should continuously govern the strategy. This includes steering the strategy by balancing resources to achieve its goals and protect its future by investing in innovation.

7.3.3.1 Direct the organization

The governing body should provide the organization with an understanding of its intentions and expectations. It should also clearly define the operating parameters under which the organization's value is to be generated. This guidance should be determined within the organization's operational context and the expectations of the organization's stakeholders. Such guidance should address matters such as the organizational purpose, its commitment to continual improvement, and the manner in which the governing body and the organization's governing processes operate.

The governing body should:

a) Ensure that its governance framework is underpinned by reliable governing documents;
b) Translate the organization's purpose and organizational values into clearly established and regularly reviewed expectations that direct itself and those to whom it delegates;
c) State its expectations in governance policies, that include, for example, a code of conduct and/or code of ethics, which are regularly reviewed and updated as necessary, to ensure that they remain aligned with the organization's governing documents and its changing context;
d) Define, understand and communicate how the organization intends to realize value for the organization and its stakeholders by articulating the value model and strategy;
e) Ensure that its governance policies set appropriate expectations and parameters for all aspects of organizational performance;
f) Design and implement an adequate internal control system, including an effective compliance management system and an effective risk management system;
g) Ensure that its governance policies clarify the roles of all involved in governing the organization in terms of their authority, accountabilities, performance and reporting requirements.

The responsibility for developing and approving policies should be clear. Policies should be developed and/or approved by the governing body and not be open to change without the governing body's agreement. Managers should be empowered to create management policies consistent with organizational policies and provide proposals for changes to organizational policy.

The governing body should ensure that principles of effective delegation are upheld. Delegates should not be held accountable for things over which they have no authority or for expectations that have not been stated. Accountable people can delegate their authority and thereby give responsibilities to others in order to get things done. However, it should be clear that those who delegate remain accountable for their delegate's use of that authority.

NOTE The governing body may choose to delegate to others many of the tasks involved in implementing governance, but it still remains accountable for those tasks. The only aspect of governance that cannot be delegated by the governing body is its ultimate accountability to the organization's stakeholders. This accountability is for delivering value over time in a manner that meets the expectations of the stakeholders.

The governing body should direct but not manage. Instead it should ensure the clarity of roles and responsibilities of all involved in the strategy process. The governing body should ensure that its governance policies apply to the whole organization and cover topics such as:

h) the operating framework of the governing body;
i) purpose and results that the organization seeks to achieve;
j) the parameters within which results are to be achieved (e.g. organizational values and acceptable levels of risk);
k) mechanisms of delegation and reporting.

7.3.3.2 Monitor and adjust the strategic balance of the organization

The governing body should actively engage with the affairs of and understand the material changes in the organization's operations and its external context. In monitoring the organization's context, it should:

a) identify stakeholders and material matters;
b) ensure understanding of organizational purpose and objectives (dialogue between the governing body and the organization's stakeholders is based on a mutual understanding of purpose and objectives).
c) engage relevant stakeholders when establishing the organizational and governance policies;
d) understand the external and internal contexts within which its decisions are made, in order to ensure that its expectations are appropriate;
e) monitor the external contexts to ensure current, emerging and future risks and opportunities are well managed and exploited for value generation;

The governing body should regulate the strategic balance of the organization directly and indirectly through organizational culture and the deployment of financial resources.

7.3.3.3 Innovate for future viability

The governing body itself, as well as management and operations, should have an integrated understanding of the process by which the organization generates value and the foresight to understand the changing context within which it is operating.

7.3.3.4 Continuously steer the organization's strategy

The governing body should establish clarity about its role in strategy. The governing body should continuously steer strategy so that:

a) the organization responds to or shapes identified trends within the organizational context;
b) strategies and approaches are co-created with management;
c) management's proposed plans and approaches are reviewed, assessed, and approved;
d) additional or alternative actions that may be required are identified and agreed with management based on systematic monitoring of strategy execution;
e) strategic actions are identified based on a systematic follow-up on organizational performance through a system for timely and regular performance monitoring and reporting on both "hard" and "soft" dimensions both from within and outside the organization;
f) Strategic decisions are informed by credible information and data.

When steering the strategy, the governing body should consider:

g) the organization's context;

h) stakeholder expectations;
i) timeframe and resource requirements;
j) the resultant impacts of the plans and the anticipated value realization;
k) risks and organizational resilience.

In directing the organization the governing body may face a dilemma between achieving specific value generation objectives, and remaining agile in the face of changing circumstances and risks to the organization's achievement of its purpose. Rather than focusing on any one strategic objective to the detriment of others, the governing body should steer the strategy to enable short- and medium-term agility within a clear higher-level direction.

