



2021 Governance Roundup and Outlook for 2022

ISO 37000 - Dr. Victoria Hurth

In September 2021 the ISO 37000 *Governance of Organizations* was released after a 5-year development process across 77 countries including Canada. The guidance is the first global articulation of what good governance is and how to achieve it. Previously only a series of national codes were used and mainly focused on the perspective of investors.

ISO 37000 consists of 11 principles:

ISO 37000 principles in a nutshell

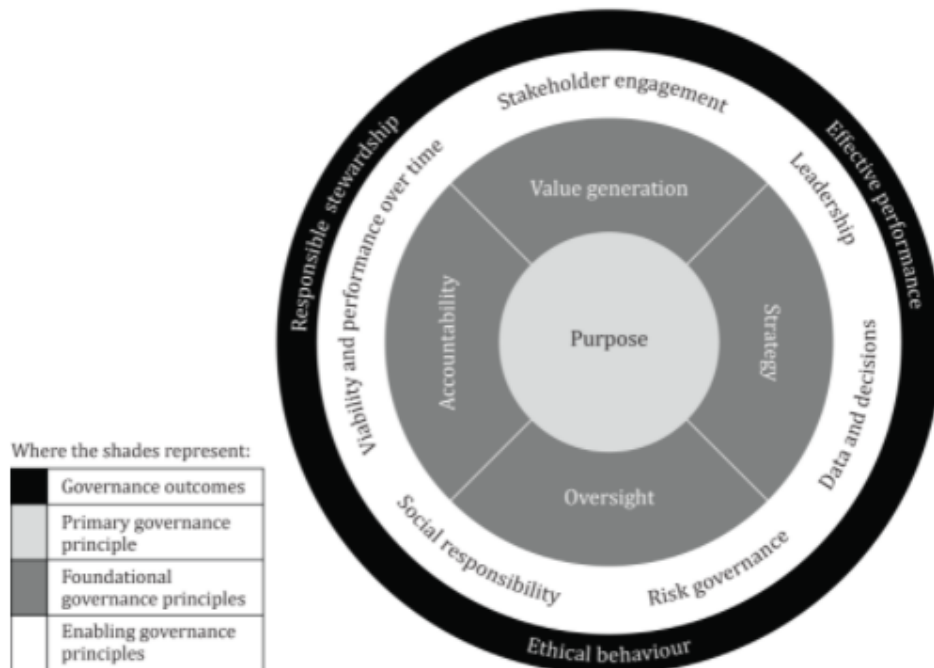
ISO 37000 is global future proofed purpose centric guidance reflecting what boards need to know to make better governance decisions in an uncertain world where sustainability over the longer term is what matters most.

The guidance explains what good governance looks like across eleven mission critical topics:

1. **Purpose:** reason for existence from all perspectives
2. **Value Model:** the elements comprising value creation and value generation required to fulfil purpose
3. **Strategy:** directing and engaging strategies in accordance with the value generation model
4. **Oversight:** overseeing organisational performance and ensuring that the organisation fulfils all expectations
5. **Accountability:** holding to account those to whom the governing body has delegated authority(s)
6. **Stakeholder engagement:** engaging with stakeholders and meeting expectations
7. **Leadership:** ethical and effective leadership arrangements
8. **Data and decisions:** data as a resource for decision making
9. **Risk Governance:** the effect of uncertainty on organisational purpose and strategic outcomes
10. **Social responsibility:** transparent decision making aligned with broader societal expectations
11. **Viability and performance over time:** remaining viable over time without compromising current and future generations

These 11 principles can be divided into separate areas with purpose at the center, followed by foundation and enabling principles and then outcomes.

Figure 1 - Governance of organizations - Overview (source: ISO 37001:2021)



From: [ISO 37000 Governance of organizations - Guidance](#)

The ISO 37000 fills many gaps from previous models and introduces:

1. A shared language
2. A framework
3. More attention to governance
4. An accountability to good governance
5. A baseline to further discuss good governance

Stakeholders will also be able to use the ISO 37000 to apply pressure to organizations and their boards on good governance.

