



Form 1: Proposal for a new field of technical activity

Circulation date: 2016-05-13 Closing date for voting: 2016-08-13	Reference number (to be given by Central Secretariat)
Proposer: BSI	ISO/TS/P 260

A proposal for a new field of technical activity shall be submitted to the Central Secretariat, which will assign it a reference number and process the proposal in accordance with the ISO/IEC Directives (part 1, subclause 1.5). The proposer may be a member body of ISO, a technical committee, subcommittee or project committee, the Technical Management Board or a General Assembly committee, the Secretary-General, a body responsible for managing a certification system operating under the auspices of ISO, or another international organization with national body membership. Guidelines for proposing and justifying a new field of technical activity are given in the ISO/IEC Directives (part 1, Annex C).

The proposal (to be completed by the proposer)

<p>Title of the proposed new committee (The title shall indicate clearly yet concisely the new field of technical activity which the proposal is intended to cover.)</p> <p>Organizational Governance</p>
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Scope statement of the proposed new committee (The scope shall precisely define the limits of the field of activity. Scopes shall not repeat general aims and principles governing the work of the organization but shall indicate the specific area concerned.)

Standardization of organizational governance, including aspects of accountability, direction and control - which may include principles of governance, anti-bribery, conflict of interest, due diligence, whistleblowing, compliance, remuneration structures and external reporting, amongst others.

This proposal is for a new technical committee in the field of organizational governance. For the purposes of this proposal, governance may be defined as a "system by which the whole organization is directed, controlled and held accountable to achieve its core purpose over the long term". The term "corporate governance" is typically used for the governance of private and publicly-listed companies.

The TC would develop and maintain standards applicable for all organizations to improve the effective delivery of governance. This proposal recognizes that, although interrelated, there is an important distinction between management and governance. The above definition of governance places it into a context of accountability whereas management can be deemed to be "the act of bringing people together to accomplish desired goals and objectives, using available resources in an efficient, effective and risk-aware manner." While governance is linked to management, it is distinct from it because it deals with the accountability of a whole organization to all of its stakeholders and helps ensure that the organization, as a whole, fulfils its full purpose. Thus, governance is a unique area that merits a distinct portfolio of work, separate but complementary to management standards.

The portfolio of work would be applicable to all types and sizes of organizations, whether large or small, public or private, listed or unlisted, not-for-profit or for-profit, etc.

Proposed initial programme of work (The proposed programme of work shall correspond to and clearly reflect the aims of the standardization activities and shall, therefore, show the relationship between the subject proposed. Each item on the programme of work shall be defined by both the subject aspect(s) to be standardized (for products, for example, the items would be the types of products, characteristics, other requirements, data to be supplied, test methods, etc.). Supplementary justification may be combined with particular items in the programme of work. The proposed programme of work shall also suggest priorities and target dates.

See Annex A (attached)

Indication(s) of the preferred type or types of deliverable(s) to be produced under the proposal (This may be combined with the "Proposed initial programme of work" if more convenient.)

All types of ISO deliverables are potential options depending on the specific proposal. It is considered appropriate to consider requirements, guidance, PAS, technical specifications, and technical reports as potential deliverables.

A listing of relevant existing documents at the international, regional and national levels. (Any known relevant document (such as standards and regulations) shall be listed, regardless of their source and should be accompanied by an indication of their significance.)

The TC work programme would complement existing standards, such as :

ISO 19600: 2014 - Compliance management systems - Guidelines
ISO 37001 - Anti-bribery management systems - Requirements with guidance for use (due to publish by Dec 2016)
ISO/IEC 38500:2015 - Information technology - Governance of IT for the organization
ISO 31000:2009 – Risk Management - Principles and guidelines
ISO /IEC 31010:2009 - Risk management - Risk assessment techniques
ISO Guide 73:2009 - Risk management - Terminology
ISO 26000:2010 - Guidance on social responsibility
ISO 9001:2015 - Quality Management Systems - Requirements
BS 13500:2013 - Code of Practice for delivering effective governance of organizations
PAS 1998:2008 -Whistleblowing arrangements: Code of practice
AS 8000:2003 - Corporate Governance: Good governance principles
OECD - Principles of Good Governance

There is existing national public policy, legislation and regulation related to governance good practice, including but not limited to:

- APEC-OECD, 2005, Integrated Checklist on Regulatory Reform (<http://www.oecd.org/regreform/34989455.pdf>)
- European Commission, 2001, European Governance: A White Paper, Brussels (<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52001DC0428&qid=1461693776489&from=EN>)
- OECD, 2009, Indicators of Regulatory Management Systems, Regulatory Policy Committee (<http://www.oecd.org/gov/regulatory-policy/44294427.pdf>)
- the OECD's 2012 Recommendation of the Council on Regulatory Policy and Governance (<http://www.oecd.org/gov/regulatory-policy/49990817.pdf>) outlines best practices for public sector governance.
- World Bank: International Finance Corporation (IFC), 2010, Better Regulation for Growth: Regulatory Governance in Developing Countries (http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2010/07/13/000334955_20100713050729/Rendered/PDF/556450WP0Box0349461B0GovReg01PUBLIC1.pdf)
- World Trade Organization, Committee on Technical Barriers to Trade, Compilation of sources on good regulatory practice: Background Note by the Secretariat (G/TBT/W/341), 13 September 2011 (http://www.wto.org/english/tratop_e/tbt_e/tbt_work_docs_e.htm)

The above list is not exhaustive. The suggested TC work programme is NOT intended to replace or negate existing national policy, regulation and legislation but to support it. The range of international guidance contained within the above list illustrates that while there are many significant documents that should be considered, there is a global need for internationally recognized ISO standards in governance in order to pull together all relevant information. Through their openness and independence, ISO standards have the necessary legitimacy and degree of market acceptance to be used as tools to support the implementation of regulation and public policy initiatives. They can support risk-based regulation by providing information to help target government intervention where it is most needed.