7.3.3.5 Strategically balance the organization

The governing body strategically balances the organization, directly and indirectly, through:

a) **organizational ethos** – the guiding belief system that is part of organizational culture and which it should purposefully and responsibly develop;
b) **governance policies**;
c) **succession planning** – including the selection of the executive manager and other critical roles, emergency succession arrangements, and its involvement in the selection of the senior management team so as to assure future human resource adequacy;
d) **governing body renewal** - based on a formal, rigorous and transparent assessment of the governing body which:
   – reviews the competencies and time commitment that the governing body has to address current and future needs of the organization; and
   – identifies and closes any current gaps, and recommends ways for closing future gaps to owner stakeholders;
e) **governing body evaluations and development** – of its own competencies, composition, diversity, and effectiveness of working together and the competencies of its members through regular reviews and formal, rigorous, and transparent evaluation of itself, committees, individual members and those that support its work directly;
f) **executive manager and senior management team performance** – monitoring, evaluating and developing individual and team performance, including organizational value driven behaviours pertaining to sustainability and social responsibility dimensions, among others;
g) **targets and key performance indicators (KPIs)** – for responsible performance and remuneration for itself and the executive manager. Also, ensuring that executive management sets targets and KPIs for the rest of the organization that are consistent with the long-term objectives, financial soundness, social responsibility and sustainability commitments made, and measures performance against them;
h) **decisions reserved for the governing body** - these include those that shape the organization as a whole, such as mergers and acquisitions, or those involving financial decisions and risks above a pre-determined level, among others;
i) **compensation and incentives** – policies and outcomes that are fair, responsible, transparent and that promote the achievement of strategic objectives and outcomes in the short, medium, and long term, consistent with achieving the organizational KPIs.

7.4 Oversight

7.4.1 Principle

The governing body should oversee the organization's performance and application of policies to ensure that it remains within governance parameters, including laws, rules and voluntary obligations.

7.4.2 Rationale

To be accountable in the pursuit of organizational and governance policies, the governing body should have effective oversight of the organization. In order to deliver this, it requires the following controls:

a) **governing body competence** – the governing body should have the appropriate organizational values, knowledge, skills and experience consistent with the organization's strategy, processes, its activities or operations;
b) **organizational capability** – the governing body should assess the organizational capability, including structures, resources, and knowledge, in order to be able to understand, steer and report on organizational progress toward strategic objectives;
c) **assurance processes** – the governing body should determine processes to provide assurance that the governing body and the organization achieve the intended outcomes and the organization's compliance obligations.

7.4.3 Key aspects of practices

7.4.3.1 Ensure organizational capability

The governing body should:

a) achieve compliance through a compliance management system;
b) ensure that the organization has adequate capabilities to operate at the desired level and align to strategic balance requirements;
c) establish and adequately resource systems of internal control, compliance management and risk management to ensure that the organization stays within its risk appetite and appropriately protects the organization's assets, and stakeholder rights and interests;
d) ensure that contractual and other relationships established with third parties are consistent with organizational values and risk appetite;
e) through appropriate assurance processes (see 7.4.3.2), appraise applicable measurement criteria and results against the governing body's expectations. Such criteria can include
    — managerial performance,
    — financial levels (e.g. cashflow, profit and loss, balance sheet),
    — ratios and trends (e.g. financial, and efficiency),
    — project management (e.g. being able to adhere to organizational objectives),
    — culture, including local norms,
    — stakeholder perception, both formal and informal,
    — human capital, including people development and staffing programmes to support strategy,
    — compliance management, and
    — risk management processes and performance.

7.4.3.2 Ensure appropriate assurance provision

The governing body should ensure that appropriate internal control and assurance processes are in place to satisfy its requirements for effective oversight and accountability to stakeholders. It should review the effectiveness of the system and ensure that there is adequate internal and external assurance, such as an internal audit function operating in conformance with internationally accepted standards to support the governing body in its oversight role.

The governing body can demonstrate its commitment and communicate appropriately and clearly throughout the organization about effectiveness of assurance systems and the review and improvement of these systems and processes.

The governing body should ensure that there is an appropriate process to monitor, receive, assess and – where necessary – respond to or act on relevant information. This could include overseeing remediation of non-compliance, investigation of possible opportunities for improvement at all levels and ongoing efforts to improve the assurance systems themselves.

Additionally, the governing body should have the right combination of knowledge, skills and experience to be able to combine written reports and behavioural indicators to detect emerging patterns, trends, risks and opportunities.

Assurance processes can include a wide range of approaches including the use of the following resources to inform the governing body:

a) reports and proposals from managers;
b) direct inspection by the governing body, or via their delegates, such as audit committees;
c) internal controls, compliance management and risk management systems (e.g. audits) that report directly to the governing body;
d) external auditors reporting to stakeholders and the governing body;
e) informal feedback mechanisms within the organization;
f) direct or indirect relevant information received from internal and external stakeholders.

NOTE Channels for information can include whistle blowing processes, formal employee and customer feedback mechanisms.

7.5 Accountability

7.5.1 Principle

The governing body should demonstrate is accountability for the organization and fulfil its duties in a manner which increases trust and transparency.

7.5.2 Rationale

The governing body is and remains collectively accountable for the organization as a whole and may delegate responsibility and commensurate authority.

Although responsibilities and the accountability for responsibilities may be delegated by the governing body and cascaded throughout the organization, the governing body remains accountable for the actions and inactions of the organization as a whole to the organization's stakeholders.

Accountability requires an understanding of responsibilities through engagement with a broad range of stakeholders and answering for whether responsibilities have been met and in what way they have been met, or not. It also requires a remedy when responsibilities have not been met.

Responsibility can derive from sources including

a) law or regulations,
b) ethical or moral conventions, and
c) recognized standard practices.

