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ISO/FDIS 37005

Governance of organizations — Developing indicators for effective governance

*Gouvernance des organismes — Élaboration d'indicateurs d'une
gouvernance efficace*

ISO/TC 309

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Contents

	Page
Foreword	iv
Introduction	v
1 Scope	1
2 Normative references	1
3 Terms and definitions	1
4 Understanding indicators	3
4.1 General.....	3
4.2 Structure of indicators.....	4
4.3 Impact of indicators on decision making.....	4
4.4 Stages in the development and use of indicators.....	5
5 A taxonomy of types of indicators	5
5.1 Means to ends – inputs to impacts.....	5
5.2 Subjective or objective indicators.....	6
6 Using the taxonomy	6
6.1 General.....	6
6.2 Choosing an indicator.....	7
6.3 What type of indicators.....	7
6.3.1 General.....	7
6.3.2 Indicators of impact.....	9
6.4 Characteristics of an indicator.....	9
6.4.1 General.....	9
6.4.2 Assurable.....	10
6.4.3 Timely.....	10
6.4.4 Comparisons.....	10
6.5 Risks arising from indicator selection and use.....	10
6.5.1 General.....	10
6.5.2 Unintended consequences.....	10
6.5.3 Lack of accountability.....	11
6.5.4 Non-alignment of purpose and sustainability.....	11
6.5.5 Selecting indicators to measure against purpose or to measure effectiveness.....	11
6.5.6 Indicators of the method used to achieve the organization's purpose.....	12
6.5.7 Too much information.....	12
7 Selection of indicators by governing bodies using ISO 37000:2021	12
7.1 General.....	12
7.2 Aspects related to decision making.....	13
7.3 Aspects related to strategy, partnership and collaborations.....	15
7.4 Aspects related to organizational strategy and relevant indicators.....	15
7.5 Selecting indicators.....	15
8 Using indicators	16
8.1 Choosing one option over others.....	16
8.2 Decisions following an assessment of performance.....	16
9 Implementation	16
Bibliography	18

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 at www.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.

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.

3.4

activity

way in which resources are used

3.5

objective

result to be achieved

Note 1 to entry: An objective can be strategic, tactical or operational.

Note 2 to entry: An objective can be, for example, organization-wide or specific to a project, product or *process* (3.6).

Note 3 to entry: Result in this document can refer to *output* (3.7), *organizational outcome* (3.8), or *impact* (3.9)

[SOURCE: ISO 37301:2021, 3.6 modified – Note 2 to entry has been modified, Note 3 to entry has been replaced and Note 4 to entry has been deleted]

3.6

process

set of interrelated or interacting *activities* (3.4) that uses or transforms inputs to deliver an intended result

Note 1 to entry: Result in this document can refer to *output* (3.7), *organizational outcomes* (3.8), or *impact* (3.9)

[SOURCE: ISO 9000:2015, 3.4.1 modified – Note 1 to entry has been modified, Notes 2 to 6 to entry have been deleted]

3.7

output

result of a *process* (3.6)

Note 1 to entry: This result can be intended or unintended

[SOURCE: ISO 9000:2015, 3.7.15, modified – Note 1 to entry has been modified]

3.8

organizational outcome

something, including aspects of *well-being* (3.14), that has the potential to change following a governing body's decisions

3.9

impact

positive or negative change in an *organizational outcome* (3.8) because of a governing body's decision, execution and the consequences of those decisions

Note 1 to entry: Taking account of other causes of any change in those outcomes.

Note 2 to entry: The change in an outcome can be positive or negative depending on its relation to a threshold.

Note 3 to entry: There may be interim points between actions and impacts where measurement can support management towards achieving organizational purpose.

Note 4 to entry: If the change is in a *well-being* (3.14) outcome then this would be a well-being impact

3.10

impact valuation

measurement (3.11) of the relative importance of *impacts* (3.9)

3.11

measurement

process (3.6) to determine a value

Note 1 to entry: *Impact valuation* (3.10) is one type of measurement.

[SOURCE: ISO 37301:2021, 3.19, modified – Note 1 to entry has been added]

3.12

uncertainty

state, even partial, of deficiency of information related to understanding or knowledge

Note 1 to entry: In some cases, uncertainty can be related to the organization's context as well as to its *objectives* (3.5).

