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ISO 37000 Governance of Organizations - Guidance Alignment with Policy Governance


Dr Hartger Wassink, GSP




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Goals for the session


- You will...
- Learn about the background and development of the ISO 37000 Guidance
- Understand its key concepts and possibilities for use
- Know what main similarities and differences with the Policy Governance principles are
- Have reflected on how Policy Governance and the ISO 37000 could work together for governance excellence in general




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Overview



- 11:00 Introduction and Goals for the Session
- 11:10 Interview with Hartger by Karen Fryday-Field
- 11:20 Overview of Key Concepts of ISO 37000
- 12:00 Short break
- 12:05 Policy Governance® and ISO 37000 Alignment
- 12:45 Questions and Group Discussion
- 13:00 Key Takeaways
- 13:15 Adjourn




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Interview

- Hartger Wassink on the experience of participating in the development of the ISO 37000 guidance
- By Karen Fryday-Field, CEO for Govern for Impact




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History of the guidance

- First steps in starting the process in 2016
 - Following up on BSI 13500, largely influenced by Policy Governance via Caroline Oliver
 - Connecting to ISO 26000 Social Responsibility
- Start (scoping) phase 2016-2017
 - Co-Convenors Victoria Hurth and Axel Kravatzky
- Actual development 2017 - 2021
 - Over 100 plenary meetings
 - About 78 countries involved
 - 1,500 comments resolved
- Ready for final vote May 2021, published September 2021
- First governance guidance based on a worldwide consensus




■ **OBSERVING MEMBERS (23)**
■ **PARTICIPATING MEMBERS (55)**





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Overview of the guidance


- The ISO guidance is built around 11 principles and 3 governance outcomes. These governance outcomes are:
 - Effective performance
 - Responsible stewardship
 - Ethical behavior
- The 11 principles are divided into three subtypes:
 - 1 Primary governance principle (purpose)
 - 4 Foundational governance principles
 - 6 Enabling governance principles





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Background of the guidance

- Previous influential codes on (corporate) governance
 - 1992 Cadbury Code in the UK
 - 1994 King Report on Corporate Governance (SA, 4th revision 2016)
 - 1999 G20/OECD Principles of Corporate Governance
- What aims?
 - Creating a code that clearly sets governance apart from management
 - Making the pivot from maximising profit to positive outcomes for society and the world as a whole (sustainability and purpose)
- In what way is it different from existing codes?
 - Universal: pertains to all kinds of organizations, not just corporate governance
 - Worldwide: inclusive for all cultures, applicable within all jurisdictions






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Definition of governance


- Cambridge dictionary: **governance**

noun [U]

UK  /ˈɡʌv.ə.nəns/ US  /ˈɡʌv.ə.nəns/

the way that organizations or countries are managed at the highest level, and the systems for doing this:
- ISO 37000:
 - human-based system by which an *organization* (3.1.3) is directed, overseen and held accountable for achieving its defined purpose




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ISO 37000 Governance of organizations - Guidance



ISO 37000 Highlights

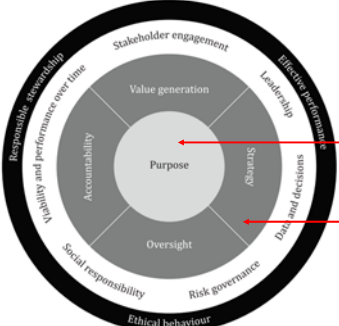
- Governance of organizations Overview
- The Primary and the Foundational principles
- The Enabling principles



ISO 37000 Governance of organizations - Guidance

The Primary and the Foundational principles


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



1 Primary governance principle

4 Foundational governance principles

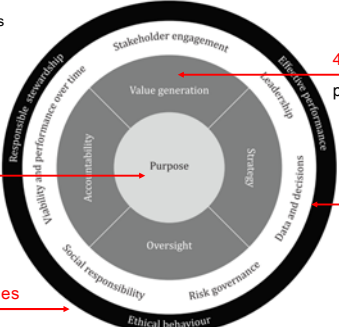
ISO 37000:2021(en). Governance of organizations — Guidance



ISO 37000 Governance of organizations - Guidance

Governance of organizations Overview

The ISO 37000 standard distills governance into 11 core principles that are at the heart of any successful organization.




1 Primary governance principle

4 Foundational governance principles

6 Enabling governance principles

Key governance outcomes

ISO 37000:2021(en). Governance of organizations — Guidance




ISO 37000 Governance of organizations - Guidance


1. Purpose

ISO 37000 clarifies that **the governing body** is responsible for **defining and elaborating a meaningful, relevant organizational purpose** as the reason the organization exists and gives **detailed guidance on relevant practice**.

It also makes clear that the governing body should define the organizational values as the compass to guide how the purpose is achieved.