Accountability derives from the authority given to the governing body. Authority and therefore responsibility for delivering the purpose of an organization is conferred to a governing body by stakeholders who grant the authority, endow resources to pursue that purpose and give boundaries of acceptable actions when fulfilling that purpose.

The authority can be conferred by stakeholders

— directly (e.g. by owner stakeholders), or
— indirectly (e.g. by society via the law or by social licence).

Stakeholder groups confer some aspects of authority for an organization. The governing body is accountable for how they have interpreted the authority, whether or not they have achieved the associated results, the process by which this has been achieved and its intended and unintended consequences, and whether it reflects appropriate and efficient use of the resources endowed.

It is likely that stakeholders will not all have the same views of acceptable actions and the governing body decides how to balance these different perspectives in a transparent way.

7.5.3 Key aspects of practices

The governing body should delegate responsibility and commensurate authority whilst retaining accountability for the organization.

The governing body should address the elements of accountability. Action could include:

— ensuring the guidance of the governing body is communicated to and interpreted by management with sufficient clarity. Reasonable and adequate interpretation should be regularly monitored;
— formulating, maintaining and developing relationships with external stakeholders and internal stakeholders to whom delegation occurs and the organization is dependent upon. The governing body communicates with and is responsive to stakeholders regarding its decisions, actions, inactions, performance, outcomes, and, where relevant, mutual goals. In holding itself fully accountable, the governing body seeks to engage stakeholders in identifying, understanding and responding to material topics and concerns, which in turn influences strategy and organizational and governance policies, to build value;
— ensuring the governing body is action, process and outcomes oriented;
— disclosing relevant organizational policies, actions, processes, performance and outcomes to stakeholders;
— disclosing the organization’s ownership structure;
— demonstrating transparency and integrity when reporting to stakeholders, including:
  o ensuring that the organization’s reports enable stakeholders to make informed assessments of the organization's current and enduring performance prospects;
  o considering alternative communication mechanisms and media to appropriately meet stakeholder expectations;
  o providing clear guidance to managers, considering the application of appropriate frameworks and/or standards;
  o ensuring that compliance obligations are met and that assurance is provided over the integrity of the information used for decision-making and reporting;
  o reporting on the organization’s performance in an integrated manner considering financial and non-financial information, its impact on the resources it uses, and its impact on the context within which it operates;
— formalizing procedures to periodically measure the performance of the governing body itself against its set objectives and targets and articulating the consequence of not fulfilling its obligations.

7.6 Stakeholder engagement

7.6.1 Principle

The governing body should ensure that the organization’s stakeholders are appropriately engaged.

7.6.2 Rationale

Demonstrating sound and mutually beneficial stakeholder relationships based on ethical and effective stakeholder engagement behaviours and practices, helps organizations create value over time.

Organizations have a variety of stakeholders, each with distinct types and levels of involvement, and with diverse and sometimes conflicting interests and concerns. Consequently, organizations have a range of relationships with their stakeholders.

Stakeholders, and in particular non-owner stakeholders, can have strong relationships with the organization that need additional consideration beyond the legal, regulatory, or contractual accountability required in the case of owner stakeholders. There are a number of reasons for this, including:

— **Asymmetric relationship.** Their individual ability to affect – or be affected by - the organization is often limited in the short term. An individual stakeholder relationship may not have a significant impact on an organization, but a number of relationships taken together may;
— **Cumulative effects.** Over time and collectively, society, the environment and the economy could have a fundamental effect on the organization or organizations – and vice versa. For example, pollution caused by the organization could adversely impact the environment over time – and rising sea levels could adversely affect the organization;
— **Legitimacy.** The legitimacy of the organization to pursue its purpose and to operate in society, its environment and the economy is partly derived from non-owner stakeholders.

In order to ensure that the organization's stakeholder relationships are effective and the value for the organization is maximized over time, stakeholders need to be identified and their expectations understood. The scope of stakeholder engagement may not, for example, extend to all those who merely have knowledge of or views about the organization.

Identification and classification of stakeholders is varied and organization dependent. For example, distinctions may be made on the basis of whether the governing body is governing on behalf of stakeholders or merely taking their interests into consideration when governing.

Owner stakeholders should be involved in holding the governing body accountable for the whole organization. It is expected that these stakeholders are aware of their powers and exercise them in a responsible manner, taking account of the governing body's need to reflect the best interests of all the organization's owner stakeholders and ensure the fair and proper treatment of all stakeholders. The role of other stakeholders, in this case, would be to uphold their fair and proper rights and obligations, and to ensure that the organization is held accountable for these.

The governing body remains accountable for ensuring the organization's stakeholder relations are based on ethical and effective engagement behaviours and practices. The governing body provides leadership in this regard and delegates responsibilities and accountabilities to the organization. The governing body oversees that the associated behaviours and practices are ethical and effective and create value for the organization over time. The governing body demonstrates accountability through engagement with and disclosure to these stakeholders of the organization's performance in this regard.