This TC would not seek to influence the development of regulation, public policy or interpret international treaties as specified in the ISO/IEC Directives, Part 1 – Consolidated ISO Supplement – Procedures specific to ISO – Annex SO.

A statement from the proposer as to how the proposed work may relate to or impact on existing work, especially existing ISO and IEC deliverables. (The proposer should explain how the work differs from apparently similar work, or explain how duplication and conflict will be minimized. If seemingly similar or related work is already in the scope of other committees of the organization or in other organizations, the proposed scope shall distinguish between the proposed work and the other work. The proposer shall indicate whether his or her proposal could be dealt with by widening the scope of an existing committee or by establishing a new committee.)

Every effort would be made to ensure any new work is complementary and not in conflict or competing with established ISO committees and their work portfolios. To do this, the new TC would need to liaise with other TCs and consider relevant standards (see list of relevant existing documents) regarding how governance is referenced in these standards - and to examine their inter-dependencies – while recognizing that organizational governance is a distinct and very important area that requires its own, unique (but complementary) programme of work.

Organizational governance is very important to many technical committees such as risk management, continuity, environment, sustainability, quality, and information security. Governance is an integral part of their activities. For example, governance is an essential aspect of risk management. It's essential to integrate the management of risk into the organization's overall governance, strategy and planning, management, reporting processes, policies, value and culture. Good risk management is seen as the basis for providing effective governance within an organization. It is therefore important that there is a liaison with ISO TC/262 – Risk management – because although the principles and terminology of risk management and risk assessment techniques are well covered in ISO 31000, Guide 73 and ISO/IEC 31010, there is a need for more detailed information on governance and risk management and how they interrelate.

Governance in the context of social responsibility is also very important and the ISO 26000 PPO SAG is an important stakeholder group. ISO 26000 highlights that effective governance should be based on incorporating the principles of social responsibility into decision making and implementation. In the context of ISO 26000, organizational governance has the special characteristic of being both a “core subject” on which organizations should act and a means of increasing the organization's ability to behave in a socially responsible manner. Consideration of this standard and liaison with the ISO PPO SAG will help ensure the relationship and interdependence between social responsibility and governance is clear and complementary.

The new TC would need to establish liaisons and consider the relationship between governance and management standards (such as quality management) recognizing that while governance is an integral part of management standards, there is an important distinction between “management” and “governance”. For this proposal, management may be considered as the act of bringing people together to accomplish goals and objectives, and using available resources in an efficient, effective and risk-aware manner whereas governance deals with the accountability of a whole organization to all of its stakeholders and helps ensure that the organization, as a whole, fulfils its full purpose.

Recognizing that relevant standards exist or are being developed for compliance and anti-bribery within Project Committees, it is proposed that it would be beneficial to include the responsibility for maintaining these standards into this permanent TC structure.

A listing of relevant countries where the subject of the proposal is important to their national commercial interests.

During the development of the proposal, BSI has engaged with a range of stakeholders who recognize the importance of having effective governance to help enable the governing body to be accountable to all of their stakeholders for everything undertaken by their organizations. Small organizations, where there may only be a sole trader who owns, governs and manages their business, as well as large organizations, where governance is the responsibility of the board - all need to apply the principles of good governance for sustainable success.

Recognizing the importance of organizational governance, SAC (China) has expressed an interest in the proposed new TC and a potential twinning agreement will be explored if the new TC is approved. Likewise, DSM (Malaysia) and SON (Nigeria) have also recognized the vital role good governance and whistleblowing play and have expressed interest in potential twinning arrangements for those work items. In the course of discussions with members of ISO PC/271 – Compliance and ISO PC/278 – Anti-bribery management systems – experts from many other countries have expressed interest or a willingness to participate including Austria, Canada, Brazil, South Korea, Germany, Malaysia, France, Argentina, Russia, Japan, Australia, and Switzerland. (It is noted that this engagement is at expert level and full consultation with those members has not yet taken place).

Governance is of great importance to all countries because of the “high correlation between the quality of governance and per capita income. And statistical analysis has proven that good governance improves economic performance rather than vice-versa. The concrete example is Singapore, which by transforming into one of the least corrupt countries in the world, is fast becoming one of the world’s booming economies”. Please see:

<http://europeandcis.undp.org/blog/2012/05/23/3-reasons-why-you-should-care-about-good-governance>

According to the Organization for Economic Development (OECD), “The presence of an effective corporate governance system, within an individual company and across an economy as a whole, helps to provide a degree of confidence that is necessary for the proper functioning of a market economy. As a result, the cost of capital is lower and firms are encouraged to use resources more efficiently, thereby underpinning growth.” Please see:

<http://www.oecd.org/daf/ca/corporategovernanceprinciples/31557724.pdf>

It is recognised that this is a complex area and it is likely that stakeholders will have specific suggestions on the scope of the work. BSI propose to host the inaugural meeting of the new TC, in November, in London, in order to obtain and understand feedback, encourage membership, consider the scope, and obtain views on the suggested work programme.

A listing of relevant external international organizations or internal parties (other ISO and/or IEC committees) to be engaged as liaisons in the development of the deliverable(s). (In order to avoid conflict with, or duplication of efforts of, other bodies, it is important to indicate all points of possible conflict or overlap. The result of any communication with other interested bodies shall also be included.)

