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Governance of organizations — Developing indicators for effective governance

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Foreword

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The procedures used to develop this document and those intended for its further maintenance are described in the ISO/IEC Directives, Part 1. In particular, the different approval criteria needed for the different types of ISO document should be noted. This document was drafted in accordance with the editorial rules of the ISO/IEC Directives, Part 2 (see www.iso.org/directives).

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This document was prepared by Technical Committee ISO/TC 309, Governance of organizations.

Any feedback or questions on this document should be directed to the user's national standards body. A complete listing of these bodies can be found atwww.iso.org/members.html.

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Introduction

The purpose of indicators is to enable measurement that helps an organization to establish, implement, maintain, and improve an effective governance framework and the conditions and practices enabling the organization to fulfil its purpose. By following the guidance in this document organizations can realize the governance principles as set out in ISO 37000.

This document provides a means to assess how an organization's governance framework contributes most effectively to the fulfilment of the organization's purpose. It covers:

— a taxonomy for the classification of different types of indicators;

— the context in which they are used, including the purpose of the organization and its appetite for risk given impacts on all stakeholders;

— the risk appetite and tolerance of the organization and stakeholders;

— the limitations of indicators;

— choosing or developing meaningful indicators.

The role of an organization's governing body is to establish, implement and maintain the organizational governance framework, conditions and practices so that the organization can fulfil its purpose. In performing this role the governing body has to make decisions and choose between available options, as many times there will not be one solution. The indicators used will be part of the process to generate those options and part of the mechanism to guide the choice between options. Governing bodies should measure performance against objectives, which requires indicators. ISO 37000 helps to create cross-sector international consensus on the role and results of organizational governance. However, the organizational outcomes of organizational governance depend on the decisions made by governing bodies, the information used to support those decisions as well as their execution. These decisions mean making choices between the intended performance of alternative options for the same organizational purpose. A mechanism is required to compare these options, in order to choose the optimal one for the specific context.

There is always the possibility that the choice made between options does not represent the "best" choice or that the execution is not effective. Effective governance therefore requires an understanding of appropriate indicators in the context of that possibility and the risk appetite of the governing body. Effective consideration of indicators linked to organizational purpose, stakeholder issues, materiality and risk appetite/tolerance reduces the extent to which a governing body can make decisions without the full range of material information. It also enhances a dynamic monitoring approach.

Indicators are used and understood in various ways. Ultimately the governing body is seeking to achieve the organizational purpose in the way intended. If this is done well then over time the governing body would expect its organizational purpose and financial results to become aligned with sustainable development and well-being as it considers the principles in ISO 37000, including social responsibility and viability and performance over time. The pursuit of a purpose with consequences that detracts from ISO 37000 principles would neither be responsible nor viable.

Unless otherwise indicated, all "principles" in this document refer to the principles in ISO 37000.

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Governance of organizations — Developing indicators for effective governance

1 Scope

This document provides guidance to governing bodies on how to approach the development and use of indicators in their governing activities.

This document is primarily written for use by governing bodies, it is also written to be of relevance to a range of other stakeholders inside and outside of the organization to help them improve the quality of the information on which they assess and make decisions regarding the organization's governance.

It is applicable to all organizations regardless of type, size, location, structure or purpose. This document does not cover indicators of effective governance.

2 Normative references

The following documents are referred to in the text in such a way that some or all of their content constitutes requirements of this document. For dated references, only the edition cited applies. For undated references, the latest edition of the referenced document (including any amendments) applies.

ISO 37000:2021, *Governance of organizations — Guidance*

3 Terms and definitions

For the purposes of this document, the terms and definitions given in ISO 37000 and the following apply.

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

— ISO Online browsing platform: available at https://www.iso.org/obp

— IEC Electropedia: available at https://www.electropedia.org/

3.1
indicator
measurable representation of the condition or status of governing body decisions, organizational actions or *activities* (3.4), and stakeholder expectations

Note 1 to entry: Indicators can be measured, calculated, and described.

3.2
input indicator
indicator (3.1) of all types of resources on which the organization depends, irrespective of how they have been sourced

Note 1 to entry: Examples of these resources include air, biodiversity, unpaid labour etc, including resources used across the supply chain.

3.3
output indicator
indicator (3.1) for measuring *activities* (3.4)

Note 1 to entry: Can be qualitative or quantitative.

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