7.6.3 Key aspects of practices

The governing body should ensure that the organization's stakeholders are identified, prioritized, appropriately engaged and consulted to understand their expectations and that effective engagement is maintained. In addition, the governing body should ensure that the organization has effective relationships with stakeholders and that stakeholders are engaged in measures to achieve the organization's purpose and to mitigate or optimize the organization's risks and opportunities. To be successful, the governing body should:

- maintain relationships with stakeholders;
- ensure that stakeholder relationship goals are incorporated in strategy;
- ensure the organizational culture is responsive to stakeholder views;
- respect human and labour rights in all countries of operation;
- create and maintain an open communication culture within the organization to help bridge the gap between diverse stakeholder groups and perspectives such as gender, age, belief systems or cognitive abilities;
- report practices in a coherent way that relates to strategy so that the stakeholders can effectively assess organizational governance arrangements.

7.7 Leadership

7.7.1 Principle

The governing body should lead the organization ethically and effectively.

7.7.2 Rationale

In an organization, values and cultural leadership must come from the top. While all levels of management and individuals contribute to this culture, what the governing body says, does and most importantly expects, is critical in setting the tone for the organization.

Leadership is therefore a critical issue for a governing body. Its own behaviours provide the model for the organization's behaviour. The principles it establishes concerning the way stakeholders should be treated and the way goals should be pursued, create standards and examples for others to follow.

Leadership styles may differ but all involve the setting of positions which others follow. Since the governing body is accountable for the organization, including its behaviour, actions and changes, the governing body should set those positions it requires the organization to follow. These positions and parameters should be set mindfully and purposefully, considering the context within which the organization operates. Visible, responsible, and competent oversight ensures that the organization follows the set positions. In addition, clarity in communication and a mutual understanding of expectations is required.

7.7.3 Key aspects of practices

In order to lead ethically and effectively, the governing body should lead by example to create a positive culture, set the tone for others and engender trust and cooperation among the organization's stakeholders. It can adopt practices such as those that follow in sub-clause 7.7.3.1 to sub-clause 7.7.3.3.

Accountability through ethical and effective leadership is demonstrated when the governing body:

- is aligned in its decision-making;
- is behaving in a manner consistent with the defined organizational values;
- ensures that the organization is, and is seen to be, following the direction set.

7.7.3.1 Lead the organization

In respect of governance, leadership impacts three areas:

- the functioning of the governing body;
- the performance of the organization as a whole;
- the manner in which the organization impacts its stakeholders.

7.7.3.2 Demonstrate effective leadership

The governing body should demonstrate effective leadership across all areas:

— within the governing body – the governing body should demonstrate the setting of a position and the collective following of this position (internal alignment);
— within the organization – the organization should demonstrate the following of the positions set by the governing body;
— within the organization's external context – where the organization has set contextual positions, such as commitments to stakeholders, the organization should demonstrate the following of these positions as set.

The outcomes, whether positive or negative, are determined by the positions which have been set. Leadership determines whether these positions are followed.

7.7.3.3 Ensure ethical leadership

The governing body should ensure ethical leadership across all areas:

— within the governing body – the members of the governing body should demonstrate that they are behaving in a manner consistent with the leadership values expected of the governing body members and collectively, the manner in which the members decide the governing body should behave, and should be consistent with the leadership values expected of governing bodies;
— within the organization – the governing body should ensure that the organization conducts itself in a manner consistent with its organizational values;
— within the organization's external context – the governing body should ensure that the organization demonstrates to its stakeholders that it is behaving in a manner consistent with its organizational values.

Laws and rules provide the minimum set of organizational values against which behaviour will be assessed. Other organizational values are provided in collectively agreed documents such as codes of practice or standards of behaviour. The following are examples of the leadership values to which governing bodies and their members are held:

— accountability;
— probity;
— transparency;
— competence;
— respectful of diversity.

Not only do explicit organizational values provide a sound basis on which ethics can be evaluated, organizational values also:

— provide the individuals of an organization with a collective sense of belonging;
— assist in reconciling strategic dilemmas by creating organizational alignment through the integration of opposites;
— contribute to the prevention of misconduct;
— provide competitive differentiation for stakeholders by providing clarity against which the evaluators should be assessing the organization's behaviour;
— provide increased certainty, which creates reputational value as a consequence of ethical behaviour and as a consequence of the above point.

For the governing body itself, the following ethical behaviours (practices) could be expected as a result of the application of the associated leadership values:

Table 2 — Example organizational values and practices

Example Organizational Values	Example Practices
Probity	– Act in good faith and in the best interest of the organization; – Disclose potential conflicts of interest at the earliest opportunity and manage such conflicts appropriately; – Act according to the intention of compliance obligations; – Set the tone for the organization by behaving in the manner in which the organization and its members are expected to behave.
Competence	– Take steps to become appropriately informed of all aspects of the organization and the context within which it operates (such as legal, environmental, economic, societal, technical, human resources and so forth); – Act with due care, skill, diligence, loyalty and take reasonable steps to become informed about particular matters for decision-making.
Transparency	– Openness about decisions and activities that affect society, the economy and the environment, and willingness to communicate these in a clear, accurate, timely, honest and complete manner.

7.7.4 Dilemma examples

In exercising leadership, the governing body may face a dilemma since it should direct and limit some options for all personnel of the organization while at the same time also motivate and enable those that it leads to act to their fullest potential. Rather than emphasizing just one of these objectives to the detriment of another, the governing body should seek to resolve the dilemma by, for example, exercising leadership that serves the people they work with and thereby listening to and empowering the internal and external stakeholders it leads so that it is able to give better overall direction. Other dilemmas might come to light, for example, by the expectations of society for the health of the customer and the need the customer has, or how to address both short-term results for the owner stakeholders and long-term investments for the distant future.