Organizational purpose statement defines, specifies, and communicates the **ultimate value** the organization intends to generate for specified stakeholders.



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A Foundational Principle




A **value generation** model provides basis for innovation and collaboration with stakeholders.

ISO 37000 Governance of organizations - Guidance


2. Value Generation

Organizations don't generate long-term value that achieves the organization's purpose or avoids harm by chance.

ISO 37000 establishes the responsibility of the governing body role to **clarify the value generation objectives and to govern** so that these objectives are met. This requires the governing body to **define a clear and transparent value generation** model that defines, creates, delivers and sustains appropriate value.



A Foundational Principle




Accountability engenders **trust and legitimacy**, which leads to **improved outcomes**. It is demonstrated through reports, disclosures, effective stakeholder engagement, and applying improvements.

ISO 37000 clarifies that **the governing body is responsible for and accountable to the organization as a whole**. Accountability at all levels is a key aspect of governance. Accountability is established through the assignment of, and agreeing to, responsibility and the delegation of authority. The governing body can delegate but should **demonstrate its willingness to answer** for the fulfilment of its responsibilities, even where these have been delegated.

ISO 37000 Governance of organizations - Guidance

4. Accountability



ISO 37000 Governance of organizations - Guidance

3. Strategy

The governing body **should direct and engage with the organizational strategy**, in accordance with the **value generation model**, to fulfil the organizational purpose.

The governing body sets the strategic outcomes, establishes governance policies to guide the strategy development, and engages in strategic planning.

The governing body should **actively and dynamically steer the strategy** in way that balances value generation in the present with value generation in the future.

A Foundational Principle



The organizational strategy reflects the **governing body's intentions** regarding the **organization's achievement of the strategic outcomes** within its changing context.




ISO 37000 Governance of organizations - Guidance

5. Oversight


ISO 37000 outlines the governing body's role and responsibility to effectively oversee the organization.

For the first time ever, clarity is given at a global level on **the nature, elements of and integration into organizations of the internal control system and the assurance processes**.

A Foundational Principle



Oversight by the governing body includes **ensuring** that an **internal control system** is implemented and **assuring** itself that the **governance system is appropriately designed and operating as intended**.




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An Enabling Principle

6. Stakeholder engagement

ISO 37000 outlines **why and how** the governing body should **understand its stakeholders**, engage them in **achieving the organizational purpose** through the strategy, establish clear criteria to determine the relevance of stakeholder expectations, ensure **effective relationships are established and maintained**, and that **expectations** become an **effective part of organizational decision-making**.



Member, reference, and relevant stakeholder engagement are key.




ISO 37000 Governance of organizations - Guidance

An Enabling Principle


8. Data and Decisions

ISO 37000 outlines that the governing body should **recognize data as a strategic and valuable resource for decision-making** by the governing body.


The governing body ensures that its own **decision-making process** and those of others in the organizations are **ethical, responsible and effective**.



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



An Enabling Principle



The governing body should **lead by example** to create a **positive values-based culture**, **set the tone for others**, and **engender trust and mutual cooperation** with the organization's stakeholders.


ISO 37000 Governance of organizations - Guidance

7. Leadership

ISO 37000 clarifies that the **governing body should be values-driven and lead the organization ethically and effectively** and ensure such **leadership throughout the organization and its external context**. The governing body should set the **tone for an ethical and values-based organizational culture**.



An Enabling Principle



Value is generated when **appropriate risk** is taken, transferred or shared in a timely manner. This happens when **the governing body balances risk effectively**.


ISO 37000 Governance of organizations - Guidance

9. Risk Governance

ISO 37000 explains that **the governing body sets the tone and shapes the culture** for a proactive and anticipative approach to the management of risk across the organization.

The governing body **ensures the systematic assessment of risks and defines the risk criteria**, in particular the appetite for risk and risk limits.

The governing body **assesses, treats, monitors, and communicates the nature and extent of the risks** faced when making decisions.



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An Enabling Principle



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10. Social Responsibility


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


For an organization to act in a socially responsible way, it needs to operate within the **parameters of acceptable behaviour** and not allow actions that are legally or locally permissible but not in line with what is expected of it by its broader stakeholders and society.

The organization should **proactively contribute to sustainable development** by generating value in a manner that meets the needs of the present **without compromising** the ability of **future generations** to meet their own needs.



Break



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11. Viability and performance over time

The governing body identifies, describes and assesses the **key resources and value generation systems** the organization depends on to generate value, **how these interrelate** and how they are used over time. It ensures that the organization **protects** and **restores** the key resources and systems that it depends on or affects.

An Enabling Principle




Where an organization fails to understand and respond to the needs of the systems of which it is a part, it is unlikely that the organization will remain viable and perform over time.