There are many stakeholders and interested parties and we anticipate there will be further organizations identified during the consultation phase. The following list is not intended to be exhaustive:

BASEL Institute on Governance
World Bank
UN International Strategy for Disaster Reduction (UNISDR)
European Corporate Governance Institute (ECGI)
Organization for Economic Co-operation and Development (OECD)
The Governance Institute (ICSA)
International Chamber of Commerce (ICC)
World Intellectual Property Organization (WIPO)
Transparency International
International Forum on Business Ethical Conduct (IFBEC)

In addition to the above, liaison committees may include at least the following:

ISO TC/262 - Risk management
ISO TC/268 - Sustainable Development in Communities
ISO TC/292 - Security and Resilience
ISO PC/271 - Compliance Management
ISO 26000 - PPO SAG
ISO/IEC JTC 1SC 40 WG 1 - Governance of Information Technology
ISO PC/278 - Anti-bribery management systems
ISO/TC 176 Quality management and quality assurance

A simple and concise statement identifying and describing relevant affected stakeholder categories (including small and medium sized enterprises) and how they will each benefit from or be impacted by the proposed deliverable(s).

Appreciating the wide range of potential stakeholders and the number of relevant existing documents already in existence, this new ISO TC will bring together relevant stakeholders in order to consolidate good practice and develop a portfolio of work that would provide clarity for delivering effective governance of organizational performance.

Organizational governance is the most crucial factor in enabling an organization to achieve its goals and to take responsibility for the impacts of its decisions and activities. The stated and potential activities are relevant to all those involved in governance at all levels of an organization, from sole traders to multi-national organizations. This includes:

- an organization's stakeholders;
- governing body members and officers;
- senior executives who report directly to governing bodies;
- other managers/supervisory personnel and their teams; and
- governance advisers and regulators.

Good governance positions organizations for success - all organizations can benefit from this work regardless of their size or sector. For example, in a small organization, there may be only a sole trader who owns, governs and manages their business. Complex, formal arrangements are not necessary but applying the principles of good governance is still important for sustainable success. In a large organization, ownership may be dispersed between many shareholders with governance being the ultimate responsibility of the board and management being delivered by executives via teams of employees. Whilst the accountabilities and roles are different, each has a role to play in supporting the success of the whole.

The establishment of this TC would provide an opportunity for the consolidation of ISO's governance related work which would in turn provide benefits for participating experts and stakeholders e.g. ease of identifying the appropriate committee and minimizing the need to attend separate meetings.

An expression of commitment from the proposer to provide the committee secretariat if the proposal succeeds.

BSI would provide the Secretariat and Chair of the new TC (CV of proposed TC Chair - Mr Howard Shaw - is included for information as Annex B). BSI will discuss potential twinning arrangements at the Secretariat level with SAC should the proposal be approved.

As previously indicated, interest has also been received in leadership or twinning agreements from DSM and SON for the projects on organizational governance and whistleblowing, respectively.

Purpose and justification for the proposal. (The purpose and justification for the creation of a new technical committee shall be made clear and the need for standardization in this field shall be justified. Clause C.4.13.3 of Annex C of the ISO/IEC Directives, Part 1 contains a menu of suggestions or ideas for possible documentation to support and purpose and justification of proposals. Proposers should consider these suggestions, but they are not limited to them, nor are they required to comply strictly with them. What is most important is that proposers develop and provide purpose and justification information that is most relevant to their proposals and that makes a substantial business case for the market relevance and the need for their proposals. Thorough, well-developed and robust purpose and justification documentation will lead to more informed consideration of proposals and ultimately their possible success in the ISO IEC system.)

This proposal is for the establishment of a new ISO technical committee on Organizational Governance to be responsible for developing and maintaining standards in the area of governance (including whistleblowing, anti-bribery, due diligence, compliance, etc.). It would also strive to communicate and disseminate the committee's deliverables as widely as possible. Organizations of all types and sizes need to have good governance in place as it will increase accountability, effectiveness, and fairness in organizations and help avoid major incidents. It will also help position organizations for success by establishing accountability, direction and control.

The need for good governance is increasingly clear as society's expectations of organizational behaviours and performance, and thus "governance", are rising. This is highlighted by a steady flow of major incidents and perceived abuses of authority. Enron, Lehman Brothers, FIFA, and other high-profile incidents demonstrate just how essential good governance is to organizations.

For this proposal, governance is tentatively defined as "the system by which the whole organization is directed, controlled and held accountable to achieve its core purpose over the long term". This TC would consolidate the available guidance, recommendations, and requirements relating to organizational governance but it is not intended to replace or negate existing guidance, regulations and legislation. Instead, it would develop and maintain internationally recognized ISO standards that have the necessary degree of legitimacy and market acceptance to be used as tools to support policy delivery.

The proposed guidance on organizational governance and whistleblowing could be based upon several well regarded national documents that can be used as the basis for ISO standards (see list of existing documents). For example, BS 13500 - Organizational Governance – has been widely implemented (including translation into other languages such as Mandarin). Case studies from BS 13500 illustrating how governance standards can benefit small as well as large organizations, can be found at: <http://www.bsigroup.co.uk/en-GB/bs-13500-organizational-governance/case-studies/>.

BSI PAS 1998 - Whistleblowing has also been valuable for organizations and there is a strong interest to use this document as the basis for an ISO standard. BS 10501 on Anti-bribery has also been enormously successful globally and was used in the development of ISO 37001 – ABMS- with guidance for use – which has already received considerable attention.

In considering the data on the users of key British Standards in this area (BS 13500 on effective governance, BS 10500 on anti-bribery management systems and PAS 1998 on whistleblowing arrangements), BSI has noted significant evidence of multinational interest. The international interest in this work has also been expressed by other international stakeholders including experts engaged in PC/271 (Compliance management) and PC/278 (Anti-bribery).

This proposal includes the possibility of developing an International Standard on the fundamentals of good governance as well as supporting existing documents and ISO groups doing valuable work in this area. There is a need, and international support, for an ISO TC to bring together global stakeholders in organizational governance to coordinate, develop and maintain a portfolio of ISO standards in this area.

In order to encourage membership and liaisons, consider the scope, TC structure and the work programme (including preliminary work items on governance and whistleblowing) BSI suggest a meeting of the TC be held, in London, November 2016.