In addition, the organization is working on two other upcoming ISO standards in governance include:

1. [ISO 37005](#): Using, Selecting and Creating Indicators: A Guide for Governing Bodies
2. [ISO 37006](#): Indicators of Effective Governance

360 Degree Governance – Professor Sarah Kaplan

Similar to the ISO 37000 but with a further focus on Canadian organizations is the 360 Governance Report: *Where Are The Directors In A World In Crisis?*

Also released in 2021 this report has 13 principals with purpose at number 1.

The document outlines and provides commentary on 13 guidelines on:

- (1) Corporate Purpose
- (2) The Board's Duty
- (3) The Definition of Stakeholders
- (4) The Rights of Indigenous Peoples
- (5) Reporting on Stakeholder Impact
- (6) The Formation of a Stakeholder Committee
- (7) Addressing Stakeholder Conflicts
- (8) Executive Compensation Policies
- (9) Board Refreshment
- (10) Board Diversity
- (11) Organizational Diversity
- (12) Climate Change
- (13) Corporate Activism

From: [360° Governance: Where are the Directors in a World in Crisis? - Rotman School of Management \(utoronto.ca\)](https://www.utoronto.ca/360/governance/where-are-the-directors-in-a-world-in-crisis)

In 1994, the Toronto Stock Exchange (TSX) accepted a new set of guidelines for board governance as developed in the report “Where Were the Directors?”. Triggered by the mixed response by the Canadian corporate sector to the stresses of the 1990–1991 recession, the development of the guidelines (also known as the “Dey Report”) was meant to urge boards of directors to align with “growing expectations concerning the manner in which boards of directors are constituted, and the relationships between the board and shareholders.”

Two-and-a-half decades later, in the face of climate change, rising economic inequality, systemic racism and the COVID-19 pandemic, it is time for a new set of guidelines. While the 1994 guidelines—which concern best practices around board independence and oversight—continue to be relevant, they served the governance needs of the 1990s. The ask now is “Where are the directors in a world in crisis?” The guidelines that Ms Kaplan and Mr Dey have developed in response to this question are based on the principle that

companies must account for the interests of all stakeholders that surround them (hence, 360° Governance).

The document outlines and provides commentary on 13 guidelines on:

- (1) Corporate Purpose
- (2) The Board's Duty
- (3) The Definition of Stakeholders
- (4) The Rights of Indigenous Peoples
- (5) Reporting on Stakeholder Impact
- (6) The Formation of a Stakeholder Committee
- (7) Addressing Stakeholder Conflicts
- (8) Executive Compensation Policies
- (9) Board Refreshment
- (10) Board Diversity
- (11) Organizational Diversity
- (12) Climate Change
- (13) Corporate Activism

It also lists a number of resources for anybody looking to upgrade their board governance.

Download it [here](#)

This report also highlights key elements around Diversity governance, such as the special status of Indigenous Peoples in Canada that Boards must be aware of as well as Board Diversity and representation, going beyond Bill C-25 Comply or Explain legislation. Governance Professionals will also need a sense of urgency to implement these guidelines in their organizations.

Corporate Purpose is brought up as a key principle in this report, as the authors view it as more than just “to make a profit from the goods we sell” but more a way to engage the community. It will also help weigh competing interests from different stakeholder groups.

Disclosure, including Bill C-25, should not be viewed as just a regulatory requirement but as a useful self-analysis tool to better understand an organization and the innovation that is needed. Greater transparency of disclosure material would be helpful when comparing organizations.

Boards will need continuous education to make sure that they are well placed to meet these challenges and Board Chairs, and governance professionals, must make sure that time is allocated for training.

DEI – Trish Mandewo

Diversity, Equity and Inclusion (or the “S” in ESG) is a critical issue but there is significant confusion around the topic.