Note 2 to entry: Uncertainty is the root source of risk, namely any kind of "deficiency of information" that matters in relation to objectives (and objectives, in turn, relate to all relevant interested parties' needs and expectations).

[SOURCE: ISO 31073:2022, 3.1.3]

3.13

materiality assessment

identification of information that would influence the decisions of a governing body in the context of the principles in ISO 37000

3.14

well-being

positive state of being where people's needs are met, such that they have the capacity and opportunity to lead fulfilling lives

Note 1 to entry: Well-being is also referred to as a state of flourishing or a "good life".

Note 2 to entry: Well-being exists at the individual, household, country and global level and can be applied to people and nature, and to individuals and systems.

Note 3 to entry: Well-being can be achieved on varying timescales and to varying degrees.

Note 4 to entry: Sustainable development underpins the achievement of well-being at a point in time and for present and future generations.

3.15

performance

measurable result

Note 1 to entry: Performance can relate either to quantitative or qualitative findings.

[SOURCE: ISO 37301:2021, 3.11, modified – Note 2 to entry has been deleted]

3.16

effectiveness

extent to which planned *activities* (3.4) are realized and planned results are achieved

Note 1 to entry: Result in this document can refer to *output* (3.7), *organizational outcomes* (3.8), or *impact* (3.9).

[SOURCE: ISO 37301:2021, 3.13, modified – Note 1 to entry has been added]

4 Understanding indicators

4.1 General

Governing bodies are responsible for "the fulfilment of the purpose of the organization in an ethical, effective and responsible manner in line with stakeholder expectations" (ISO 37000:2021).

ISO 37000:2021, 4.1 sets this out as:

- a) setting and committing to the organizational purpose and organizational values;
- b) determining the organization's approach to value generation;
- c) directing and engaging with strategy to generate value;

- d) overseeing that the organization performs and behaves according to the expectations set by the governing body;
- e) demonstrating accountability for this performance and behaviour.

Useful indicators provide a measure of performance in line with organizational purpose. Consequently, indicators are quantitative and qualitative conditions that can be described and measured or calculated.

4.2 Structure of indicators

Indicators are descriptive and qualitative or qualitative and are used to assess performance. Based on ISO 37000 principles, an indicator for effective governance should provide the assurance of responsibility, in a social, environmental and economic context, and provide the basis for accountability and assurance in accordance with governing body decisions, organizational action and stakeholder expectations by relevance. An indicator can be structured as shown in [Figure 1](#):

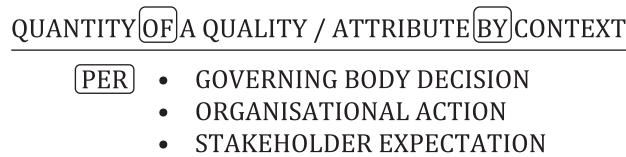


Figure 1 — Structure of an indicator

The structure of an indicator has multiple levels of description, according to the scope (see [Figure 1](#)). These levels can be articulated as follows:

- a) A quantitative element OF a qualitative element;
- b) A quantitative element OF a qualitative element BY or PER a specific principle of ISO 37000 over time;
- c) A quantitative element OF a qualitative element BY context (social, environmental or economic) [or] PER accountability (governing body decisions, organizational action and stakeholder expectations by relevance);
- d) A quantitative element OF a qualitative element BY context [and/or/not] PER accountability (where the accountability could also precede the context).

The minimum specification of an indicator includes "quantity OF a quality/attribute" and either PER or BY.

NOTE 1 BY and PER are interchangeable.

NOTE 2 Context is described in ISO 37000 as "the natural environment, social and economic system context".

EXAMPLE Cost of customer acquisition by market segment per customer channel.

The measure associated with an indicator linked to an organizational purpose provides a measure of an underlying condition and is always associated with some degree of uncertainty. The effect of this uncertainty is a risk. Uncertainty changes as new data become available.

4.3 Impact of indicators on decision making

Indicators allow the governing body to make comparisons to assist in making decisions including:

- comparisons of different options or actions in order to choose the one or the combination of options that contributes most to the organizational outcomes and to the fulfilment of the organizational purpose;
- the simple binary comparison of whether the decision has been executed or not;
- comparisons between actual and expected results to assess the effectiveness of the organization governance framework in achieving the fulfilment of the organization's purpose at the rate required.