Signature of the proposer

Amanda Richardson, BSI

Further information to assist with understanding the requirements for the items above can be found in [the Directives, Part 1, Annex C](#).

ANNEX A – Proposed initial programme of work

Proposed initial programme of work (The proposed programme of work shall correspond to and clearly reflect the aims of the standardization activities and shall, therefore, show the relationship between the subject proposed. Each item on the programme of work shall be defined by both the subject aspect(s) to be standardized (for products, for example, the items would be the types of products, characteristics, other requirements, data to be supplied, test methods, etc.). Supplementary justification may be combined with particular items in the programme of work. The proposed programme of work shall also suggest priorities and target dates.

The proposed TC would help consolidate the large number of activities in this area and help ensure a consistent approach to organizational governance, whistleblowing, anti-bribery and compliance activities. The proposed programme of work (below) addresses key areas in need of standardization as well as the inclusion of existing standards as a means of ensuring they are maintained and promoted effectively.

New Work Item Proposal: Corporate Governance – Guidance

A general, high-level, guidance standard providing definitions, principles, and recommendations for the delivery of effective governance for organizations. It would identify what governance needs to provide for all organizations, such as:

- a governance framework (including policy / standard- setting process, and auditing of governance controls);
- accountability, (including stakeholder identification, governing body authority and accountability, governing body composition, code of behaviour, and succession planning);
- vision and strategic outcomes;
- risk limits (including ethical / public interest commitments, planning and budgeting, procurement, treatment of employees, etc)

This guidance would recognize that for many organizations, there may be additional sector-specific governance requirements, laws and regulations with which they need to comply.

A draft outline is included as **Annex C** which could serve as the basis for a new work item but there are other standards that should also be considered, such as AS 8000 - Corporate Governance: Good Governance Principles.

Should this work item be approved, a working group might be established, reporting to the TC, for which the Department of Standards Malaysia (DSM) have expressed an interest in a twinning agreement. Given the interest and documents suggested for consideration by several countries for this possible guidance, it is suggested that this standard might be developed within 24 months.

New Work Item Proposal on Whistleblowing – Guidance

Whistleblowing serves as an important instrument of good governance. Whistleblowing is the popular term used when someone who works in or for an organization raises a concern about a possible fraud, crime, danger or other serious risk that could threaten customers, colleagues, shareholders, the public or the organization's own reputation. The TC would develop good practice regarding the introduction, revision, operation and review of effective whistleblowing arrangements.

Should this work be approved, a working group might be established, reporting to the TC, for which Standards Organization of Nigeria (SON) have expressed an interest in a twinning as the work ties in well with recent legislation in Nigeria. Topics covered by such a standard may include:

- why organizations encourage whistleblowing;
- key elements of effective arrangements and the risks of ineffective arrangements;
- who should take the lead for arrangements and the role of management;
- introducing and updating a policy and rolling out a scheme

The BSI publication, PAS 1998 'Whistleblowing arrangements - Code of Practice' is freely available at (<https://shop.bsigroup.com/forms/PASs/PAS-1998>) and is but one document that could serve as the basis for this new work item – there are others. The number of downloads for this PAS (approximately 3,000), would support the need for guidance in this area. Noting the interest and offers to provide expertise, it's suggested that a 24 month development schedule could be adopted.

Given the general desire to consolidate and rationalise the ISO portfolio where possible, the proposed TC could also assume responsibility for the systematic reviews of related standards that have been developed in project committees, ISO PC/271 – Compliance and ISO PC/278 - Anti-bribery management system.

ISO 19600 - Compliance management systems – Guidelines

Compliance is an essential aspect of good governance. This standard was published in 2014 by ISO PC/271 and provides guidance for developing, implementing, evaluating, maintaining and improving an effective compliance management system based on the principles of good governance, proportionality, transparency and sustainability. Standards Australia (SA) provided the Chair and Secretariat for PC/271; however, the committee is now disbanded with no technical body currently responsible maintenance of the standard. Given the important link between compliance and governance, the new TC could include responsibility for the maintenance of ISO 19600 and further developments in the area of compliance. A working group might be established, reporting to the TC, comprising former members of ISO PC/271 as well as new stakeholders.

ISO 37001 - Anti-bribery management systems - Requirements with guidance for use is being developed within ISO PC/278 – Anti-bribery management systems (BSI Chair and Secretariat) and is due to publish December 2016. As a Project Committee, the group will be disbanded soon after publication. The standard sets out requirements and provides guidance for a management system designed to help an organization to prevent, detect and address bribery and comply with anti-bribery laws and voluntary commitments. ISO 37001 describes bribery as “the offering, promising, giving, accepting or soliciting of an undue advantage of any value (which could be financial or non-financial), directly or indirectly, and irrespective of location(s), in violation of applicable law, as an inducement or reward for a person acting or refraining from acting in relation to the performance of that person's duties”. This is another key area of governance and the TC could also be responsible for its maintenance after publication. A working group might be established, reporting to the TC, to maintain this standard comprising members of PC/278 and new stakeholders.

Should this proposal be accepted, the TC work programme and TC structure could be discussed at a meeting, tentatively, in November 2016, in London.

Annex B

Howard Shaw – Director, Head of Anti-Bribery & Corruption Services, Mazars, LLP

Howard Shaw is a fraud and corruption risk management specialist. He advises companies, NGOs and government agencies on the management of dishonesty and, in particular, corruption risk. He lectures internationally on fraud and corruption risk management and on good corporate investigation practice.



Howard is a Director and the Chair of the *Institute of Counter Fraud Specialists* (www.ICFS.org.uk). He is also the Chair of the *British Standards Institution* (BSI) Anti-Bribery Committee and serves as UK Delegation Leader to ISO PC/278 – Anti-bribery management systems - responsible for the development of ISO 37001 – Anti-bribery risk management systems – Requirements with guidance for use.