This confusion extends into Canadian Boardrooms, particularly in *how* DEI will work in organizations and *what* strategies will make this work. People tend to shy away from this if viewed as an uncomfortable

topic that keeps expanding (i.e. Cis gender, White Fragility, etc.). Adding to this confusion is that it is hard to measure the impact of DEI work.

To start any DEI journey each organization should look at the communities that they serve and compare this to the makeup of their own board. If the community and board are not aligned, then this is a great place to start and ultimately build brave and safe spaces for all voices to be heard.

DEI will only be successful if it comes from the “top-down” and has the support of the board. It becomes very difficult if the board is not aligned with their own corporate purpose.

Osler Report on Diversity Disclosure: [Diversity in Corporate Canada: 2020 \(osler.com\)](https://www.osler.com/insights/diversity-in-corporate-canada-2020)

When looking at diversity it is important to note that numbers/statistics, such as those in the Osler report, do not lie and tell the full extent of diversity in an organization. There is a myth around merit and hiring for “fit” that may mask an underlying bias that organizations will need to work on. There is significant evidence that diversity improves bottom-line financial performance, and this is important to remember. Unfortunately, under Bill C-25 there are no consequences for not achieving the set targets. California has introduced Bill AB979 with financial consequences for not complying.

ESG – Sarah Keyes

The World Economic Forum has released the 2022 Global Risk Report and identifies the top 10 risks for 2022:



From: [WEF The Global Risks Report 2022.pdf \(weforum.org\)](https://www.weforum.org/reports/the-global-risks-report-2022)

These risks highlight the importance of ESG issues that Boards should consider.

Just like DEI, there can be confusion around ESG but by definition ESG is a focus on environmental and social factors that impacts an organizations value (financial, reputation, operations, talent attraction, etc.) and will depend on both the sector and ownership model of the organization. ESG is not CSR but organizations should invest in both.

Purpose is the backdrop of CSR and ESG strategies and can be used to differentiate companies when trying to attract capital from markets.

2021 saw much action from the private sector in terms of climate change and the major risk for 2022 will be how organizations will deal with ESG in practical terms. Capital markets continue their interest in ESG which they view as impacts on long-term investments. ESG focused funds have grown from \$285 billion in 2019, \$542 billion in 2020, and to \$649 billion in 2021 (approximately 10% of global fund assets).

Mainstream institutional investors, not just activist shareholders, strongly believe that diversity is important for overall performance and can pursue action via shareholder ballots, seek equity audits, and want to see plans to improve diversity at the board, executive and workforce level.

2022 will see an even greater focus on climate change, including;

1. Include “scope 3” greenhouse gases that include upstream and downstream operations and the ultimate consumer (well to wheels).
2. Transition plans showing how capital will be allocated to achieve net-zero targets by 2050.
3. Enhanced disclosure to illustrate how these targets will be achieved.

Apart from climate change and diversity other emerging ESG topics include:

1. Biodiversity and the value of nature
2. Health and Safety for employees
3. Human capital management to create the workforce of the future.

Implications of the Roundup for 2021 and outlook for 2022 for the Governance Professional :

1. For the first time, governance professionals have access to a minimum threshold of governance standards and practices through the ISO 37000 and 360 Degree governance reports. All governance professionals should be aware of these guidelines and principles as well as the important role that they can play in using them in their organizations.
2. There is an opportunity to use these reports to “rethink governance” and make sure your Boards are fit for purpose.
3. While DEI work in the Boardroom may be confusing, a good place to start is to look at the composition of the board and to ensure it is representative of the communities and markets that it is trying to serve.
4. Ongoing training, education and development is needed in the Boardroom to help address DEI issues.
5. Executives and Directors are focused on ESG because ESG risks and opportunities are increasingly linked to value and performance. Governance professionals can act as the liaison between Management and the Board for the development of ESG strategy for their organization.
6. Stakeholders and activists also have access to these documents and may use them to benchmark key governance practices.
7. Investors and other stakeholders are increasingly expecting Boards to incorporate ESG factors into their oversight of strategy, risk management and reporting. Directors need to ensure they have the relevant ESG-related knowledge and skills to fulfil this role.