7.8 Data and decisions

7.8.1 Principle

The governing body should recognize data as a valuable resource for decision making by the organization and others.

7.8.2 Rationale

Due to a relatively recent increase in the power – and reduction of cost – of technology to gather, store and extract information from data, the value of data has risen significantly. This brings with it an organizational responsibility to appropriately deal with its strategic and operational potential.

Data is the raw material from which information is derived. The information that is extracted from the data will vary based on many facets such as technology, subject, and organizational requirements. The potential information that could be derived from data may not be obvious, could be difficult to extract and may not be directly useful to the organization, but it could be very useful to other organizations or individuals.

Because the primary use of data is to provide information for decision making (whether by humans or through automation), its value to the organization is multifaceted:

— **Decision making within the organization.** Data is essential to the governing body, and throughout the organization, for making decisions. The governing body's structures and practices should ensure that it receives the information necessary to govern. Additional structures and practices ensure that the governing body delegates its authority across the organization such that decisions are made based on trusted information and with the appropriate level of responsibility that such decisions require. In all the governing body does, it is required to make decisions. The continued viability and existence of the organization depends on the decisions made by the governing body. Governing bodies typically ensure that their decisions are made on the basis of informed alternative options or proven case studies;

— **Decision making outside the organization.** Because data is used to make decisions, it is valuable as a resource that can be bought, sold or otherwise distributed. For most organizations, data is a strategic resource. This is not only because a lack of data would make it impossible for the organization to operate, but because the data is a key raw ingredient for its products. This can include product design and specifications, but also market and customer insights as well as supply chain and product usage information;

— **Appropriate data treatment**. The increased value of data also brings a potential increase in risk. For example, technology now allows the use of personal data on an unprecedented scale which will add an operational obligation relating to privacy and other constraints if this data is collected and used by the organization. In assessing the appropriate level of security, it is necessary to assess the levels of risk associated with loss of data, incorrect dissemination and so on.

7.8.3 Key aspects of practices

The governing body should ensure that the organization identifies, manages, monitors and communicates the nature and extent of its use of data.

The following practices relate to the three aspects of the use of data by the organization.

7.8.3.1 Use appropriate data for decision making

Different approaches to decision making may be used depending on the particular circumstances and matters at hand. The governing body uses data from many sources to make decisions for the organization. In order to make decisions of requisite quality, the governing body should ensure that its decision making is appropriately informed. It should:

— exercise its right and responsibility to determine and receive the information it requires, including the appropriate data collection methods, preparation and timely delivery of information;

— have diverse inputs into a rigorous, open and transparent decision-making process to better understand the results that could be achieved, options for achieving them and their implications;

NOTE Such inputs could be derived from the diversity of the governing body's composition, its field of knowledge, skills, experience, age, culture, race and gender.

— maintain an appropriate balance between guiding discussions to a decision and ensuring that every member has the opportunity to express their independent assessment;

— ensure there is commitment to support the collective decision, to clearly record it and to act on it;

— consider its level of independence and the effect this level has on its decision making, including financial interests, position, associations, relationships, bias and alliances;

— carefully address conflicts of interest when making decisions;

— pay attention to the dynamics of the governing body, including, for example, undue reliance on any member for decision making.

Decision making throughout the organization should be supported by the appropriate delegation of authority from the governing body. This delegation should be formalized together with the appropriate assurance processes. Limits of decision-making authority may be applied in response to assessed risk. Additionally:

— authority should match the level of responsibility associated with the decisions being made;

- information structures, including access to information, monitoring and potential mitigation of decisions should be sufficient to ensure compliance with organizational requirements.

7.8.3.2 Recognise data as a strategic resource

The recognition that data can be a strategic asset (or liability) means that the organization should:

- understand its use and potential use by the organization and others (e.g. suppliers, customers, regulators and other stakeholders as well as competitors and those who misuse the data);
- acknowledge the complexities and evolutionary nature of data and establish governance policies and direction that aligns with the organization's needs and the degree of change;
- ensure that the information requirements of the organization are sufficiently supported by its current and future technology capabilities.

7.8.3.3 Ensure responsible data treatment

New technology brings an increase in the volume and value of data and a responsibility for governing bodies to ensure that valuable opportunities are leveraged, while sensitive data is protected and secured. The governing body should:

- have sufficient oversight associated with the use of data and its supporting technology to ensure it remains within its established risk appetite. Examples of how to achieve this may include:
    - the adoption of a system to ensure the rights, obligations and constraints of datasets are understood and tracked, for example privacy and intellectual property right obligations;
    - implement a risk-based Information Security Management System (ISMS);
    - adequate auditing and monitoring of technology systems to ensure the responsible use of technology and its compliance with the organization's governance and management policies and other requirements;
    - an innovative process such that changes in technology can quickly be assessed and, if necessary and appropriate, organizational policy can be updated to leverage new opportunities;
- remain accountable for the use of the technology;
- consider human behaviour when applying technology – including safety, whether it is fit for purpose and is aligned with organizational purpose;
- consider the wider organizational stakeholders in its use of technology – particularly as it relates to human capital.