Howard has also enjoyed participating on the national committees involved in researching, developing and promoting BS10500 - Anti Bribery Management System, BS 13500 – Code of practice for delivering effective governance of organizations and BS 10501 - Procurement Fraud Risk Management.

Howard is also an active member of the *Fraud Advisory Panel* and *Transparency International*.

Annex C – Outline for possible international guidance on Organizational Governance

For consideration only. This text is based on BS 13500 - guidance for good governance. It is one possible source but there are other sources that should be considered.

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Sustain clarity on organization's purposes and values

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Understand and ensure the integrity of founding documentation

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Ensure governance policies set standards for all aspects of organizational performance

Establish governance role clarity

Uphold good delegation principles

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Set out and embed governance controls

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Ensure appropriate response to monitoring results

Introduction

It is increasingly obvious that society's expectations of organizational behaviours and performance, and thus "governance", are rising. This rise in expectations is partly in response to a steady flow of major incidents and perceived abuses of authority. However, the approach within this guidance is based on the evidence that good governance positions organizations for success. Therefore, the scope of this guidance standard goes beyond the avoidance or mitigation of problems.

There is a growing amount of sector level guidance on governance, but relatively little in the way of summary level definition of the fundamentals of good governance. This guidance seeks to address that deficiency. In doing so it offers more detail on the important principles that lie behind much sector-specific guidance (for example, by distinguishing different accountabilities to different stakeholders) and offers a baseline for all organizations, including those for which sector-specific standards might not exist.

This guidance is intended to be used by those concerned with the governance of organizations to help ensure that all the elements of a good governance framework are in place.

Defining "governance"

A key element of any standard is establishing terms and definitions, which is intended to help harmonize the use of language in a particular subject or discipline.

This is particularly challenging in terms of governance, which is rapidly evolving, operates in all sectors and encompasses entire organizations of all descriptions.

Given the breadth of the scope of governance, the vocabulary used in this guidance has been designed to be as widely applicable and enduring as possible.

The first step in creating this document was to define “governance” in a manner applicable to all organizations and explain how it differs from “management”. It was recognized that the words “governance” and “management” are sometimes treated as interchangeable, but that such usage does not aid the functional clarity necessary for the delivery of effective governance.

A widely used definition of governance in the corporate sector is: “the framework by which companies are directed and controlled” (Cadbury Committee 1992).

A well-known variant from the not-for-profit sector is: “the frameworks and processes concerned with ensuring the overall direction, effectiveness, supervision and accountability of an organisation” (Cornforth 2003).

At an international level, another widely known definition describes corporate governance as involving “a set of relationships between a company’s management, its board, its shareholders and other stakeholders” and providing “the structure through which the objectives of the company are set and the means of attaining those objectives and monitoring performance are determined” (OECD 2004).

For the purposes of this guide, a brief definition that places governance into a context of accountability may be adopted:

system by which the whole organization is directed, controlled and held accountable to achieve its core purpose over the long term.

Management can be defined as the act of bringing people together to accomplish desired goals and objectives, using available resources in an efficient, effective and risk-aware manner. Thus governance is linked to management, but is distinct from it because it deals with:

- a) the accountability of a whole organization to all its stakeholders; and
- b) ensuring that the organization as a whole fulfils its full purpose.

NOTE A simple way of describing the difference between management and governance is to say that management is about “getting the work done”, whereas governance is about ensuring “that the right purpose is pursued in the right way and that the organization continuously develops overall”.

This guide therefore identifies what governance, as distinct from management, needs to provide for all organizations, appreciating that for many organizations there are additional sector-specific governance requirements with which they need to comply.

Applicability

This guidance applies to the governance of all organizations. It is therefore applicable even to organizations in which the various ownership, governing and executive roles referred to in Clauses 4 and 5 can be performed by, or shared between, the same individuals.

In a small organization, there may be only a sole trader who owns, governs and manages their business. Complex, formal arrangements are not necessary, but applying the principles of good governance is still important for sustainable success.

In a large organization, ownership may be dispersed between many shareholders, with governance being the ultimate responsibility of the board and management being delivered by executives via teams of employees. Whilst the accountabilities and roles are different, each has a role to play in supporting the success of the whole.

Who should read this guidance?

This guide is written from the standpoint that those who are accountable for the organization are ultimately responsible for everything undertaken in that organization’s name. The people who fulfil this role comprise the organization’s governing body (see Clause 2: “Terms and definitions” for more detail), and it is clearly in their individual and collective interests to ensure that effective governance is in place so that they can indeed be accountable to all their stakeholders for everything undertaken by the organization.

Each individual governing body member is charged with ensuring that the organization is well governed, and governing bodies usually give their chairs special powers in this regard. However, the ultimate accountability

for ensuring effective governance rests with the governing body as a whole, operating by whatever decision-making rules it adopts, and cannot be delegated to the chair or any other officer or committee it appoints. Similarly, depending on the size and scale of the organization, the governing body is likely to delegate the actual implementation of some aspects of governance to the executive (e.g. those accountable for management), who may in turn delegate to other team members. This, though, does not alter the governing body's accountability.

The rationale for this guidance being written from the standpoint of the governing body is therefore twofold: firstly, the governing body is ultimately accountable for governance and, secondly, given the wide range of options for delegation, to do otherwise would be to add a level of complexity which would become difficult to depict and understand.

There are many ways in which governance can be implemented in an organization, from one person doing everything to many layers all having a part to play. Crucially, however, whoever is allocated a governance role reports to the person who appointed them and, throughout however many layers of delegation might have been undertaken, the ultimate accountability for governance remains with the governing body.

Governing bodies need the understanding, support and scrutiny of their stakeholders and the more everyone supports and appreciates the importance of good governance, the more achievable it becomes.

This international guidance is therefore intended to be read by all those involved in governance, at all levels in an organization. This includes all types of stakeholders, governing body members and officers, and senior executives who report directly to governing bodies, as well as other managers and supervisory personnel and their teams, governance advisers and regulators.