Reflection exercise

- What have you recognized with regard to Policy Governance thinking so far?
- What have you missed with regard to Policy Governance principles?

- Take a few moments, make some notes, and if you like, share some of your observations in the chat



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Comparison

- ‘Side by side’ comparison
 - Selected principles and key concepts (not all!) of ISO 37000
 - Similar concepts or principles of Policy Governance
- General comparison of overall similarities and differences



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Governance outcomes

- ISO 37000
 - Effective performance
 - Responsible stewardship
 - Ethical behavior
- Policy Governance
 - Realizing the intentions of the (moral) owners
- What is effective? What is responsible? What is ethical?



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Governance definition

- ISO 37000
- Human-based system by which an *organization* (3.1.3) is directed, overseen and held accountable for achieving its defined purpose
- Policy Governance
- Translation of (moral) owners’ intentions into results for beneficiaries, within limitations according to their values



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2. Value generation

- ISO 37000
 - ‘Governing body should define [...] value generation objectives such that they fulfil the organizational purpose in accordance with the organizational values and the [...] context within which it operates
- Policy Governance
 - Ends Policies: The board defines in writing its expectations about the intended effects to be produced, the intended recipients of those effects, and the intended worth (cost-benefit or priority) of the effects.
- Policy Governance has a strict definition of Ends, including who the recipients should be; ISO places more emphasis on the value for stakeholders
 - The latter is an element of the ‘at what worth’ statement within the Ends



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3. Strategy

- ISO 37000
 - “The governing body should direct and engage with the organizational strategy [...]”
- Policy Governance
 - Strategic decisions are within the domain of the CEO
 - The board sets boundaries for those decisions and monitors adherence based on reports by the CEO
- Looks almost the same, but PG makes a more strict distinction in board and management roles



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5. Accountability

- ISO 37000
 - The governing body should demonstrate its accountability to the organization as a whole [...]
- Policy Governance
 - The board is accountable to the owners. (“The board exists to act as the informed voice and agent of the owners, whether they are owners in a legal or moral sense.”)
- This is a fundamental difference
 - PG consistently seeks the source of the governing body’s legitimacy outside of the organization, with its (moral) owners
 - ISO 37000 refers on several occasions to the organization itself



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4. Oversight

- ISO 37000
 - The Governing body should ... ensure that the organization meets the governing body’s intentions for, and expectations of the organization [...]”
- Policy Governance
 - The board must monitor organizational performance against previously stated Ends policies and Executive Limitations policies.
- Looks rather similar; PG makes a sharper distinction between Ends and means; PG relates to governing body’s policies, which are based on (moral) owners’ intentions



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6. Data and decisions

- ISO 37000
 - The governing body should recognize data as a valuable resource for decision-making [...]
- Policy Governance
 - [...] The board must judge the CEO’s interpretation for its reasonableness, and the data demonstrating the accomplishment of the interpretation [...]
- Policy Governance places an emphasis on interpretation by the CEO and assessment of reasonableness by the board
 - This gives further rationale for what data the board should consider, and why



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7. Stakeholder engagement

- ISO 37000
 - Member stakeholders
 - Reference stakeholders
 - Other relevant stakeholders
- Policy Governance
 - Owners or moral owners
 - Beneficiaries
 - ...and the rest
- ISO does not explicitly define 'beneficiaries' as a specific role or category of stakeholders



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9. Leadership

- ISO 37000
 - The governing body should lead the organization ethically and effectively and ensure such leadership [...]
- Policy Governance
 - No direct reference to leadership; inspiration is found in servant leadership
 - Emphasis of place of board in chain of command
 - Emphasis of board 'holism', the board speaks with one voice
- The ethical leadership aspect of Policy Governance is certainly important, but not a central feature
 - It flows from the boards' position, the discipline with which it governs and accountability to its owners
 - ISO 37000 is more explicit about it being an enabling principle



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8. Risk governance

- ISO 37000
 - The governing body [considers] the effect of uncertainty on the organizational outcomes
- Policy Governance
 - The board defines in writing its expectations about the means of the operational organization.
- Very similar approach
- ISO explicitly talks about risks; Policy Governance Executive Limitations is in essence a risk management system, although not called that way
- Policy Governance explicitly places the responsibility for 'risk management' with the CEO, with the board stating the 'risk appetite'



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10. Social responsibility and 11. Viability and performance over time

- ISO 37000
 - '[...] decisions are transparent and aligned with broader societal expectations'
 - '[...] the organization remains viable over time, without [compromising the needs of current and future generations]'
- Policy Governance
 - No specific reference to society and/or future generations
- This is a specific emphasis ISO 37000 places on sustainability and the societal impact of the organization
 - Derived from ISO 26000 (among others)
- A Policy Governance board would only take this into account insofar as these are concerns of (moral) owners