Tools to assist with data and decisions are included in the ISO/IEC 38505 series.

7.8.4 Dilemma examples

In governing data and decisions, governing bodies encounter numerous dilemmas. Some of the most damaging types of organizational risks are strategic in nature, for example, decisions regarding changes in direction, entering into new or previously unfamiliar areas of activity or responding to abnormal and adverse operational events. Modelling objectives and their associated decision requirements makes oversight less complex and more robust. Such modelling can strengthen immature governance processes, highlight interdependence of decision criteria, cognitive bias, groupthink, or unexpected scenarios.

7.8.5 Dilemma reconciliation

Many decisions involve the consideration of several dimensions. Many decisions that governing bodies face are dilemmas owing to the fact that the governing body needs to make decisions involving a wide range of different societal value systems.

A process of reconciliation between seemingly opposed alternatives leads governing bodies, and other decision makers, to make more informed and robust decisions.

An approach for governing bodies to reconcile dilemmas includes:

- recognizing and identifying the dilemma;
- understanding and articulating the opposing perspectives;
- identifying the advantages and disadvantages of each;
- reconciling the perspectives, considering how each position could support the other;
- mapping an associated action plan.

7.9 Risk governance

7.9.1 Principle

The governing body should ensure that the organization identifies, assesses, treats, monitors and communicates the nature and extent of the uncertainties the organization faces in the achievement of its strategic objectives.

7.9.2 Rationale

Value is achieved by taking on some amount of risk in the pursuit of objectives. The nature and extent of such risks should be made clear to stakeholders along with assurance that the organization will operate within the level of risk that is acceptable for the organization and take corrective action if necessary.

7.9.2.1 Risk governance activities

Risk governance activities include:

- understanding the organizational purpose, objectives, and model for defining, creating, delivering and sustaining value;
- determining the risk appetite;
- determining the organization’s approach to compliance;
- assurance of an effective risk oversight framework:
    - choice of risk treatments are consistent with governance policies;
    - emerging risks are identified, understood and managed, in real time;
    - risk impacting strategies are managed within agreed limits;
    - effective data analytics are employed to correctly understand risk aggregations and concentrations;
    - decision making behaviours are driven by risk prioritization and are consistent with organizational and governance policies;
    - effective risk reporting is fostered by management through the creation and maintenance of a positive risk culture;
- employing internal systems and controls validating assurances that risks are effectively managed;
- ensuring transparency with regard to risk disclosure to the organization’s stakeholders, as appropriate;
- governing the organization in a way that supports the achievement of its strategic objectives through adopting a stakeholder-inclusive approach and integrating all the resources the organization relies upon.

7.9.2.2 Risk integration

The governing body should ensure that risk management is integrated into all organizational activities by seeking evidence that:

- all components of the risk management framework have been customized and implemented;
- the necessary resources are allocated to managing risk;
- authority, responsibility and accountability for managing risk have been assigned.

7.9.2.3 Stakeholders and the organizational context

The governing body should ensure that the risk oversight framework reflects the external and internal environment in which the organization operates and the particular environments of the activities in which risk management processes are applied.

When designing the framework for managing risk, the organization should examine and understand its external and internal context and the dilemmas resulting from their competing needs. It should also examine and understand, short, medium, and long-term trends including sustainability and social responsibility trends, impact and dependencies.

Examining the organization's external context may include, but is not limited to:

— the social, cultural, political, legal, regulatory, financial, technological, economic and environmental factors, whether international, national, regional or local;
— key drivers and trends affecting the objectives of the organization;
— external stakeholders' relationships, perceptions, societal values and expectations, changing demographics;
— contractual relationships and commitments;
— the complexity of networks and dependencies;
— the organization's compliance obligations.

Examining the organization's internal context may include, but is not limited to:

— purpose, vision, mission and organizational values;
— governance, organizational structure, roles and accountabilities;
— strategy, objectives, and governance and management policies;
— the organization's culture and ethos;
— standards, guidelines and models adopted by the organization;
— capabilities, understood in terms of resources and knowledge (e.g. capital, time, people, intellectual property, processes, systems and technologies);
— data, information systems and information flows;
— relationships with internal stakeholders, taking into account their perceptions and personal values;
— contractual relationships and commitments;
— interdependencies and interconnections.

7.9.3 Key aspects of practices

The management of risk is crucial to the achievement of the organization's objectives. Therefore, the governance of risk should be intentional, mindful and purposeful. The governing body should:

— ensure that risk is adequately considered when setting the organizational policy;
— understand the impact of leadership actions or inactions on decision-making behaviours across the organization;
— ensure that the organization's strategy and associated objectives are appropriately balanced;
— facilitate decision-making by setting the risk appetite for the organization, and limiting the potential loss that the organization will tolerate;
— govern risk in such a way as to ensure that the organization's management of risk is integrated into all organizational activities, evaluating the necessity for:
    o the adoption of a formal risk management approach or framework for the organization;
    o the allocation of resources necessary for managing risk;
    o ensuring a culture that encourages the reporting of new risks, opportunities and near misses;
— assume accountability for the organization's continual sensing and responding to risk, and communicating the chosen approach with stakeholders as necessary;

— engage responsibly, accurately and transparently about the organization’s positive and negative risk impacts on its stakeholders and the context within which it operates in the short, medium and long term and the decisions made in this regard;
— ensure that the process for measuring risks is consistent throughout the organisation, enabling effective comparison and prioritisation for the allocation of resources for mitigation;
— ensure it is adequately informed of new and emerging risk.