This standard gives recommendations and guidance for the effective delivery of governance. It is applicable to all organizations, whether large or small, public or private, listed or unlisted, not-for-profit or for-profit, and is intended to promote an integrated framework for effective governance that encompasses accountability, direction and control.

Establishing a governance framework

Governance exists to ensure that organizations fulfil their purposes successfully on behalf of those to whom they are accountable. Delivering effective governance should therefore involve:

- a) clarifying the organization's purpose and values in consultation with those on whose behalf it exists;
- b) identifying the risks involved in fulfilling the organization's purpose in alignment with its values; and
- c) directing and controlling the organization in a manner that enables proper reporting.

Because governance is about the whole organization, those ultimately accountable for it should ensure that they encompass everything that the organization is and does.

The governing body should ensure that all aspects of governance are integrated into a single, holistic, open, forward-looking, effective, efficient and empowering framework that starts and ends with accountability, and:

- a) encompasses accountability, direction and control;
- b) is consistently implemented throughout the organization; and
- c) includes everyone within the organization and its engagement with third parties.

3.3 The governing body should ensure that its governance is fully and accurately documented in founding documentation and policies that integrate accountability, direction and control.

3.4 The governance system should be held in a central repository where documentation is provided to and from the accountability, direction and control components.

NOTE Keeping information in one place ensures that there is integration between the components and less risk of duplication and wasted effort. The following documentation is referred to in this guidance and thus expected to be available.

- a) Founding documentation of the organization (legal documents which establish the organization).
- b) Applicable regulatory documents (specific sector guidelines).
- c) Governing policies that establish role clarity and expectations of those involved, including what is to be escalated and how.
- d) The organization's controls and results of monitoring.

Principles that underpin effective governance

General

To be effective, the governance framework should encompass the principles of accountability, direction and control set out in 4.2 to 4.4, and be implemented by the governing body and all its delegates in accordance with Clause 5.

Governance accountability

- The governing body should ensure that the organization is accountable to its shareholders or equivalent for the fulfilment of its overall long-term purpose and values, and to all its stakeholders for the organization's impact upon them.
- The governing body should also determine what commitments to seek from particular groups of stakeholders (for example, majority shareholders, employees and volunteers).
- The governing body should exhibit leadership of the organization on behalf of its shareholders or equivalent, and create a culture of responsible treatment for all its stakeholders.
- In order to determine the organization's best long-term interests on behalf of its shareholders or equivalent, the governing body should understand the broad, long-term external and internal context in which the organization is operating.
- The organization's purpose should be clear at all times and focused on the creation of value for shareholders or equivalent in terms of specified benefits (whether for shareholders or others), secured in a manner that reflects appropriate values regarding prudence and ethics.
- The governing body should recognize that organizational culture, whether deliberately created or not, is a crucial determinant of everyone's behaviour. A good governance framework demands good behaviour, but it cannot deliver good behaviour – only people can do that. Written policies can be powerful, but can also be displaced by unwritten rules. Similarly, from the perspective of stakeholders, an organization with a good governance framework is more likely to be trustworthy, but only if everyone fulfils their respective accountabilities within it. Therefore, the governing body should deliberately create an effective governance culture.
- In order to underpin its accountability, the governing body should ensure the competence and capacity of its members and its delegates to fulfil their governance accountabilities.
- Accountability should include recognizing and responding appropriately to governance performance.
- Openness creates trust, which is crucial to the flow of information required for accountability. Openness also enhances the quality of decision-making and the relationships that are the core of effective governance. The governing body should therefore ensure sufficient openness to allow for accountability.

Governance direction

- The governing body should ensure that its governance framework is underpinned by sound founding documentation.
- The governing body should translate the organization's purpose and values, as developed on behalf of its shareholders or equivalent, into clearly established and regularly reviewed expectations that direct itself and those to whom it delegates.
- In order to ensure that its expectations are appropriate, the governing body should thoroughly understand the external and internal context within which its decisions need to be made.
- The governing body's expectations should be stated in governance policies, and thereafter regularly reviewed and updated as necessary, to ensure that they remain aligned with the organization's founding documentation and its changing context.
- The governing body should ensure that its governance policies set appropriate standards for all aspects of organizational performance.
- The governing body should ensure that its policies clarify the roles of all involved in governing and operating the organization in terms of their authorities, accountabilities, performance standards and reporting requirements.

NOTE The governing body may choose to delegate many of the tasks involved in implementing governance and operating the organization to others, but it is still ultimately accountable for their completion to its stakeholders.

The only aspects of governance that cannot be delegated by the governing body are its ultimate accountability to those stakeholders who are its shareholders or equivalent. This accountability is for stating the expectations of the organization on behalf of its shareholders or equivalent, and assuring that those expectations are being met.

Where aspects of governance and operating the organization are delegated, the governing body's role is to ensure oversight and challenge to ensure that what is supposed to be achieved or done is actually being achieved or done.

- The governing body should ensure that principles of good 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 to (and thereby give responsibilities to) others in order to get things done. However, it should be clear that these people remain accountable for their delegate's use of that authority.
- The ownership of policies should be clear. Governance policies should belong to the governing body and not be open to change without the governing body's agreement. Managers should be empowered to create lower level policies within governing body policies.

Governance control

- The governing body should clearly establish and regularly review governance controls that are founded on its expectations for the organization as stated in its governance policies.
- The governing body's controls should enable it to assure performance against, and respond to deviations from, its expectations such that risks to its stated direction can be managed.
- The governing body should ensure that all its policies are monitored and assessed, and respond appropriately to the results.

Implementing governance

Implementing governance accountability

General

To ensure that the organization is accountable to all its stakeholders for fulfilment of its purpose and values, the governing body should take the steps recommended in 5.1.2 to 5.1.9 (see Figure 2).