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1. Purpose


- ISO 37000
 - '[...] organization's reason for existence'
 - Intentions towards the environment and stakeholders
 - Associated set of values
- Policy Governance
 - Values and intentions of (moral) owners
 - Intentions of those owners are translated into policies
- This is the central area where ISO 37000 and Policy Governance go together, with notable difference in approach
 - Key is the ongoing dialogue with stakeholders on the organizations reason to exist that is visible in both approaches




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Similarities between the two approaches (1)


- Purpose as the core concern of governance
 - Rooted in expectations of specific stakeholders (moral owners)
 - Converting it into a long time value to be created (ends)
- Focus on what the organization should achieve on the long term
 - (for its beneficiaries)
 - And be accountable to its stakeholders
- Sophisticated understanding of 'stakeholders'
 - Member stakeholders
 - Reference stakeholders
- Both are principle-based, not behavior-based
 - To prevent 'ticking the box'-compliance




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Some specific definitions and equivalents


- 3.1.1 Governance of organizations
- 3.1.2 Organizational governance framework
 - Policy Manual
- 3.1.9 Risk criteria
 - Executive limitations (sort of)
- 3.2.9 Governance policy
- 3.3.2 Member stakeholder
 - Formal owner
- 3.3.3 Reference stakeholder
 - Moral owner (careholder)




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Similarities between the two approaches (2)

- Distinction between management and governance
- Distinction between results and a risk framework
- Emphasis on the process, the dynamic character of purpose
 - Principle 11: Viability and performance over time
 - Including consulting of and engagement with relevant stakeholders
- Both universally applicable, worldwide to all kinds of organizations



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Differences (1): more emphasis in PG

- Policy Governance is morally neutral
 - Not inherently aimed at any ethical standard
 - ‘Even the mafia could use Policy Governance’ – John Carver
- Sharp distinction between Ends and Means, and within Means, between board means and boundaries for operational means
- Importance of clear delegation from the board: “Ownership one step down, in stead of management on step up”
 - Several instances where the board could ‘meddle’ in operations in ISO 37000
- Policy Governance emphasizes more rigorous and continuous monitoring
 - Using written expectations (in the form of policies)



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Policies and monitoring

- Policy Governance uses policies as its core:
 - Specific expectations set by the board; for achievements, boundaries and its own functioning
- ISO 37000 mentions ‘Governance policies’ within the strategy principle
 - ‘what, rather than how’ strategy should be achieved
 - A mixed bag of governance and operational responsibilities
- ‘Monitoring’ as such is not a specific principle
 - Most prominent in Oversight
 - And Data and decision making



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Clear delegation

- Policy Governance stresses importance of clear delegation
- The guidance stresses the importance of ‘oversight’ without being rigorous on how this oversight should take place and what the respective roles of the governing body and/or the CEO should be
- Most prominent with regard to the ‘strategy’ principle
 - Governing body is ‘engaged’ – but what does that exactly mean?
- Also: the ‘oversight’ principle
 - “the governing body takes corrective action, as necessary, to fulfill the organizational purpose”
 - This is contrary to PG principles which will always place the responsibility to take action with management



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Differences (2): more emphasis in ISO 37000

- Governance is oriented toward the best interests of society, explicitly aimed at sustainability and ethical governance
 - Victoria Hurth: “ISO 37000 could be used by the mafia, but after that, it wouldn’t be the mafia anymore”
 - Based on earlier ISO 26000 – i.e. worldwide consensus
- Key aspects of practice for each principle
 - Policy Governance does not prescribe any structure or practices (strictly speaking, it is just the 10 principles)
 - Gives literatly more guidance to governing bodies
- Emphasis on ethical leadership
 - Policy Governance resonates with the idea of ‘servant leadership’



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How can the two work together?

- When ISO 37000 becomes a the standard, Policy Governance organisations will have an edge
- ISO 37000 can be a 'stepping stone' for organizations to get interested in Policy Governance
- ISO 37000 could help increase acceptance of systematic, accountable approaches to governance in academic circles
- ISO 37000 can help Policy Governance practitioners in being more explicitly focused on sustainability and ethical leadership
- At least, finally there is a substantial contribution to the worldwide quest for integrated, accountable, principle-based governance



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Thank you



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Key takeaways

- ISO 37000 is the first universal governance standard with worldwide consensus
- Core of promotion of effective, responsible and sustainable behaviour
- Purpose is put central to the existence of the organization, instead of shareholders
- A lot of overlap with, and influenced by Policy Governance thinking
- A bigger emphasis on the ethical aspects of purpose, Policy Governance is neutral
- It could make accountable governance appealing to a broader group
- On some points, it lacks the rigor of the Policy Governance principles
- ISO 37000 will help to open up the broader discussion
- ...Which has always been John Carvers main concern



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