Tools, definitions and interpretations to assist with risk governance are included in ISO/IEC 31000 and ISO/IEC 31010.

7.9.4 Dilemma examples

In governing risk, governing bodies encounter numerous dilemmas. For example, although governing bodies should create approaches for assuring that unacceptable results do not take place, they should also lead and enable the organization to take purposeful risks to take advantage of the underlying opportunities. Both aspects are necessary to achieve and maintain viability of the organization.

Rather than focusing on single dimensions, and thereby creating cultures in which one organizational value dominates others, governing bodies should resolve such dilemmas by finding complementarities between them. For example, in the dilemma involving consciously taking risks and ensuring safety, both aspects are desirable and necessary. In this case, the governing body should find reconciliation in the management strategies: governing bodies should identify the areas where the organization needs to be cautious so as to enable it to be overall sufficiently courageous.

7.10 Exercising social responsibility

7.10.1 Principle

The governing body should ensure that decisions are transparent and aligned with broader societal expectations.

7.10.2 Rationale

For an organization to act in a socially responsible way means acting consistently and transparently in line with organizational values and stakeholder and societal expectations. By doing this an organization demonstrates ethical behaviour and helps maintain a balance between social, economic, and natural environmental system health and proactively creating sustainable wellbeing.

Compliance with the law is often not sufficient to demonstrate that the organization is acting responsibly because these often lag behind social expectations and usually set only minimum standards of behaviour. For an organization to act in a socially responsible way means operating within parameters of acceptable behaviour and not allowing actions that are legally or locally permissible, but not necessarily in line with what is expected of it by broader stakeholders and society. It also means being transparent to stakeholders about whether it is meeting societal expectations and how this is being achieved, or not.

For example, if an organization has operations across a number of jurisdictions, the standard it sets should reflect a consistent approach across the organization rather than exploiting differences that exist in legal requirements and ethical norms. It must be transparent with stakeholders about the approach it is taking, providing necessary evidence to support its claims. Other considerations are current societal and stakeholder values and related expectations, as well as maintaining the needs of future generations.

Core subjects and issues of responsible organizational behavior include social and natural environmental issues.[1] Other considerations are current societal and stakeholder values and related expectations, as well as maintaining the needs of future generations.

Issues of particular concern to a governing body are where the organization benefits but where the price for that benefit is paid by another party. These are sometimes referred to as negative externalities or unpriced impacts and can be both financial or non-financial in nature.

A socially responsible organization takes responsibility for its impacts on the society it is part of. However, the society has diverse groups with diverse interests. These interests can be reconciled by an organizational purpose which combines the competing demands of the groups in society with the responsibility organizations have for society as a whole.

7.10.3 Key aspects of practices

The following practices relate to the role of the governing body in making sure the organization is acting socially responsibly:

- ensure that the expectations of stakeholders are clearly understood. This includes continually involving stakeholders through an engagement process and highly developed approach to accountability as outlined in section 7.5;
- Identify and articulate issues and opportunities affecting stakeholder expectations as outlined in 7.9;
- Ensure that the organizational purpose expresses the organization's approach to stakeholders;
- Engage with all relevant stakeholders when determining and reviewing the organizational values and promote the organizational values to stakeholders;
- Engage with all relevant stakeholders when establishing and reviewing the organizational and governance policies;
- steer the organization such that its decision making and activities are consistent with the organizational purpose, organizational values and the organizational and governance policies. This includes considering how stakeholders may report where a breach in behaviour is occurring (see ISO 37002);
- measure performance against the objectives related to socially responsible behaviour;
- transparently report to stakeholders the organization's objectives relating to being socially responsible, how it is ensuring these objectives are being met and what performance is being achieved;
- because individual actions influence social responsibility, it should be an integral part of organizational strategy with assigned responsibilities and objectives;
- the organization should consider undertaking specific measures contributing to the wellbeing of its society. For example, philanthropy can have a positive impact on society but is not a substitute for stakeholder engagement or addressing adverse impacts of the organization's activities.

7.11 Organizational viability and success over time

7.11.1 Principle

The governing body should ensure that the organization remains viable without compromising the ability of current and future generations to meet their needs.

7.11.2 Rationale

The governing body has a primary responsibility to ensure that the organization can continue to achieve its purpose over time. This requires balancing the health of social, natural environmental and economic systems. This in turn requires understanding and being compatible with stakeholder expectations (see

[1] See ISO 26000, Guidance on Social Responsibility for more information.

sections 7.6 and 7.10), actively contributing to, conserving and restoring these systems on which the organization's viability and success is dependent.

Impacts on the systems can be both positive and negative and can be a direct result of the organization's actions or an unintended consequence of these actions. Areas of impact include climatic stability, a healthy level of biodiversity and social equality. Organizations should recognize opportunities to contribute to sustainable wellbeing through supporting the health of these systems as well as limiting negative impacts.