Identify, consult with and report to relevant stakeholders

The governing body should ensure that the organization is listening to and being accountable to the right people for the right things in the right way by:

- a) understanding, agreeing and regularly reviewing which of its stakeholders are to be treated as the source of the organization's purpose and values and to whom the governing body is therefore directly accountable for the long-term direction and control of the organization, i.e.:
 - 1) formal stakeholders: those to whom the governing body has a legal obligation to listen and report; and
 - 2) informal stakeholders: those to whom the governing body believes it has a moral obligation to listen and report;
- b) sustaining an effective dialogue with, and reporting to, those stakeholders to whom the governing body believes it is directly accountable [for relations with other stakeholders, see 5.2.4b)]; and
- c) determining what, if any, commitments to seek from particular groups of stakeholders (for example, majority shareholders, employees and volunteers) to support the organization's proper accountability to them.

Exhibit leadership

The governing body and its delegates should exhibit leadership of the organization by:

- a) focusing on the best long-term interests of the organization on behalf of its shareholders or equivalent, and creating a culture of responsible treatment for all its other stakeholders;
- b) recognizing and clearly communicating its ultimate accountability for the organization; and
- c) being seen to place a priority on establishing a good governance culture and demonstrate the organization's values.

Determine the organization's best long-term interests

In order to determine the organization's best long-term interests, the governing body should understand the organization's long-term context in terms of:

- a) the results of its dialogue with those stakeholders to whom it regards itself as directly accountable as the source of the organization's purpose and values;
- b) the impact the organization has on all its stakeholders, including the public, taking particular account of the vulnerabilities of those stakeholders and of the impacts of all stakeholders upon the organization;
- c) the organization's current and likely future local, national and international, social, cultural, political, financial, technological, economic, natural, competitive, contractual, legal and regulatory environment;
- d) the culture and ethics needed to support effective governance; and
- e) ensuring the resilience, and thus long-term sustainability, of the organization (unless the organization's formal stakeholders specify otherwise, for example when an organization is set up for a specific short-term purpose, such as staging a single event).

Sustain clarity on organization's purposes and values

The governing body should provide consistent and clear leadership with regard to the organization's purpose and values on behalf of those to whom it regards itself as directly accountable by:

- a) deciding upon and regularly reviewing the purposes in the form of a broad long-term vision for the organization;
- b) deciding upon and regularly reviewing the strategic outcomes to deliver the organization's vision, taking account of the organization's current and likely future context and the risks inherent in that context and in the potential modes of operation to achieve the desired outcomes; and
- c) maintaining focus on the primary strategic outcomes and addressing the main risks that apply to them rather than on the details involved in accomplishing them, so that strategic plans and goals flow from the selected strategic outcomes in a manner that encourages innovation and agility within appropriate governance controls.

Establish an effective governance culture

The governing body should ensure that effective governance becomes embedded in the organization's culture by:

- a) ensuring that all those involved (stakeholders, governing body members, employees and volunteers) are aware of the importance of governance and how they contribute to its effectiveness;
- b) ensuring that all those involved (stakeholders, governing body members, employees and volunteers) are aware of, and are encouraged to use, channels by which they can raise governance concerns without fear of reprisal; and

- c) ensuring that members of the governing body and its delegates demonstrate commitment to effective governance, by their actions not merely their words, in an atmosphere of openness and mutual support

Establish governance competence and capacity

The governing body should ensure governance competence and capacity by:

- a) ensuring that the governing body is composed of diverse, competent and diligent persons who understand the principles of good governance and the strategic position of the organization sufficiently to direct, control and be held accountable for its long-term success;
- b) ensuring that all those with governance authorities and accountabilities are competent to perform the required tasks, e.g. by appropriate training of governing body members;
- c) assessing the maturity and adequacy of the organization's current governance processes, competencies and understanding, and, therefore, the approach to be adopted to engage stakeholders and implement effective governance; and
- d) giving appropriate attention and resources to achieve effective governance

Recognize and respond appropriately to governance performance

In order to recognize and respond appropriately to governance performance, the governing body should:

- a) assess the actual performances of those with governance responsibilities, including members of the governing body itself, and take the necessary actions to address any issues;
- b) recognize and demonstrate the understanding that learning from failure and success is an inherent part of long-term success, and provide additional training where unintended failures occur;
- c) acknowledge, celebrate and demonstrably reward governance good practice, warnings of potential failures or abuses and the capture of learning that comes from dealing with problems; and
- d) recognize, acknowledge and impartially apply disciplinary or other grievance processes for instances of deliberate abuse, or lack of application, of the governance framework.

Demonstrate sufficient transparency for accountability

The governing body should ensure that decisions and activities that affect stakeholders, including the public, are properly documented, visible and communicated in a clear, accurate, timely, honest, complete and open manner.

The governing body and its executive should disclose as much information as is necessary to evidence proper accountability.

- Openness should involve disclosure of:
 - a) the organization's processes, both of governance and accountability as a whole; and
 - b) specific activities, decisions and impacts where these affect stakeholders or the general public.
- Transparency should involve disclosure either to:
 - a) one or more specific stakeholders where the information directly concerns matters that affect them; or
 - b) the general public where the information concerns matters affecting the public interest.
- The conflict of interest.
- The decision on disclosure that the organization has reached.

Implementing governance direction

General

In order to direct the organization in an appropriate manner, the governing body should translate the organization's purpose and values into clearly established and regularly reviewed expectations that direct itself and its delegates by taking the steps recommended in 5.2.2 to 5.2.8

Understand and ensure the integrity of founding documentation

The governing body should ensure that all its expectations are set within a good understanding of the organization's founding documentation and that such documentation:

- a) defines and enables the organization's full potential scope of operation to which governance is to be applied;

NOTE The organization's scope of operation may be set out in its mission statement.

- b) clarifies the governing body's formal accountability to its stakeholders [see 5.1.2a)] in terms of both consultation and reporting;
- c) provides for appropriate formal stakeholder impartiality in the appointment, remuneration, roles and termination of members of the governing body; and
- d) provides the basics needed to establish the appropriate composition of the governing body to reflect the diversity of perspectives of, and best interests of, all those stakeholders who are shareholders or equivalent to shareholders.

Understand the organization's context

In order to ensure that its expectations are appropriate the governing body should thoroughly understand the external and internal context within which its decisions need to be made. Understanding the organization's context should involve considering:

- a) the results of the governing body's consideration of the organization's long-term best interests as determined in accordance with 5.1.4;
- b) the results of the organization's dialogue with its formal and informal stakeholders as determined in accordance with 5.1.2;
- c) the capabilities and parameters that influence how the organization tries to achieve its objectives and manages the risks to those objectives; and
- d) the culture and ethics needed to support effective governance.

Establish and regularly review governance policies

In order to provide direction, the governing body should comprehensively state, and thereafter regularly review and update as necessary, its governance policies to ensure that they remain aligned with the organization's founding documentation and its changing context. Governance policies should state:

- a) the identity of, and governing body's relationship with, those stakeholders to whom the governing body believes it is legally or morally directly accountable
- b) the identity of any other internal or external stakeholders (such as customers, employees, regulators, suppliers and local communities) and the nature of the organization's accountabilities and relationships with them;
- c) the organization's purpose in terms of the vision and strategic outcomes it exists to produce;
- d) the limits on the risks that the governing body is willing for the organization to take in producing the strategic outcomes;

- e) the arrangements in the event of unexpected crises in relation to communications, continuity and recovery;
- f) the process by which the governing body governs its own work, including that of its officers and committees, to ensure it carries out its responsibilities within the governance framework and guards against biases, abuses and unmanaged conflicts of interest;
- g) the process by which the governing body governs the work of its direct delegate(s) to ensure the accountability of everyone in the organization for establishing sufficient operational controls to deliver governance policies (see 5.3);
- h) the arrangements for designing, implementing, monitoring, reviewing and continually improving governance controls throughout the organization;
- i) the arrangements for the proper safekeeping, updating and distribution of all governance documentation, including evidence of the implementation of the operation of its controls and correspondence with stakeholders and any other interested parties.

Ensure governance policies set standards for all aspects of organizational performance

The governing body should ensure that its governance policies provide direction in a manner that enables control and therefore accountability. Therefore, the governing body should ensure that its governance policies set standards for accomplishment relating to:

- a) the organization's purpose and strategic outcomes;
- b) the desired manner of achievement and all areas of related risk; and
- c) the adequacy of its governance performance, including its succession planning.

Establish governance role clarity

The governing body should ensure that it has a single framework of direction and control within which the authorities, accountabilities, performance standards and reporting requirements of all involved in governing and operating the organization are clearly defined by:

- a) ensuring that the governing body, its officers, committees, executive and other delegates have clearly documented authorities, accountabilities, rules of conduct and reporting requirements to be observed in matters of governance (for example, in governing body policies, job descriptions or terms of reference and codes of conduct); and
- b) ensuring that the executive, in its turn, has a clear framework for ensuring the authority and accountability of all its delegates in fulfilling the governing body policies.

Uphold good delegation principles

The governing body should ensure that principles of good delegation are upheld by:

- a) ensuring that its delegates are only held accountable for those matters over which they have been given authority;
- b) stating its expectations of its delegates;
- c) remaining accountable for its delegates' use of its authority by ensuring that all its expectations are monitored;
- d) ensuring that its delegates are clear about how to escalate matters that exceed their authority; and
- e) ensuring that its delegates are clear about their ability to secure relevant support.

Ensure that the ownership of policies is clear

Governance policies should belong to the governing body and not be open to change without the governing body's agreement. Managers should be empowered to create lower level policies within governing body policies.

Implementing governance control

General

In order to assure itself that its expectations of itself and the organization are being fulfilled, the governing body should ensure that control is clearly established and regularly reviewed, to protect and enhance the organization's long-term value by taking the steps recommended in 5.3.2 to 5.3.4 (see Figure 4).

Set out and embed governance controls

The governing body should clearly establish and regularly review governance controls founded on its expectations for the organization as stated in its governance policies. The governing body's controls should:

- a) enable it to assure performance against, and respond to deviations from, its expectations such that risks to their fulfilment can be managed; and
- b) include: 1) the relevant governance policies and 2) the metrics or other performance indicators used to track and report on the success or otherwise of the implementation of its policies by itself, its executive and all involved.

Governance policies that clearly set out the governing body's risk tolerance levels (such as a spending limit) can be described as preventative controls. Regular monitoring against such policies can be described as detective controls. Regular assessment and follow-up of deviations from policies could be described as mitigation controls.

The governing body should use its policies and policy monitoring to ensure that its controls are embedded in all key organizational processes, including business planning and budgeting, job descriptions, reporting and evaluations.

Ensure governance policies are monitored

The governing body should monitor and assess the implementation of its policies in a manner that is proportionate to the organization's nature, size and complexity, and:

- a) includes appropriate degrees of independent review;
- b) takes account of the need for timeliness in reporting unplanned or unexpected events; and
- c) provides documented evidence of implementation.

Ensure appropriate response to monitoring results

In order to ensure that it responds appropriately to the results of performance monitoring, the governing body should:

- a) respond to any deviations from standards in a manner that corrects or minimizes the current and future impact of any deviations, including sustaining a crisis management capability and appropriate continuity plans, and subsequently confirming that effective recovery and remedial actions have been taken;
- b) regularly review the suitability and quality of its controls and the adequacy of its arrangements for objective and impartial assurance from internal and/or external auditors;
- c) follow the recommendations of 5.1.8 on recognizing and responding to governance performance; and
- d) use the results to report to formal stakeholders.