Where an organization fails to understand and respond to the needs of the systems of which is a part, it is unlikely that the organization value model will continue to create value and therefore that the organization will remain viable.

7.11.3 Key aspects of practices

The governing body should:

- **Articulate the organization's value generation model:** take a systems-wide view of the manner in which the organization generates value over time;
- **Identify wider system relationships:** understand the external system interactions that underpin the organization's value generation model;
- **Govern for organizational viability over time:** ensure that the organization protects and restores the systems on which its value generation model depends and adapts where required.

7.11.3.1 Articulate an integrated view of the organization's value generation model

- identify the key resources (for example capitals such as human, social and relational, intellectual, the natural environment, financial and manufactured), structures, processes, relationships, information, decision making, reporting and other aspects of the organization that allow it to create sustained value for stakeholders;
- articulate how these aspects inter-relate to create value over time.

7.11.3.2 Identify wider system relationships

- ensure that the key external systems that the organization depends on are identified, the inter-relations described, and the organization's positive and negative impacts on them specified. Such systems include, for example, economic, social and natural environmental systems. These systems influence the various resources, or capitals, which the organization positively or negatively impacts, or on which the organization's value generation model depends as well as other aspects of organizational functioning as detailed in 7.11.3.1.

7.11.3.3 Govern for organizational viability over time

- identify, articulate, and monitor the key positive and negative impacts on systems, resources and aspects of the organization that will result from governance decisions. This should result in clarity about the impact of decisions over time both for those aspects the organization is directly dependent on, but also those the organization is not dependent on but whose ability to be sustained will be undermined by the decisions. This clarity is unlikely to be achieved without a consultation process with stakeholders;
- when accounting to stakeholders, include a description of;
  - the organization's value generation model and how the key structures, processes, relationships, information, decision-making, reporting and other key aspects of the organization work to create value;
  - how decisions or external factors may affect key aspects of the organization;
  - how decisions or external factors may affect the organization's value generation model;

- how decisions affect the health of the wider natural environmental, social and economic systems.

Some tools to assist with these sustainability practices are outlined in Annex A.

7.11.3.4 Dilemma examples

In seeking to ensure viability the governing body may face a number of dilemmas. For example, although it should direct the organization to adopt approaches that take into account both the primary and knock-on material impacts of external systems on its own viability, the governing body needs to also direct the organization to maintain the resilience of the external systems in which it operates. Reconciling inter-relations and dependencies between the organization' s value generation model and the systems affected by the model should identify areas that require stakeholder engagement and governing body oversight.

When engaging stakeholders, governing bodies should not give exclusive priority to any one single stakeholder perspective (e.g. only current owner stakeholder returns, or only society's perception) at the expense of other valid concerns. Instead, governing bodies should seek to resolve dilemmas, by, for example, taking a multi-stakeholder approach.

Over time, the impacts and trade-offs between external and internal systems may change and stakeholder perspectives may change. These shifts will present new dilemmas for the governing body to consider. For example, as societal values shift to recognizing unsustainable human pressures on the natural environment, the governing body should re-evaluate the viability of its model against these expectations.

Annex A
(informative)
Governance Tools and Resources

A.1 Sustainability Practices

Tools to assist with these practices include:

- Adopting practices for corporate social responsibility including:
  - UN sustainability goals[2];
  - UN Global Compact[3];
  - ISO 14001:2015, *Environmental Management Systems – Requirements with guidance for use*
  - ISO 26000:2010, *Guidance on social responsibility*
- In addition to required reporting, use a reporting framework that focuses on the long-term use and preservation of resources. These include:
  - International Integrated Reporting Framework[4];
  - Global Reporting Initiative[5];
  - Sustainability Accounting Standards Board[6].
- Impact measurement tools can be found at:
  - The World Business Council on Sustainable Development[7]

[2] https://www.un.org/sustainabledevelopment/sustainable-development-goals/
[3] https://www.un.org/Depts/ptd/about-us/un-global-compact
[4] http://integratedreporting.org/resource/international-ir-framework/
[5] https://www.globalreporting.org/standards
[6] https://www.sasb.org/
[7] https://www.wbcsd.org/Programs/Redefining-Value/Business-Decision-Making/Assess-and-Manage-Performance

Bibliography

[1] ISO 14001:2015, *Environmental Management Systems – Requirements with guidance for use*

[2] ISO 26000:2010, *Guidance on social responsibility*

[3] ISO 37001:2016, *Anti-bribery management systems – Requirements for use*

[4] ISO/IEC 31000:2018, *Risk management – Guidelines*

[5] ISO/IEC 31010:2009, *Risk management – Risk assessment techniques*

[6] ISO/IEC 38500:2015, *Information technology – Governance of IT – Information technology – Governance of IT for the organization*

[7] ISO/IEC TR 38502:2017, *Information technology – Governance of IT – Governance of data – Framework and model*

[8] ISO/IEC 38505-1:2017, *Information technology – Governance of IT – Governance of data – Part 1: Application of ISO/IEC 38500 to the governance of data*

[9] ISO/IEC TR 38505-2:2017, *Information technology – Governance of IT – Governance of data – Part 1: Implications of ISO/IEC 38505-1 for data management*

[10] ISO 19600:2014, *Compliance management systems - Guidelines*

